State Auditor's Office

John Keel, CPA
State Auditor

A Report on

On-site Audits of Residential Child Care Providers

August 2012

Report No. 12-050

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Overall Conclusion

All five providers audited did not consistently maintain adequate supporting documentation to demonstrate that they accurately reported funds they expended for providing 24-hour residential child care services. The providers receive funds from the Department of Family and Protective Services (Department) for the delivery of goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the providers' care. Providers deliver those services through contracts with the Department and report their revenue and expenditures on annual cost reports. (See Appendix 4 for cost report requirements.)

Those five providers were:

- Simply Love All People, Inc. (see Chapter 1).
- Antelope Valley Child, Youth, and Family Services (see Chapter 2).
- Unity Children's Home (see Chapter 3).
- Carter's Kids, Inc. (see Chapter 4).
- Agape Manor Home (see Chapter 5).

Background Information

During fiscal year 2011, the Department of Family and Protective Services (Department) had 420 contracts with 232 providers to provide residential child care on a 24-hour basis.

Auditors selected for this audit the following types of licensed providers with which the Department contracts:

- **Child Placing Agency:** An entity that places children in adoptive homes or other residential care settings.
- **Residential Treatment Center:** A general residential operation for 13 or more children or young adults that exclusively provides treatment services for children with emotional disorders.

The Department paid all providers approximately $362,965,314 for providing services to the 26,722 children in foster care during fiscal year 2011.

Approximately 68 percent of the funding for those services comes from the federal government and approximately 32 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 audits of selected residential child care providers that provide foster care services to the Department.

Sources: Unaudited information provided by the Department.

All five providers' external accountants performed the majority of their financial activities, which could include preparing the cost reports and financial statements, processing payroll, and making vendor and/or foster parent payments. Auditors identified internal control weaknesses at all five providers. Specifically:

- Four providers lacked detailed written policies and procedures for key financial processes.
- Three providers did not have adequate segregation of duties.

This audit was conducted in accordance with Texas Government Code, Section 2155.1442.

For more information regarding this report, please contact Nicole Guerrero, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

- All five providers did not conduct reviews of the financial information prepared by the external accountants.
- Four providers created their general ledgers from bank statements instead of financial transaction documents, such as revenue receipts, invoices, and purchase receipts.

Auditors also identified instances of noncompliance with cost report and background check requirements at all five providers audited. Two of the three providers audited that are child placing agencies (Agape Manor Home and Antelope Valley Child, Youth, and Family Services) generally paid their foster parents the required amounts according to the children's level of care and days of service; however, the remaining provider that was a child placing agency (Simply Love All People, Inc.) did not have supporting documentation for a majority of the foster parent payments tested. In addition, all three of those providers should improve their documentation of and compliance with foster parent monitoring requirements.

Auditors also communicated less significant issues separately in writing to each provider.

Summary of Management's Response

The five providers audited were in agreement with the recommendations that were addressed to them, and their responses are presented in Appendices 6 through 10 beginning on page 55.

Summary of Information Technology Review

The five providers audited had a variety of information technology controls over their automated systems, applications, and data. While some providers had stronger controls than others, auditors identified opportunities for improvement at all five providers. All five providers relied on accounting systems that external accountants maintained. Two providers did not have a written contract in place requiring the accountants to secure the accounting systems and related data, including having sufficient backup and recovery, access, and physical controls. Two providers had written contracts in place, but they should strengthen those contracts to require sufficient controls over the security of the accounting systems and related data. The remaining provider should strengthen user access controls to key systems.

The information technology issues identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Summary of Objective, Scope, and Methodology

The audit objective was to perform on-site financial audits of selected providers and included verifying that the selected providers spent federal and state funds on required services that promoted the well-being of foster children placed in their care.

The scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made during the 2011 cost reporting year.

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.

Auditors assessed the reliability of the data used in the audit and determined the following:

- The providers' financial data was of undetermined reliability; therefore, auditors used hard-copy documentation to perform audit procedures.
- The Department's Child Care Licensing Automation Support System and background check data were reliable for the purposes of this audit.
- The Department of Public Safety's Criminal Records system's data was not sufficiently reliable for the purposes of this audit based on the results of *An Audit Report on the Criminal Justice Information System at the Department of Public Safety* (State Auditor's Office Report No. 12-002, September 2011). That audit report stated that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks. However, the Department of Public Safety's Criminal Records system is the only source available to state agencies for conducting background checks. As a result, auditors used that data to assess providers' compliance with background check requirements.

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Detailed Results

Chapter 1

Simply Love All People, Inc.

Simply Love All People, Inc. Background Information [a]	
Location	San Antonio, TX
Contract services audited	Child Placing Agency
Number of children served	67
Average length of a child's stay in days	101.1
Total revenue from the Department	$312,972
Total revenue for child placing agency services	$312,972
Federal tax filing status	Non-profit
Number of staff at year end	4

[a] From January 1, 2011, through December 31, 2011.

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

Simply Love All People, Inc. (provider) did not consistently maintain adequate supporting documentation to demonstrate that it accurately reported funds it expended for providing 24-hour residential child care services. The provider was unable to provide adequate supporting documentation for $5,532 (11 percent) of the $50,802 in direct and administrative costs; $12,689 (62 percent) of the $20,441 in foster parent payments; and all $15,880 in payroll costs that it included on its 2011 cost report that auditors tested. Therefore, auditors were unable to determine whether the provider accurately reported those expenditures on its 2011 cost report (see Chapter 1-A).

The direct and administrative costs the provider incurred included (1) programmatic expenditures and (2) administrative expenditures incurred in operating a child placing agency. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors also tested revenues that the provider reported on its 2011 cost report. The provider did not maintain adequate documentation for $17,609 (50 percent) of the $35,054 in payments it received from the Department of Family and Protective Services (Department) that auditors tested. Therefore, auditors were unable to determine whether the Department paid the provider the correct amount or whether the provider accurately reported those revenues on its cost report. Auditors identified additional errors in the provider's reporting of revenues, expenditures, and related-party transactions on its 2011 cost report (see Chapter 1-A).

In January 2012, due to performance issues with its previous external accountant, the provider hired a new external accountant to perform all of its financial activities, including payroll. The provider was unable to acquire all of its records and supporting documentation for the 2011 cost reporting period from its previous external accountant. As a result, the provider's new external accountant created the general ledger for the 2011 cost report from bank statements instead of financial transaction documents, such as revenue receipts, invoices, and purchase receipts. That may result in costs being misreported on the provider's cost report.

The provider's external accountant is responsible for maintaining security over the provider's accounting system and information systems. Auditors tested the environment surrounding access to and security of the provider's accounting system and data and determined that the provider should improve controls over its financial processes, adequately segregate duties, and implement levels of review for key financial processes (see Chapter 1-B).

In addition, auditors determined that the provider:

- Submitted the majority of employees, foster parents, and household members for background checks to the Department in accordance with the Department's requirements (see Chapter 1-C).
- Did not always conduct monitoring visits at applicable foster homes that were active during the cost reporting period as required by the Department (see Chapter 1-D).

Auditors communicated other, less significant issues separately to the provider in writing.

Chapter 1-A

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider did not consistently comply with cost report requirements when it prepared its 2011 cost report. Auditors identified errors in the provider's reporting of revenues, expenditures, and related-party transactions. Specifically:

- The provider did not maintain adequate supporting documentation for all expenditures reported on its 2011 cost report.
- The provider included unallowable costs on its 2011 cost report.
- The provider did not disclose all related-party transactions on its 2011 cost report.
- The provider did not consistently maintain documentation supporting payments it received from the Department.

The Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2011 Texas 24- Hour Residential Child Care Cost Report* (*Cost Report Instructions*) requires providers to maintain records that are accurate and sufficiently detailed to substantiate financial information on the cost report and include only allowable expenditures incurred or accrued during the cost reporting period. (See Appendix 4 for additional information about cost report requirements.)

The Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. (See Appendix 5 for additional information about daily rates.) Not reporting accurate financial information on a cost report could cause the daily rates to be set at an inappropriate amount.

The provider did not maintain adequate supporting documentation for expenditures reported on its 2011 cost report.

The provider did not maintain adequate supporting documentation for direct care, administrative, programmatic, and payroll expenditures reported on its 2011 cost report that auditors tested. The provider also did not maintain adequate supporting documentation for the foster parent payments tested. Specifically:

- The provider did not have sufficient supporting documentation for 26 (43 percent) of the 60 non-labor expenditures tested. Those expenditures accounted for $5,532 (11 percent) of the $50,802 in direct care, administrative, and programmatic expenditures the provider included on its 2011 cost report that auditors tested. In addition, supporting documentation for 6 (18 percent) of 34 non-labor expenditures did not tie to the amounts reported in the provider's general ledger. That resulted in the provider overstating the expenditures tested on its 2011 cost report by $1,506.

- The provider did not maintain sufficient supporting documentation for all eight payroll expenditures tested. Seven of those expenditures totaled $15,880. As discussed above, some of the payroll records maintained by the provider's previous external accountant were not made available to the provider. However, the provider did not maintain some of its own payroll records, such as documentation supporting the salaries of employees. The remaining payroll expenditure was not recorded in the provider's general ledger for the 2011 cost reporting period, even though it was made during that time period; as a result, the provider did not include the payroll expenditure on its 2011 cost report as required. Because the payment was made in cash, auditors were unable to verify the amount paid.

- The provider did not maintain adequate supporting documentation for 17 (57 percent) of 30 foster parent payments tested. Those payments accounted for $12,689 (62 percent) of the $20,441 in foster parent payments the provider included on its 2011 cost report that auditors tested. In addition, five of those payments were cash payments made to foster parents without documentation, such as signed receipts.

As a result of the provider's lack of adequate documentation, auditors were unable to determine whether all of the expenditures tested were for allowable costs and accurately reported on the provider's 2011 cost report and whether the provider paid foster parents the correct amounts.

The provider included unallowable expenditures on its 2011 cost report.

Auditors identified $2,372 in expenditures that were for costs that the provider should not have included on its 2011 cost report. Of those expenditures, $1,153 were for donations; $1,069 were for late fees, finance charges for late payments, and penalties; and $150 were for other costs that were related to another program the provider administers. Title 1, Texas Administrative Code, Section 355.102, and Commission requirements permit only expenditures that are reasonable and necessary to the provider's operations to be included on a cost report.

The provider did not disclose all related-party transactions on its 2011 cost report.

The provider did not report on its 2011 cost report as required three related-party loans from two individuals totaling $2,746 that the provider received. One individual was a relative of the provider's executive director and the other individual was a member of the provider's board of directors. The *Cost Report Instructions* defines a related party in several ways, including a person or organization related to the contracted provider by blood or marriage. The contracted provider is required to disclose related-party information on its cost report for all allowable costs reported. In addition, providers are required to report lending services provided by related parties and any associated costs.

The provider did not consistently maintain documentation supporting payments it received from the Department.

The provider did not maintain documentation, such as children's level of care and days of service, that supported the payments it received from the Department for 13 (43 percent) of 30 payments tested. The unsupported payments totaled $17,609 (50 percent) of the $35,054 in payments tested. As a result, auditors were unable to determine whether the Department's payments to the provider were accurate and whether the provider reported those payments accurately on its 2011 cost report.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation that fully supports all financial transactions included on its cost report.
- Prepare its cost report in accordance with requirements. To help ensure this, the provider should:

- Maintain adequate supporting documentation for all expenditures and revenues, such as invoices and purchase receipts, and provide those documents to its external accountant for entry into the general ledger.
- Regularly review the financial information used to complete its cost reports to identify and correct errors in a timely manner.
- Report and disclose all related-party costs in accordance with the Commission's *Cost Report Instructions*.

Chapter 1-B

The Provider Should Strengthen Controls Over Its Financial Processes

The provider, as of June 2012, had financial processes in place, such as reviews of financial summary reports by its board of directors. It should be noted that auditors were unable to determine what processes were in place during the 2011 cost reporting period. The provider should strengthen controls over its financial processes, including implementing reviews of financial information prepared by its external accountant, segregating key financial-related duties, implementing written policies and procedures, and strengthening user access controls to key systems.

Due to performance issues with a previous external accountant, the provider hired a new external accountant in January 2012 to perform all of the provider's financial activities, including payroll. The provider was unable to acquire all of its records and supporting documentation from the previous external accountant for the 2011 cost reporting period. As a result, the provider's new external accountant created the general ledger from bank statements instead of financial transaction documents, such as revenue receipts, invoices, and purchase receipts**.** As of June 2012, the provider's external accountant continued to use bank statements to create the general ledger.

While the provider can use bank statements to verify that it disbursed funds, bank statements do not provide detailed information regarding the item(s) purchased; the individual who made the purchase; whether the purchase was a business expense; and, in some cases, from which vendor the provider purchased the item(s). That may result in costs being misreported on the provider's cost report.

The provider did not review the financial information its external accountant prepared.

As discussed above, the provider contracted with an external accountant to perform the majority of its financial activities, including the preparation of its general ledger and financial statements. However, the provider did not review for accuracy and completeness the specific financial information that the external accountant recorded in the provider's general ledger. Performing a review of financial information would help the provider to ensure that all financial transactions are correctly recorded and have appropriate approval from management.

The provider did not sufficiently segregate duties or provide oversight of key financial processes.

In addition to performing the majority of the provider's financial activities, the provider's external accountant has check-writing authority on behalf of the provider. However, the provider did not review or document the authorization of the checks written by the external accountant.

The provider did not have policies and procedures related to key financial processes and information technology security during the 2011 cost reporting period.

The provider had policies and procedures related to key financial processes and information technology security in place in June 2012, when auditors conducted their testing; however, those policies and procedures were not in place during the 2011 cost reporting period.

In addition, as of June 2012, the provider's board of directors had not approved the policies and procedures that were in place in June 2012, and those policies and procedures did not have dates of effectiveness. The Department's *Minimum Standards for Child-Placing Agencies* require a provider's governing body to approve all operational policies.

The provider had adequate controls in place over its information technology; however, it should strengthen its controls over user access to key applications.

The provider's external accountant controls and maintains the provider's information technology assets, including its network, its electronic accounting records, and the electronic records related to the children in the provider's care. As of June 2012, the external accountant had adequate controls in place over the provider's information technology assets, including physical security of the servers that house the provider's accounting system and confidential records. However, auditors identified user access controls that should be strengthened.

Recommendations

The provider should:

- Review the financial information prepared by its external accountant for accuracy and completeness.
- Segregate duties over key financial processes.

- Develop and implement written policies and procedures and implement levels of review for key financial processes.
- Ensure that financial transaction documents are used to generate its general ledger.
- Secure key financial and other confidential records maintained on information technology systems.

Chapter 1-C

The Provider Substantially Complied with the Department's Background Check Requirements; However, It Should Strengthen Its Background Check Processes for Employees, Foster Parents, and Household Members

The provider submitted the majority of employees, foster parents, and household members for background checks to the Department in accordance with the Department's requirements. As of March 2012, the provider had current background checks for 5 (83 percent) of the 6 employees who worked at the provider and for all 21 foster parents and/or household members who were active during the 2011 cost reporting period (January 2011 through December 2011).

The Department requires that those individuals clear a name-based background check before they provide direct care to children or have direct access to the children in the provider's care. The Department requires providers to submit individuals for a subsequent background check at least once every 24 months after the initial check. (See Appendix 3 for additional information about background check requirements.)

Employees

Three (75 percent) of the 4 employees hired after January 1, 2010, had an initial background check submitted prior to their hire dates as required. However, the provider did not submit a background check for one new employee until 21 days after the employee's hire date. That background check resulted in no further action or follow-up required, and there was no impact on the safety of the children in the provider's care.

As of March 2012, at the time of auditor testing, the provider had not submitted a subsequent background check within 24 months of the most recent check for one employee. Auditors confirmed that the provider submitted this employee for a subsequent background check in April 2012, 69 days late. That background check resulted in no further action or follow-up required, and there was no impact on the safety of the children in the provider's care.

Foster Parents/Household Members

Auditors tested all 21 foster parents and/or household members who contracted with the provider during the 2011 cost reporting period. Of the 21 foster parents and/or household members with contracts beginning after January 1, 2010, 18 (86 percent) had an initial background check submitted prior to the contract date. The provider submitted the remaining three individuals, who were household members over the age of 14, for background checks between 52 and 66 days after the individuals' contract start date. Those three background checks resulted in no further action or follow-up required and there was no impact on the safety of the children in the provider's care.

Auditors also requested that the Department of Public Safety perform criminal background checks for all individuals who were current employees, foster parents, and household members in March 2012. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards.[1]

Recommendation

The provider should submit employees, foster parents, and household members for background checks in accordance with the Department's requirements.

Chapter 1-D

The Provider Should Conduct Monitoring Visits at Foster Homes in Accordance with Department Requirements

The provider did not conduct 5 (26 percent) of the 19 required quarterly monitoring visits at foster homes. Additionally, the provider did not conduct an unannounced visit during the 2011 cost reporting period at one foster home. Department rules state that supervisory visits must be performed at foster homes that are available for child placements on at least a quarterly basis, and at least one visit per year should be unannounced.

Monitoring visits are the primary way for the provider to help ensure that foster homes comply with all Department standards. The provider may be placing children at risk by not performing the monitoring visits as required.

[1] *An Audit Report on the Criminal Justice Information System* (State Auditor's Office Report No. 12-002, September 2011) determined that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks.

Recommendations

The provider should:

- Perform monitoring visits at all active foster homes at least once per quarter as required.
- Conduct and document at least one unannounced monitoring visit at each active foster home at least once per year as required.

Chapter 2

Antelope Valley Child, Youth, and Family Services

Antelope Valley Child, Youth, and Family Services Background Information [a]	
Location	Lancaster, TX
Contract services audited	Child Placing Agency
Number of children served	127
Average length of a child's stay in days	123.9
Total revenue from the Department	$ 773,535
Total revenue for child placing agency services	$ 788,647
Federal tax filing status	Non-profit
Number of program staff at year end	4

[a] From January 1, 2011, through December 31, 2011.

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

Antelope Valley Child, Youth, and Family Services (provider) did not consistently maintain adequate supporting documentation to demonstrate that it accurately reported funds it expended for providing 24-hour residential child care services. The provider was unable to provide adequate supporting documentation for $8,471 (59 percent) of the $14,415 in direct and administrative expenditures and $18,081 (45 percent) of the $40,274 in payroll expenditures the provider included on its 2011 cost report that auditors tested. Therefore, auditors were unable to determine whether the provider accurately reported those expenditures on its 2011 cost report (see Chapter 2-A).

The direct and administrative costs the provider incurred included (1) programmatic expenditures and (2) administrative expenditures related to operating a child placing agency. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2011 cost report, including payroll expenditures, to determine whether they were allowable, properly classified, and had supporting documentation.

The provider properly paid and maintained adequate supporting documentation for all 30 foster parent payments tested totaling $21,965, and it properly accounted for and maintained adequate supporting documentation for 29 (97 percent) of 30 payments it received from the Department of Family and Protective Services (Department) that auditors tested.

However, the provider should strengthen controls over its financial processes because it lacked detailed written policies and procedures, did not review financial information prepared by its external accountant, and did not provide detailed accounting records to its external accountant (see Chapter 2-B).

The provider substantially complied with the Department's requirements for background checks (see Chapter 2-C), and it substantially complied with the Department's requirements for monitoring foster homes (see Chapter 2-D).

In addition, the provider's external accountant performed the majority of the provider's financial activities, including preparing its general ledger and financial statements, preparing its cost report, and processing its payroll.

While the provider had a contract in place with the external accountant, the contract did not include provisions requiring that adequate controls be in place to secure the accounting system and the provider's financial data (see Chapter 2-E).

Auditors communicated other, less significant issues separately to the provider in writing.

Chapter 2-A
The Provider Should Improve Its Compliance with Cost Report Requirements

The provider did not consistently comply with cost report requirements when it prepared its 2011 cost report. Auditors identified errors in the provider's reporting of revenues, expenditures, and related-party transactions. Specifically, on its 2011 cost report, the provider:

- Did not maintain adequate supporting documentation for all of the expenditures tested.
- Included unallowable costs.
- Misstated revenue.
- Misclassified expenditures.
- Did not disclose all related-party transactions and overstated the amount of a related-party lease.

The Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report* (*Cost Report Instructions*) requires providers to maintain records that are accurate and sufficiently detailed to substantiate financial information in the cost report and include only allowable expenditures incurred or accrued during the cost reporting period. (See Appendix 4 for additional information about cost report requirements.)

The Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. (See Appendix 5 for additional information about daily rates.) Not reporting accurate financial information on a cost report could cause the daily rates to be set at an inappropriate amount.

The provider did not maintain adequate supporting documentation for expenditures reported on its 2011 cost report.

The provider did not maintain adequate supporting documentation for direct care, administrative, programmatic, and payroll expenditures reported on its 2011 cost report that auditors tested. Specifically:

- The provider did not have sufficient supporting documentation for 38 (63 percent) of the 60 non-labor expenditures tested. Those expenditures accounted for $8,471 (59 percent) of the $14,415 in direct care, administrative, and programmatic expenditures that auditors tested.

- The provider did not maintain sufficient supporting documentation for 8 (27 percent) of 30 payroll expenditures tested. Those expenditures accounted for $18,081 (45 percent) of the $40,274 in payroll expenditures that auditors tested. In addition, the provider did not have documented rates of pay for 19 (63 percent) of the 30 payroll expenditures tested.

As a result of the lack of adequate documentation, auditors were unable to determine whether the expenditures were allowable and accurately reported on the provider's cost report.

The provider included unallowable costs on its 2011 cost report.

Auditors identified $124 in expenditures that were for costs that the provider should not have included on its 2011 cost report. Those expenditures included (1) late payment charges assessed on telephone bills, (2) a delinquent penalty on taxes assessed by the State of California, and (3) a personal expense. Title 1, Texas Administrative Code, Section 355.102, and Commission requirements permit only expenditures that are reasonable and necessary to the provider's operations to be included on the cost report.

The provider misstated revenue on its 2011 cost report.

The provider properly accounted for and maintained adequate supporting documentation for all 30 payments it received from the Department that auditors tested. However, in reviewing the documentation, auditors identified a $310 overpayment, which the provider had included in its reported revenue on its cost report. The provider asserted it had notified the Department of the overpayment; however, it did not have documentation to support that assertion. In addition, the provider misclassified $15,111 in revenue it received from the State of California as Department revenue on its 2011 cost report. As a result of those two errors, the provider misstated Department revenue by a total of $15,421 on its 2011 cost report.

The provider misclassified expenditures on its 2011 cost report.

The provider correctly reported direct care pass-through expenditures related to Department clients totaling $432,257 on its 2011 cost report. However, it misclassified $6,047 in direct care pass-through expenditures related to a client placed by the State of California as expenditures related to Department-placed clients.

The provider did not disclose all related-party transactions and overstated the amount of a related-party lease on its 2011 cost report.

The provider did not report two related-party loans totaling $10,000 that the provider received from its executive director as required. In addition, the provider overstated the cost of its building lease on its cost report. The provider reported the entire $15,120 lease amount paid to the related party and owner of the building. However, it should have reported only $2,076, which was the depreciation cost of the building owned by and leased to the provider by the related party. According to the *Cost Report Instructions*, the provider should report only the costs incurred by the related party associated with the lease.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation that fully supports all financial transactions included on its cost report.
- Prepare its cost report in accordance with requirements. To help ensure this, the provider should:
  - Maintain adequate supporting documentation for all expenditures, such as invoices and purchase receipts, and provide those documents to its external accountant for entry into the general ledger.
  - Regularly review the financial information used to complete its cost reports to identify and correct errors in a timely manner.
  - Report and disclose all related-party costs in accordance with the Commission's *Cost Report Instructions*.

Chapter 2-B

The Provider Should Improve Controls Over Its Financial Processes

The provider should strengthen controls over its financial processes by (1) improving its written policies and procedures by adding details for its key financial processes, (2) reviewing financial information prepared by its external accountant, and (3) providing detailed accounting records to its external accountant for purposes of accurately recording all financial transactions in the general ledger.

While the provider had documented policies and procedures in place, it should strengthen those documents by approving them and adding details about the provider's financial processes.

The provider's documented policies and procedures lacked sufficient details about how its key financial processes should be completed and did not include documented approval. For example, the policies and procedures did not include (1) who was responsible for making deposits or entering transactions into the general ledger, (2) how expenditures should be classified in the general ledger, and (3) how payroll should be processed. Detailed policies and procedures are important tools for helping all employees understand the provider's processes, holding employees accountable for following them, and helping maintain consistency in the performance of key processes. In addition, the Department's *Minimum Standards for Child-Placing Agencies* requires a governing body to approve the provider's policies and procedures and to ensure that the provider is complying with them.

The provider and its board of directors did not review the financial information its external accountant prepared.

The provider contracted with an external accountant to perform the majority of its financial activities, including the preparation of its general ledger, financial statements, and cost report. However, neither the provider nor its board of directors received and reviewed financial-related information on a regular basis. Specifically, the provider did not review for accuracy and completeness the financial information that the external accountant recorded in the provider's general ledger. The provider also did not perform independent reviews of the external accountant's bank reconciliations. According to the Department's *Minimum Standards for Child-Placing Agencies*, a provider's governing board is responsible for ensuring the provider remains fiscally sound. Without receiving periodic financial statements from its external accountant and reviewing those statements, the governing board cannot comply with the requirement to ensure the provider remains fiscally sound.

The provider should provide detailed accounting records to its external accountant for purposes of accurately recording all financial transactions in its general ledger.

The provider's executive director gives its external accountant invoices and credit card statements, from which the accountant creates the provider's general ledger. However, without the detailed purchase receipts for credit card transactions, the provider's accountant may not have enough information to properly classify the related expenditures in the general ledger, thus posing a risk to the accuracy of the provider's financial information. Because the provider used its general ledger to complete its cost report, there is also a risk that the provider will report inaccurate information in the cost report.

Recommendations

The provider should:

- Strengthen its written policies and procedures for key financial processes by including more specific details about those processes. In addition, the board of directors should review and approve the provider's policies and procedures.
- Regularly review financial information and update its board of directors regarding its financial condition.
- Provide detailed accounting records to its external accountant for purposes of accurately recording all financial transactions in the general ledger to help ensure the accuracy of the information the provider includes on its cost report.

Chapter 2-C

The Provider Substantially Complied with the Department's Background Check Requirements; However, It Should Ensure That It Submits All Background Checks in a Timely Manner

The provider submitted the majority of employees, foster parents, and household members for background checks to the Department in accordance with the Department's requirements. As of March 2012, the provider had current background checks for 14 (93 percent) of 15 employees who worked at the provider and for 46 (96 percent) of 48 foster parents and/or household members who were active during the 2011 cost reporting period (January 2011 through December 2011).

The Department requires that those individuals clear a name-based background check before they provide direct care to children or have direct access to the children in the provider's care. The Department requires providers to submit individuals for a subsequent background check at least once every 24 months after the initial check. (See Appendix 3 for additional information about background check requirements.)

Employees

Six (67 percent) of the 9 employees hired after January 1, 2010, had an initial background check cleared prior to their hire dates as required. Two (22 percent) employees cleared their initial background checks 48 days and 148 days after their hire dates. The provider did not submit one employee for an initial background check. That employee was hired on December 6, 2010, and separated from employment on January 20, 2011.

Foster Parents/Household Members

Auditors tested all 48 foster parents, along with their associated household members, who contracted with the provider during the 2011 cost reporting period and determined that 46 (96 percent) had current background checks. For the two remaining individuals, the provider:

- Failed to request a background check on a household member when the individual became 14 years old.
- Requested a background check on a household member through the Department, but it failed to detect that the background check was not completed due to a processing error.

Auditors also requested that the Department of Public Safety perform criminal background checks for all individuals who were current employees, foster parents, and household members in March 2012. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards.[2]

Recommendation

The provider should submit employees and household members for background checks in accordance with the Department's requirements.

Chapter 2-D

The Provider Substantially Complied with the Department's Requirements for Conducting Monitoring Visits of Foster Homes; However, It Should Ensure That It Conducts All Visits as Required

During the 2011 cost reporting period, the provider conducted 57 (97 percent) of 59 required quarterly monitoring visits and conducted unannounced monitoring visits at 15 (88 percent) of 17 foster homes tested. In addition, 53 (93 percent) of the 57 documented monitoring reports were signed by the foster parents and provider's staff as required.

Monitoring visits are the primary way for the provider to help ensure that foster homes comply with all Department standards. The provider may be placing children at risk by not performing the monitoring visits as required.

[2] *An Audit Report on the Criminal Justice Information System* (State Auditor's Office Report No. 12-002, September 2011) determined that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks.

Recommendations

The provider should:

- Perform monitoring visits at all active foster homes at least once per quarter as required.
- Conduct and document at least one unannounced monitoring visit at each active foster home at least once per year as required.
- Require all foster parents and provider staff to sign all required documentation.

Chapter 2-E

The Provider Should Improve the Security Environment Surrounding Its Automated Systems, Applications, and Data

The provider's use of automated systems was limited because the provider contracted with an external accountant to perform the majority of the provider's financial activities, including preparing its general ledger and financial statements, preparing its cost report, and processing its payroll. However, the contract between the provider and its external accountant did not include information technology-related provisions to secure and protect the provider's financial data.

Auditors tested information technology controls at the provider and its external accountant and identified opportunities for improvement in the following areas:

- **Policies and Procedures:** The provider lacked written information technology policies and procedures for password requirements, confidentiality of information, user access, and backup and recovery processes for its network.
- **Backups and Recovery:** The provider and its external accountant asserted they performed daily backups of the network and financial data and stored those backups off-site. However, neither the provider nor the external accountant maintained logs of the backups made or performed tests of the backups to verify that the data could be recovered.
- **Physical Security:** The provider placed its server in a location that is susceptible to physical damage.

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the integrity of the provider's cost reporting.

Recommendations

The provider should:

- Amend its contract with its external accountant to incorporate security-related provisions to protect the provider's financial information.
- Develop and implement written information technology policies and procedures for its network. Those policies and procedures should address password requirements, confidentiality of information, user access, and backup and recovery processes
- Document all backup and recovery procedures, including the results of any backup testing conducted.
- Secure its server to minimize the risk of physical damage.

Chapter 3
Unity Children's Home

Unity Children's Home Background Information [a]	
Location	Spring, TX
Contract services audited	Residential Treatment Center
Number of children served	106
Average length of a child's stay in days	85.3
Total revenue from the Department	$1,211,356
Total revenue for residential treatment center services	$1,385,186
Federal tax filing status	Non-profit
Number of staff at year end	50

[a] From January 1, 2011, through December 31, 2011.

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

Unity Children's Home (provider) did not consistently maintain adequate supporting documentation to demonstrate that it accurately reported funds it expended for providing 24-hour residential child care services. The provider was unable to provide adequate supporting documentation for $14,773 (19 percent) of the $78,767 in direct and administrative expenditures and $13,306 (53 percent) of the $25,154 in payroll expenditures the provider included on its 2011 cost report that auditors tested. Therefore, auditors were unable to determine whether the provider accurately reported those expenditures on its cost report (see Chapter 3-A).

The direct and administrative costs the provider incurred included (1) programmatic expenditures and (2) administrative expenditures related to operating a residential treatment center. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2011 cost report, including payroll expenditures, to determine whether they were allowable, properly classified, and had supporting documentation.

While the provider had adequate supporting documentation for all 30 payments it received from the Department of Family and Protective Services (Department) that auditors tested, auditors determined that the provider:

- Should improve its compliance with cost report requirements. Auditors identified errors in the provider's reporting of revenues, expenditures, and related-party costs. In addition, the provider created its general ledger from bank statements instead of financial transaction documents (see Chapter 3-A).
- Should improve controls over its financial processes, record transactions in its general ledger on a regular basis, adequately segregate duties, and implement levels of review for key financial processes (see Chapter 3-B).
- Substantially complied with the Department's requirements for background checks. Specifically, the provider had current background checks for all employees and subcontractors employed during the cost reporting period. In addition, 96 (95 percent) of 101 employees and

subcontractors who were hired after January 1, 2010, had an initial background check completed prior to their hire dates (see Chapter 3-C).

In addition, the provider's external accountant performed the majority of the provider's financial activities, including preparation of its general ledger, financial statements, and cost report. However, the provider did not have a written contract in place with the external accountant detailing those activities or requiring that adequate controls be in place to secure the accounting system and the provider's financial data (see Chapter 3-D).

Auditors communicated other, less significant issues separately to the provider in writing.

Chapter 3-A

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider did not consistently comply with cost report requirements when it prepared its 2011 cost report. Auditors identified errors in the provider's reporting of revenues, expenditures, and related-party costs. Specifically, for its 2011 cost report, the provider:

- Did not submit its cost report by the required due date and did not request an extension.
- Did not consistently maintain adequate supporting documentation or accurately calculate reported expenditures.
- Included unallowable expenditures and misclassified costs.
- Understated and misclassified revenues.
- Understated related-party costs.

The Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report* (*Cost Report Instructions*) requires providers to maintain records that are accurate and sufficiently detailed to substantiate financial information in the cost report and include only allowable expenditures incurred or accrued during the cost reporting period. (See Appendix 4 for additional information about cost report requirements.)

The provider's general ledger was created directly from the monthly bank statements instead of source financial transaction documents, such as invoices and purchase receipts. While the provider can use bank statements to verify that it disbursed funds, bank statements do not provide detailed information regarding the item(s) purchased; the individual who made the purchase; whether the purchase was a business expense; and, in some cases, from which vendor the provider purchased the item(s). That may result in costs being misreported on the provider's cost report because the provider used the general ledger as the basis for its 2011 cost report.

The Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. (See Appendix 5 for additional information about daily rates.) Not reporting accurate financial information on a cost report could cause the daily rates to be set at an inappropriate amount.

The provider submitted its cost report after the due date.

The provider submitted its 2011 cost report one month after the March 31, 2012, due date and did not request an extension. According to the *Cost Report Instructions,* the Commission must receive requests for extensions prior to the cost report's due date. Providers who fail to file an acceptable cost report by the due date are subject to a vendor hold.

The provider did not maintain adequate supporting documentation or accurately calculate expenditures reported on its 2011 cost report.

The provider did not maintain adequate supporting documentation for expenditures reported on its 2011 cost report that auditors tested. Specifically:

- Of the 60 non-labor expenditures tested, the provider did not have sufficient supporting documentation for 24 (40 percent) expenditures. Those 24 expenditures accounted for $14,773 (19 percent) of the $78,767 in direct care, administrative, and programmatic expenditures that auditors tested.

- Of the 30 payroll expenditures tested, the provider did not maintain adequate supporting documentation, such as employee time sheets, for 16 (53 percent) expenditures. Those 16 transactions accounted for $13,306 (53 percent) of the $25,154 in payroll expenditures that auditors tested. For the 14 payroll expenditures with supporting documentation, auditors identified calculation errors in 10 (71 percent) of the 14 expenditures, which resulted in the provider underpaying 4 employees by a total of $301 and overpaying 6 employees by a total of $107. In addition, the provider did not have documented rates of pay for 6 (20 percent) of the 30 payroll expenditures tested.

As a result of the inadequate documentation, auditors were unable to determine whether the provider accurately reported all of the expenditures tested on its 2011 cost report.

The provider included unallowable expenditures and misclassified costs on its 2011 cost report.

The provider generally reported expenditures on its cost report as required; however, it included (1) unallowable bank overdraft fees and (2) late payment fees totaling $374. While the dollar amount is not material, the provider should not have included those fees on its 2011 cost report. Title 1, Texas Administrative Code, Section 355.102, and Commission requirements permit only expenditures that are reasonable and necessary to the provider's operations to be included on a cost report. According to the *Cost Report Instructions*, providers should not report unallowable portions of expenditures for penalties and fines, such as late payment penalties or insufficient check fees.

In addition, the provider misclassified $1,445 in allowable bank service fees on the incorrect cost report line category on its cost report. The provider also misclassified in its general ledger 6 (17 percent) of 36 non-labor expenditures tested. As a result, the provider misclassified those expenditures on its cost report.

The provider misreported revenues on its 2011 cost report.

The provider did not have a process to report revenues received from sources other than the Department on its cost report. As a result, the provider understated its total revenues by $97,974 on its cost report. The amount not reported included revenues from federal and local governments. In addition, the provider also misclassified $77,856 in revenue it received from the Juvenile Justice Department as Department revenue on its 2011 cost report.

The provider understated related-party costs on its 2011 cost report.

The provider understated related-party costs by $4,152 because it did not report the depreciation cost of a building owned by and leased to the provider by its executive director, who would be considered a related party. The provider should have reported the costs incurred by the related party associated with the lease; in this case, that would be the building's depreciation. According to the *Cost Report Instructions*, providers are allowed to report costs for related-party transactions only up to the actual cost to the related party.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation, including time sheets, for all financial transactions.
- Prepare and submit its cost report in accordance with requirements. To help ensure this, the provider should:
    - Submit its cost report to the Commission by the established due date.

- Create its general ledger from source financial transaction documents, such as invoices and purchase receipts.
- Accurately report revenues on its cost report.
- Report and disclose all related-party costs in accordance with the Commission's *Cost Report Instructions*.

Chapter 3-B

The Provider Should Strengthen Controls Over Its Financial Processes

The issues discussed in Chapter 3-A can be attributed to weaknesses in the provider's financial processes. As a result, the provider should strengthen controls over its financial processes by (1) developing and implementing written policies and procedures for its key financial processes, (2) recording transactions in its general ledger on a regular basis, (3) segregating key financial-related duties, and (4) reviewing financial information prepared by its external accountant.

The provider hired an external accountant to perform the majority of the provider's financial activities, such as preparing and maintaining the general ledger, creating financial statements, processing payroll, and developing the cost report. The provider was responsible for maintaining the supporting documentation for its financial data and providing all of the necessary financial documentation to its external accountant. However, there is no written contract between the provider and its external accountant establishing the responsibilities and expectations regarding these activities.

The provider lacked detailed written policies and procedures.

The provider did not have detailed written policies and procedures for its key financial processes. Specifically, the provider did not have detailed written policies and procedures for accounting for revenues and expenditures, reviewing payroll, performing bank reconciliations, performing reconciliations of Department revenue, using procurement cards, and recording financial transactions in its general ledger. Policies and procedures are important tools for helping all employees understand the provider's processes, holding employees accountable for following them, and helping maintain consistency in the performance of key processes.

The provider did not record financial information on a regular basis.

The provider did not record financial transactions into its general ledger until the end of the fiscal year. As a result, financial information was not available to the provider or its board of directors for review on a regular basis.

The provider did not segregate key financial-related duties and ensure that supervisory reviews were conducted.

The provider did not adequately segregate duties for completing bank deposits and writing checks. Specifically, only one person receives and deposits all checks received. In addition, when checks are written there is no secondary review. Segregating key financial duties helps to reduce the risk of fraud and distributes the workload related to financial processes.

The provider did not review financial information prepared by its external accountant.

The provider hired an external accountant to perform the majority of its financial activities, including the preparation of its general ledger, financial statements, and cost report. However, neither the provider nor its board of directors receives and reviews financial-related information on a regular basis. Specifically, the provider received the general ledger several months after the end of the 2011 fiscal year and the provider's board of directors did not discuss financial-related information. According to the Department's *Minimum Standards for General Residential Operations*, the governing board is responsible for ensuring the operation remains fiscally sound.

Recommendations

The provider should:

- Develop and implement written policies and procedures for key financial processes.
- Record financial transactions in its general ledger on a regular basis.
- Segregate key financial-related duties and implement levels of review for key financial processes.
- Regularly review its financial information and update its board of directors regarding its financial condition.

Chapter 3-C

The Provider Should Submit Employees and Subcontractors for Background Checks in Accordance with the Department's Requirements

The provider submitted the majority of its employees and subcontractors for background checks in accordance with the Department's requirements. The provider had current background checks for all 122 employees and subcontractors who worked at the provider during the 2011 cost reporting period (January 2011 through December 2011).

In addition, 96 (95 percent) of the 101 employees and subcontractors who were hired after January 1, 2010, had an initial background check completed prior to their hire dates as required. Initial background checks were completed 6 to 31 days after the hire dates for 5 employees and subcontractors.

The Department requires that individuals clear a name-based background check before the individuals provide care to children or have direct access to the children in the provider's care. (See Appendix 3 for additional information about background check requirements.)

Auditors also requested that the Department of Public Safety perform criminal background checks for all individuals who were current employees and subcontractors in March 2012. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards. [3]

Recommendation

The provider should ensure that initial background checks for employees and subcontractors are completed prior to their hire dates.

Chapter 3-D

The Provider Should Improve Access to and the Security Environment Surrounding Its Automated Systems, Applications, and Data

The provider's use of automated systems was limited because an external accountant performed the majority of the provider's financial activities, including preparing and maintaining the provider's general ledger and cost report. The provider relies on an accounting system maintained by the external accountant that uses a third-party vendor for its information technology services. However, the provider does not have a written contract with the external accountant requiring that adequate controls be in place to secure the accounting system and related financial data, including sufficient backup and recovery, access, and physical security controls.

[3] *An Audit Report on the Criminal Justice Information System* (State Auditor's Office Report No. 12-002, September 2011) determined that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks.

Recommendation

The provider should obtain a signed contract with its external accountant that adequately provides for controls over all external accounting and information technology functions.

Chapter 4

Carter's Kids, Inc.

Carter's Kids, Inc. Background Information [a]	
Location	Richmond, TX
Contract services audited	Residential Treatment Center
Number of children served	94
Average length of a child's stay in days	177.4
Total revenue from the Department	$2,458,047
Total revenue for residential treatment center services	$2,463,162
Federal tax filing status	For profit
Number of staff at year end	53

[a] From January 1, 2011, through December 31, 2011.

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

Carter's Kids, Inc. (provider) did not consistently maintain adequate supporting documentation to demonstrate that it accurately reported funds it expended for providing 24-hour residential child care services. The provider was unable to provide adequate supporting documentation for $21,018 (33 percent) of the $63,026 in direct and administrative expenditures the provider included on its 2011 cost report that auditors tested. Therefore, auditors were unable to determine whether the provider accurately reported those expenditures on its cost report (see Chapter 4-A).

The direct and administrative costs the provider incurred included (1) programmatic expenditures and (2) administrative expenditures related to operating a residential treatment center. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2011 cost report, including payroll expenditures, to determine whether they were allowable, properly classified, and had supporting documentation. The provider accurately calculated and recorded 25 (83 percent) of the 30 payroll transactions tested, but it underpaid 5 employees by a total of $542 for 5 transactions tested.

While the provider had adequate supporting documentation for all 30 payments it received from the Department of Family and Protective Services (Department) that auditors tested, auditors determined that the provider:

- Should improve its compliance with cost report requirements. Auditors identified errors in the provider's reporting of revenues, expenditures, and related-party transactions. In addition, the provider created its general ledger from bank statements instead of source financial transaction documents (see Chapter 4-A).
- Should improve controls over its financial processes, adequately segregate duties, and implement levels of review for key financial processes (see Chapter 4-B).
- Substantially complied with the Department's requirements for background checks. Specifically, the provider had current background

checks for all of its employees and subcontractors employed during the cost reporting period, and all employees and subcontractors who were hired after January 1, 2010, had an initial background check completed prior to their hire dates (see Chapter 4-C).

In addition, the provider's external accountant performed the majority of the provider's financial activities, including preparation of its general ledger and financial statements. However, the provider did not have a written contract in place with the external accountant requiring that adequate controls be in place to secure the accounting system and the provider's financial data (see Chapter 4-D).

Auditors communicated other, less significant issues separately to the provider in writing.

Chapter 4-A

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider did not consistently comply with cost report requirements when it prepared its 2011 cost report. Auditors identified errors in the provider's reporting of revenues, expenditures, and related-party transactions. Specifically:

- The provider did not consistently maintain adequate supporting documentation to support expenditures reported on its 2011 cost report.
- The provider included unallowable costs on its 2011 cost report.
- The provider did not accurately report all expenditures on its 2011 cost report.
- The provider overstated Department revenue on its 2011 cost report, although it appropriately accounted for and maintained adequate supporting documentation for payments received from the Department.
- The provider did not disclose all related-party transactions on its 2011 cost report.

The Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report* (*Cost Report Instructions*) requires providers to maintain records that are accurate and sufficiently detailed to substantiate financial information in the cost report and include only allowable expenditures incurred or accrued during the cost reporting period. (See Appendix 4 for additional information about cost report requirements.)

The provider's general ledger, which the provider used as the basis for its 2011 cost report, was created directly from the monthly bank statements instead of source financial transaction documents, such as invoices and purchase receipts. While the provider can use bank statements to verify that it disbursed funds, bank statements do not provide detailed information regarding the item(s) purchased; the individual who made the purchase; whether the purchase was a business expense; and, in some cases, from which vendor the provider purchased the item(s). That may result in costs being misreported on the provider's cost report.

The Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. (See Appendix 5 for additional information about daily rates.) Not reporting accurate financial information on a cost report could cause the daily rates to be set at an inappropriate amount.

The provider did not maintain adequate supporting documentation for costs reported on its 2011 cost report.

The provider did not maintain adequate supporting documentation for 17 (28 percent) of the 60 expenditures tested. For example, the provider did not have contracts documenting the rate of pay for several of its subcontractors, including its external accountant, medical doctor, therapist, administrator, and case manager. The provider also did not have receipts or invoices substantiating other expenditures. Those expenditures accounted for $21,018 (33 percent) of the $63,026 in direct care, administrative, and programmatic expenditures the provider included on its 2011 cost report that auditors tested. Therefore, auditors were unable to determine whether the provider accurately reported those expenditures on its cost report.

The provider included unallowable costs on its 2011 cost report.

Auditors traced 27 expenditure line items from the cost report to the provider's general ledger and identified $12,479 in expenditures that were unallowable costs and should not have been included on the cost report. The majority of the unallowable expenditures identified were personal expenditures recorded in the general ledger and subsequently included on the provider's 2011 cost report. Other unallowable expenditures included bank overdraft fees, which are disallowed by the *Cost Report Instructions*, and a payment inadvertently made to an individual who did not perform any work.

The provider did not correctly report costs on its 2011 cost report.

The provider did not accurately report all expenditures on its 2011 cost report. Specifically:

- The provider recorded a $1,000 expenditure incurred in May 2010 but paid in January 2011 in its 2011 general ledger. It reported that expenditure as a 2011 expenditure on its 2011 cost report. The expenditure should have been reported on the provider's 2010 cost report.

- The provider did not record a $1,500 expenditure that it paid in December 2011 in its 2011 general ledger. As a result, the provider did not include that expenditure on its 2011 cost report.

According to the *Cost Report Instructions*, only expenditures incurred or accrued during the reporting period should be reported on the cost report, and expenditures should be reported on the cost report on an accrual basis instead of on a cash basis.

Auditors also tested $40,444 in payroll transactions included on the provider's 2011 cost report and determined that the provider:

- Underpaid 5 employees by a total of $542 for 5 (17 percent) of 30 payroll transactions tested.
- Did not have documented rates of pay for any of its employees.

In addition, in separate testing conducted to verify the employee population, auditors determined that the provider paid an individual $619 for work not performed. That individual was in the hiring process when the provider inadvertently paid that individual. As a result, the provider overstated payroll expenditures by $619 on its 2011 cost report.

The provider overstated revenues on its 2011 cost report.

The provider properly accounted for and maintained adequate supporting documentation for all 30 payments the provider received from the Department that auditors tested. However, it overstated total Department revenues on its 2011 cost report by $5,115 because the provider did not consistently reconcile the days of service with the revenues it received in the fiscal year during which the services were provided. The revenues the provider reported on its cost report were based on the days of service provided. While the provider has a process to reconcile the payments it receives from the Department with the days of service provided, it does not perform a review of the reconciliations to identify potential errors. Auditors identified two instances in which the provider accounted for and subsequently reported more days of service than it provided.

In addition, auditors determined that the Department underpaid the provider by $691 for services provided; however, the provider did not notify the Department about this underpayment. As a result, those revenues were not collected and included on the provider's 2011 cost report.

The provider did not disclose all related-party transactions on its 2011 cost report.

The provider did not report on its 2011 cost report $685 in expenditures paid to a relative of the provider's president. The *Cost Report Instructions* defines a related party in several ways, including as a person or organization related to the contracted provider by blood or marriage. In addition, the provider is required to disclose related-party information on its cost report for all allowable costs reported. Providers are allowed to report costs for related-party transactions only up to the actual cost to the related party.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation for all financial transactions.
- Prepare its cost report in accordance with requirements. To help ensure this, the provider should:
  - Create its general ledger from source financial transaction documents, such as invoices and purchase receipts.
  - Calculate total hours on time sheets correctly, review payroll transactions, and document employees' rate of pay.
  - Review its days of service and revenue reconciliations.
  - Report all underpayments to the Department.
  - Report and disclose all related-party costs and transactions.
  - Regularly review the financial information used to complete its cost reports to identify and correct errors in a timely manner.

Chapter 4-B

The Provider Should Strengthen Controls Over Its Financial Processes

The provider should strengthen controls over its financial processes by (1) developing and implementing written policies and procedures for its key financial processes, (2) segregating key financial-related duties, and (3) reviewing financial information prepared by its external accountant.

The provider contracted with an external accountant to perform the majority of the provider's financial activities, such as preparing and maintaining the general ledger and creating financial statements. The provider was responsible for processing payroll, maintaining the supporting documentation for its financial data, and providing all of the necessary financial documentation to the external accountant.

The provider lacked written policies and procedures.

The provider did not have detailed written policies and procedures for its key financial processes. Specifically, the provider did not have detailed written policies and procedures for accounting for revenues and expenditures, processing payroll, performing bank reconciliations, performing reconciliations of Department revenue, and recording financial transactions in its general ledger. Policies and procedures are important tools for helping all employees understand the provider's processes, holding employees accountable for following them, and helping maintain consistency in the performance of key processes.

The provider did not adequately segregate key financial-related duties.

The provider did not adequately segregate duties for completing bank deposits, processing payroll, and maintaining and reporting cash transactions. Specifically, one person receives and deposits all checks received; one person processes the biweekly payroll, including his own payroll (with no compensating control or secondary review); and one person makes and tracks cash transactions, including automatic teller machine (ATM) withdrawals. For example, when auditors tested expenditures, the provider could not support and did not account for an expense for $440 recorded as an ATM withdrawal. Segregating key financial duties helps to reduce the risk of fraud and distributes the workload related to financial processes.

The provider did not review financial information prepared by its external accountant.

The provider contracted with an external accountant to perform the majority of its financial activities, including the preparation of its general ledger and financial statements. However, neither the provider nor its board of directors receives and reviews financial-related information on a regular basis. Specifically, the provider received and reviewed the general ledger and income statement only at fiscal year end, and the provider's board of directors met only once during the year and did not discuss financial-related information. According to the Department's *Minimum Standards for General Residential Operations*, the governing board is responsible for ensuring the operation remains fiscally sound and overseeing and ensuring that the management of the operation's services and programs comply with policies.

Recommendations

The provider should:

- Develop and implement written policies and procedures for key financial processes.
- Segregate key financial-related duties and implement levels of review for key financial processes.
- Regularly review financial information and update its board of directors regarding its financial condition.

Chapter 4-C

The Provider Complied with the Department's Requirements for Initial Background Checks; However, It Should Strengthen Its Processes for Subsequent Background Checks of Employees and Subcontractors

The provider submitted the majority of its employees and subcontractors for background checks in accordance with the Department's requirements. The provider had current background checks for all 63 employees and subcontractors who worked at the provider during the 2011 cost reporting period (January 2011 through December 2011). All 41 employees and subcontractors who were hired after January 1, 2010, had an initial background check completed prior to their hire dates as required.

However, the provider was late in submitting two subsequent background checks. Both subsequent background checks resulted in clear results. Specifically, the provider:

- Submitted a subsequent background check for the one employee 34 days late.
- Submitted a subsequent background check for one subcontractor 16 days late.

The Department requires that individuals clear a name-based background check before the individuals provide care to children or have direct access to the children in the provider's care. The Department also requires providers to submit individuals for background checks every 24 months after the initial check. (See Appendix 3 for additional information about background check requirements.)

Auditors also requested that the Department of Public Safety perform criminal background checks for all individuals who were current employees and subcontractors in March 2012. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards. [4]

Recommendation

The provider should submit employees and subcontractors for subsequent background checks every 24 months after the most recent check in accordance with the Department's requirements.

Chapter 4-D

The Provider Should Improve Access to and the Security Environment Surrounding Its Automated Systems, Applications, and Data

The provider's use of automated systems was limited because an external accountant performed the majority of the provider's financial activities, including preparing and maintaining the provider's general ledger. The provider relies on an accounting system maintained by the external accountant that uses a third-party vendor for its information technology services. However, the provider does not have a written contract in place with the external accountant requiring that adequate controls be in place to secure the accounting system and related financial data, including sufficient backup and recovery, access, and physical security controls.

Recommendation

The provider should obtain a signed contract with its external accountant that adequately provides for controls over all external accounting and information technology functions.

[4] *An Audit Report on the Criminal Justice Information System* (State Auditor's Office Report No. 12-002, September 2011) determined that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks.

Chapter 5
Agape Manor Home

Agape Manor Home Background Information [a]	
Locations	Garland and Houston, TX
Contract services audited	Child Placing Agency
Number of children served	376
Average length of a child's stay in days	163.5
Total revenue from the Department	$3,699,899
Total revenue for child placing agency services	$3,700,868
Federal tax filing status	Non-profit
Number of staff at year end	15
[a] From January 1, 2011, through December 31, 2011.	

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

Agape Manor Home (provider) did not consistently maintain adequate supporting documentation to demonstrate that it accurately reported funds it expended for providing 24-hour residential child care services. The provider was unable to provide adequate supporting documentation for $5,137 (16 percent) of the $33,040 in expenditures the provider included on its 2011 cost report that auditors tested. Therefore, auditors were unable to determine whether the provider accurately reported those expenditures on its 2011 cost report (see Chapter 5-A).

The direct and administrative costs the provider incurred included (1) programmatic expenditures and (2) administrative expenditures related to operating a child placing agency. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2011 cost report, including payroll expenditures, to determine whether they were allowable, properly classified, and had supporting documentation. The provider accurately calculated and recorded all 21 payroll transactions tested.

The provider properly paid and maintained adequate supporting documentation for the majority of the 30 foster parent payments tested totaling $107,324, and it properly accounted for and maintained adequate supporting documentation for all 30 payments it received from the Department of Family and Protective Services (Department) that auditors tested.

The provider's external accountant performed some of the provider's financial activities, including preparing its general ledger and financial statements. The provider's general ledger was created directly from the monthly bank statements and credit card statements. The external accountant also codes all expenditures for the general ledger based on the type of expenditure instead of using financial transaction documents, such as revenue receipts, invoices, and purchase receipts. While the provider can use bank statements to verify that it disbursed funds, bank statements do not provide detailed information regarding the item(s) purchased; the individual who made the purchase; and whether the purchase was a legitimate business expense. That may result in costs being misreported on the provider's cost report because the provider uses the general ledger as the basis for its cost report (see Chapter 5-B).

In addition, the provider should:

- Improve background check processes for foster home household members (see Chapter 5-C).
- Maintain supporting documentation that demonstrates it performed monitoring visits as required by the Department (see Chapter 5-D).
- Improve the security environment surrounding its automated systems, applications, and data (see Chapter 5-E).

Auditors communicated other, less significant issues separately to the provider in writing.

Chapter 5-A

The Provider Should Improve Its Compliance with Cost Report Requirements

While the provider accurately reported revenues and related-party transactions as required in its 2011 cost report, auditors identified errors in the provider's reporting of expenditures. Specifically, for its 2011 cost report:

- The provider did not maintain adequate supporting documentation for all of the expenditures reported.
- The provider did not have a comprehensive reconciliation worksheet between its accounting records and cost report as required.

The Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report* (*Cost Report Instructions*) requires providers to maintain records that are accurate and sufficiently detailed to substantiate financial information in the cost report. (See Appendix 4 for additional information about cost report requirements.)

The Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. (See Appendix 5 for additional information about daily rates.) Not reporting accurate financial information on a cost report could cause the daily rates to be set at an inappropriate amount.

The provider did not maintain adequate supporting documentation for certain expenditures reported on its 2011 cost report.

The provider did not consistently maintain adequate supporting documentation for direct care, administrative, and programmatic expenditures reported on its 2011 cost report. Specifically, of the expenditures the provider reported on its 2011 cost report, the provider did not consistently maintain adequate supporting documentation for 7 (12 percent) of the 60 non-labor expenditures tested. Those expenditures accounted for $5,137 (16 percent) of the $33,040 in direct care, administrative, and programmatic expenditures tested.

Because of the lack of adequate documentation, auditors were unable to determine whether the provider accurately reported on its 2011 cost report all of the expenditures tested.

The provider did not have a comprehensive reconciliation worksheet between its accounting records and cost report as required.

The Commission's *Cost Report Instructions* require that providers create a comprehensive reconciliation worksheet between the provider's accounting records and cost report. However, the provider's cost report did not contain that worksheet.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation that fully supports all financial transactions recorded in its general ledger and included on its cost reports.
- Prepare and maintain a complete reconciliation worksheet between its accounting records and cost report.

Chapter 5-B

The Provider Should Strengthen Controls Over Its Financial Processes

The provider had financial processes in place, such as written policies and procedures and adequate segregation of duties; however, it should strengthen controls over those processes, including reviewing financial information prepared by its external accountant and complying with requirements for its board of directors.

The provider did not review the financial information its external accountant prepared.

The provider contracted with an external accountant to perform the majority of its financial activities, including the preparation of its general ledger. However, the provider did not review for accuracy and completeness the specific financial information that the external accountant recorded in the provider's general ledger.

The majority of the provider's board of directors have conflicts of interest that may potentially interfere with objective decision making.

Two of the provider's three board members are employees of the provider. Specifically, the provider's executive director and agency administrator are also voting members of the board of directors. Title 40, Texas Administrative Code, Section 749.131(5), states that a provider's board of directors must not have a majority of voting members who have a conflict of interest. This includes persons who benefit financially from the operation as employees.

The provider should provide detailed accounting records to its external accountant to help ensure the accurate recording of all financial transactions in its general ledger.

The provider's executive director gives the provider's external accountant invoices and credit card statements from which the external accountant creates the provider's general ledger. However, without detailed purchase receipts for credit card transactions, the provider's external accountant may not have enough information to properly classify the expenditures in the general ledger. As a result, there is a risk that the provider's financial information may be inaccurate. Because the provider used its general ledger to complete the cost report, there is also a risk that, if the general ledger is not accurate, the provider will report inaccurate information on its cost reports.

Recommendations

The provider should:

- Review the financial information prepared by its external accountant for accuracy and completeness.
- Change the composition of its board of directors so that the majority of members do not have a conflict of interest.
- Provide detailed accounting records to its external accountant for purposes of accurately recording all financial transactions in the general ledger to help ensure the accuracy of the information the provider includes on its cost report.

Chapter 5-C

The Provider Submitted Background Checks for all Employees and Foster Parents Tested; However, It Should Strengthen Its Background Check Processes for Household Members

The provider submitted the majority of employees, foster parents, and household members for background checks to the Department in accordance with the Department's requirements.

As of March 2012, the provider had current background checks for all 25 employees who worked at the provider and 157 (99 percent) of 158 foster parents and/or household members who were active during the 2011 cost reporting period (January 2011 through December 2011). The home of the one foster parent who did not have a current background check was closed shortly after the background check was due.

The Department requires that individuals clear a name-based background check before the individuals provide care to children or have direct access to the children in the provider's care. The Department also requires providers to submit individuals for background checks every 24 months after the initial check. (See Appendix 3 for additional information about background check requirements.)

Employees

All fourteen employees hired after January 1, 2010, had an initial background check submitted prior to their hire dates as required.

Foster Parents/Household Members

Auditors tested the 82 foster parents and/or household members with contracts beginning after January 1, 2010:

- The provider submitted 76 (93 percent) individuals for an initial background check prior to their contract start/verification dates, which is when they might have direct access to children in the provider's care.
- The remaining 6 individuals, who were household members over the age of 14, did not have background checks cleared prior to the contract start/verification date. Background checks were completed for those six individuals between 21 and 396 days late.

Auditors also requested that the Department of Public Safety perform criminal background checks for all individuals who were current employees, foster parents, and household members in March 2012. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards.[5]

Recommendation

The provider should submit household members for background checks in accordance with the Department's requirements.

[5] *An Audit Report on the Criminal Justice Information System* (State Auditor's Office Report No. 12-002, September 2011) determined that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks.

Chapter 5-D

The Provider Should Maintain Supporting Documentation That Demonstrates It Performed Monitoring Visits as Required by the Department

The provider conducted 93 (98 percent) of the 95 required quarterly monitoring visits and 26 (96 percent) of 27 required unannounced visits at foster homes active during the 2011 cost reporting period. However, the provider did not always have supporting documentation to demonstrate that it monitored all areas on the monitoring checklist for 9 (30 percent) of the 30 applicable foster homes tested. According to the provider, the exceptions occurred at the provider's Houston office because a case manager resigned and did not return a large amount of documentation in the case manager's possession to the provider.

Monitoring visits are the primary way for the provider to help ensure that foster homes comply with all Department standards. The provider may be placing children at risk by not maintaining and securing supporting documentation to demonstrate that it performed monitoring visits as required.

Recommendation

The provider should ensure supporting documentation for foster home monitoring visits is maintained in a centralized, secure location and that the monitoring checklists are periodically reviewed to ensure completeness.

Chapter 5-E

The Provider Should Improve the Security Environment Surrounding Its Automated Systems, Applications, and Data

The provider's use of automated systems was limited because an external accountant performed the majority of the provider's financial activities, including preparing its general ledger and financial statements. Although the provider had a written contract with its external accountant, that contract did not include provisions related to the confidentiality of the provider's data or procedures for protecting electronic and paper records from destruction, loss, and unauthorized access.

Auditors tested information technology controls at the provider and its external accountant and identified opportunities for improvement in the following areas:

- **Policies and procedures:** While the provider had written information technology policies and procedures for its network, the procedures lacked information regarding password requirements, anti-virus protection systems, and protection of records from destruction, loss, and unauthorized access as required by Title 40, Texas Administrative Code, Chapter 749.

- **Backups and Recovery:** While the provider performed backups, they were not stored off site. The external accountant did not create any backups of the financial information.

- **Physical Security:** The server should be placed in a secure location to avoid unauthorized access.

Recommendations

The provider should:

- Update its written contract with its external accountant to include provisions to secure the provider's data.

- Update its policies and procedures for its network to include password requirements, anti-virus protection systems, and user access.

- Complete backups and store them in a secure, off-site location.

- Protect its server from unauthorized access.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors (providers) and included verifying that the selected providers spent federal and state funds on required services that promoted the well-being of foster children placed in their care. Texas Government Code, Section 2155.1442 (b), requires the Health and Human Services Commission (Commission) to contract with the State Auditor's Office to perform on-site audits of selected residential child care providers that provide foster care services to the Department of Family and Protective Services (Department).

Scope

The scope of this audit included performing work at five providers to assess the appropriateness, reasonableness, and necessity of expenditures that providers made during each provider's 2011 cost reporting time period. In addition, auditors tested payments received from the Department during each provider's 2011 cost reporting time period.

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 the tests, and interviewing management and staff at the Department and providers. Auditors assessed the reliability of the data used in the audit and determined the following:

- The providers' financial data was of undetermined reliability; therefore, auditors used hard-copy documentation to perform audit procedures.
- The Department's Child Care Licensing Automation Support System and background check data was reliable for the purposes of this audit.
- The Department of Public Safety's Criminal Records system's data was not sufficiently reliable for the purposes of this audit based on the results of *An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice* (State Auditor's Office Report No. 12-002, September 2011). That

audit stated that prosecutor and court records were not always reported to the Department of Public Safety, which impairs the completeness of the criminal records used to conduct criminal history background checks. However, the Department of Public Safety's Criminal Records system is the only source available to state agencies for conducting background checks. As a result, auditors used that data to assess providers' compliance with background check requirements.

Information collected and reviewed included the following:

- Information from interviews with the Department's residential child care program management and staff.
- Department program monitoring and licensing reports for the providers.
- Contracts between the Department and the providers.
- Providers' cost reports and supporting documentation.
- Providers' financial records and supporting documentation, including payroll, direct and administrative expenditures, and revenues received from the Department.
- Providers' personnel files.
- Providers' files, monitoring plans, and payment records for foster parents.
- Providers' policies and procedures, including policies and procedures for information technology.

Procedures and tests conducted included the following:

- Testing criminal history background checks performed on employees, foster parents, and household members.
- Testing foster parent records.
- Testing internal and information resource controls at providers.
- Testing expenditures related to the services provided to children.
- Testing related-party expenditures and contracts.
- Testing payroll records.
- Testing payments made to foster care parents.
- Comparing each provider's state foster care revenue with Department records.

- Comparing each provider's general ledger to each provider's cost report.

<u>Criteria used</u> included the following:

- U.S. Office of Management and Budget circulars A-87, A-110, and A-122.
- Title 40, Texas Administrative Code, Chapter 19.
- Title 1, Texas Administrative Code, Chapter 15.
- Texas Government Code, Section 2155.1442.
- Contracts between the Department and providers.
- The Department's *Minimum Standards for General Residential Operations* and *Minimum Standards for Child-Placing Agencies*.
- The Commission's *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report*.

Project Information

Audit fieldwork was conducted from April 2012 through July 2012. 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:

- Jennifer R. Wiederhold, CGAP (Project Manager)
- Karen S. Mullen, CGAP (Assistant Project Manager)
- Scott Armstrong, CGAP
- Anna Howe
- Ashlee C. Jones, MAcy, CGAP, CFE
- Robert Lane, MS
- Monte McComb
- Cecile Norton
- Bansari Patel, CPA

- Juan R. Sanchez, MPA, CIA, CGAP
- Sherry Sewell, CGAP
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP (Audit Manager)

Selected Requirements for Residential Child Care Providers

The following is a summary of selected Health and Human Services Commission and Department of Family and Protective Services requirements in the Texas Administrative Code, as well as selected requirements in the Health and Human Services Commission's *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report.* The requirements are related to residential child care providers' boards of directors, cost reporting, financial records, background checks, and foster parent monitoring.

Board of Directors

- Title 40, Texas Administrative Code, Section 749.131, states that a provider's board of directors must not have a majority of voting members who have a conflict of interest including, but not limited to, the following: (1) employees working at a provider, (2) family members of the owner or a member of the board of directors, (3) paid consultants, or (4) other individuals who benefit financially from the provider.

- Title 40, Texas Administrative Code, Section 749.131, states that a provider's board of directors is responsible for ensuring that the provider remains fiscally sound and that the provider's services and programs comply with the provider's policies.

Cost Reporting

- **Accurate Cost Reporting.** Title 1, Texas Administrative Code, Section 355.102 (c), states that a provider is responsible for accurate cost reporting and for including on its cost report all costs incurred, based on an accrual method of accounting, which are reasonable and necessary.

- **Allowable and Unallowable Costs.** Title 1, Texas Administrative Code, Section 355.102 (a), states that allowable and unallowable costs are defined to identify expenses that are reasonable and necessary to provide contracted client care and are consistent with federal and state laws and regulations. When a particular type of expense is classified as unallowable, the classification means only that the expense will not be included in the database for reimbursement determination purposes because the expense is not considered reasonable and/or necessary. The classification does not mean that the providers may not make the expenditure.

- **Allowable Costs.** Title 1, Texas Administrative Code, Section 355.102 (f), states that allowable costs are reasonable and necessary. Costs are "reasonable" if the amount spent is what a prudent and cost-conscious buyer would have spent. "Necessary" costs are appropriate and related to the provider's business and are not for personal or other activities not directly or indirectly related to the provision of contracted services.

- **Related-party Transactions.** Title 1, Texas Administrative Code, Section 355.102 (i) (6), states that disclosure of all related-party transactions on the cost report is required for all costs reported by the provider, including related-party transactions occurring at any level in the provider's organization. The provider must make available, upon request, adequate documentation to support the costs incurred by the related party.

Financial Records

- Title 1, Texas Administrative Code, Section 355.7101 (15), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports. It also requires providers to retain the records for at least 3 years and 90 days after the end of the contract period.

- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report* lists in more detail the records that providers should retain, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, minutes of board of directors meetings, work-papers used in the preparation of the cost report, trial balances, and cost allocation spreadsheets.

Background Checks

- Title 40, Texas Administrative Code, Section 745.615, requires providers to request background checks for any person 14 years of age or older who has unsupervised access to children in care and will regularly or frequently be staying or working at the provider's operation or prospective adoptive home while children are in care. Additionally, Title 40, Texas Administrative Code, Sections 748.363 and 749.553, require providers to include proof of the requests for background checks in the individuals' files.

- Title 40, Texas Administrative Code, Section 745.625, requires a provider to submit a request for a background check at the time the provider hires an individual; at the time when the provider contracts with someone who requires a background check; at the time a person applies to be a foster parent; and at the time the provider becomes aware of anyone requiring a background check under Title 40, Texas Administrative Code, Section 745.615. It also requires the provider to request a background check every 24 months after the initial background check.

Foster Parent Monitoring

- Title 40, Texas Administrative Code, Section 749.2815, requires providers to conduct supervisory visits in the foster home at least quarterly and at least one supervisory visit per year must be unannounced. Each visit must be documented in the home's record, and the documentation must be signed by the foster parent(s) present for the visit and the child placement staff conducting the visit.

Appendix 3

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

Title 40, Texas Administrative Code, Section 745.613, states that the purpose of a background check[6] is to determine whether a person has any criminal or abuse and neglect history and whether the person's presence is a risk to the health or safety of children in the person's care.

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

- **Name-based criminal history checks** are conducted by the Department of Public Safety for crimes committed in the state of Texas.
- **Fingerprint-based criminal history checks** are conducted by the Department of Public Safety and the Federal Bureau of Investigation for crimes committed in the State of Texas and crimes committed anywhere in the United States, respectively.
- **Central registry checks** are conducted by the Department of Family and Protective Services. The central registry is a database of people who have been found by the Department of Family and Protective Services' Child Protective Services unit, Adult Protective Services unit, or Licensing unit to have abused or neglected a child.
- **Out-of-state central registry checks** are conducted by the Department of Family and Protective Services of another state's database of persons who have been found 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.

[6] The Texas Administrative Code referenced in this appendix uses the phrase "criminal history check," which is referred to as a "background check" in this report.

- 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 committed within the past 10 years under the Texas Controlled Substances Act, Section 39.04 (Violations of the Civil Rights of Person in Custody; Improper Sexual Activity with Person in Custody), Section 42.08 (Abuse of Corpse), Section 42.09 (Cruelty to Animals), Section 42.091 (Attack on Assistance Animal), Section 42.092 (Cruelty to Nonlivestock Animals), Section 42.10 (Dog Fighting), Section 46.13 (Making a Firearm Accessible to a Child); Chapter 49 (Intoxication and Alcoholic Beverage Offenses) of Title 10 of the Texas Penal Code; Section 106.06 of the Texas Alcoholic Beverage Code (Purchase of Alcohol for a Minor; Furnishing Alcohol to a Minor); or any like offense under the law of another state or federal law that the person committed within the past ten 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 Title 40, Texas Administrative Code, Section 745.651, or a central registry finding in Title 40, Texas Administrative Code, Section 745.655:

- 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 will notify the provider regarding which of the three actions must be taken.

Selected Requirements for the Residential Child Care Cost Report

According to the Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2011 Texas 24-Hour Residential Child Care Cost Report*, the purpose of the cost report is to gather financial and statistical information for the Commission to use in developing reimbursement rates for foster care. The following is a summary of selected requirements in those instructions.

- **Cost report submission.** Each residential child care provider who has a contract with the Department of Family and Protective Services (Department) to provide residential child care services is required to submit a 2011 *Texas 24-Hour Residential Child Care Cost Report* (cost report) to the Commission. A separate cost report should be submitted for each separately licensed facility that a provider operates. The cost report must cover all of the provider's 24-hour residential child care activities at the licensed facility during the reporting period, including all programs that are not related to the Department.

- **Accounting method.** All revenues, expenses, and statistical information submitted on the cost reports must be based upon an accrual method of accounting.

- **Recordkeeping.** Providers must maintain records that are accurate and sufficiently detailed to support the legal, financial, and statistical information reported on the cost report. Cost report work-papers must be maintained for a minimum period of 3 years and 90 days following the end of each reporting period.

- **Direct costing.** Direct costing must be used whenever reasonably possible. Direct costing means that costs incurred for the benefit of, or directly attributable to, a specific business component must be charged directly to that particular business component.

- **Cost allocation methods.** Whenever direct costing of shared costs is not reasonable, it is necessary to allocate those costs either individually or as a pool of costs across those business components sharing the benefits. The allocation method must be a reasonable reflection of the actual business operations. Any allocation method used for cost-reporting purposes must be consistently applied across all contracted programs and business entities. Any change in allocation methods for the current year from the previous year must be fully disclosed on the cost report. The provider must obtain prior written approval from the Commission to use an unapproved allocation method.

- **Reporting revenue.** Providers must report the following revenue types separately: (1) Department revenue; (2) Medicare revenue; (3) Medicaid revenue; (4) private payments; (5) gifts, grants, donations, endowments, and trusts; (6) appropriations from state or local government sources; (7) gain on sales of assets; (8) interest; and (9) other.

- **Reporting expenses.** Only adequately documented, reasonable, necessary, and allowable program expenses incurred or accrued during the reporting period are to be reported on the cost report. The costs covering all of the providers' activities must be reported in accordance with the published cost-finding methodology, as well as with state and federal laws, rules, and regulations regarding allowable and unallowable costs.

Appendix 5

The Health and Human Services Commission's 24-Hour Residential Child Care Facilities Rates

All providers are paid a fixed daily rate for each child placed in their care based on the child's service level of care. Child placing agencies are required to reimburse foster families for clients receiving services under a contract with the Department of Family and Protective Services. Table 1 lists the 24-hour residential child care rates for fiscal years 2010 and 2011.

Table 1

24-hour Residential Child Care Daily Rates Fiscal Years 2010-2011			
Child's Service Level Classification [a]	**Daily Rate to Foster Family per Child**	**Daily Rate to Child Placing Agency per Child**	**Daily Rate to Residential Treatment Center per Child**
Basic	$22.15	$39.52	$ 42.18
Moderate	$38.77	$71.91	$ 96.17
Specialized	$49.85	$95.79	$138.25
Intense	$88.62	$175.66	$242.85

[a] Emergency shelter services and intensive psychiatric transition program services are also provided at rates of $115.44 and $374.33, respectively.

Source: The Department of Family and Protective Services.

Management's Response from Simply Love All People, Inc.

8165 Latigo Plaza
San Antonio, TX 78227
Phone: 210.233.1758
Fax: 210.257.5257

SIMPLY LOVE ALL PEOPLE SAO RESPONSE

Chapter 1-A

The Provider should improve its compliance with Cost Reporting Requirements

Response: SASLAP has recently contracted with a business services company to serve as its new Accounting Department. The Accounting Department assists SASLAP in collecting and maintaining all required financial and supporting documentation for tracking and reporting expenditures. Because of this, SASLAP will be able to accurately report allowable and unallowable costs and appropriately disclose all transactions on all future Cost Reports.

SASLAP has worked with its new Accounting Department to ensure that there is a system to collect all financial information and supporting documentation. The Accounting Department will ensure that it is using the appropriate documentation for entry into the general ledger.

Duties within the Accounting Department have been segregated to ensure oversight and checks and balances. Access to SASLAP's accounting database is limited based on job responsibility.

The Accounting Department, in conjunction with SASLAP, is ensuring that all backup of payroll, foster parent payments, subcontractor payments, and program expenditures are kept electronically and in paper form (where appropriate). The Accounting Director ensures that all payroll expenditures tie to the general ledgers each month when the books are closed. The new payroll account set up with SASLAP's bank is fully managed and controlled by SASLAP. Therefore, the Executive Director has complete current and future access to all payroll data. Furthermore, SASLAP has now contracted with the same business services company for HR-related services to ensure HR/personnel related information is kept on all new hires, changes to employment status, or changes in salary status. SASLAP now tracks all foster parent payments weekly and reviews them each week with the LCPAA and Executive Director prior to processing foster parent payments. Once foster parent payments are set up and approved by the LCPAA and the Executive Director, all payments are made via check or direct deposit. Back-up of each payment and the detail of each payment is maintained in each individual foster parent file. Monthly provider statements are received and compared to the foster parent payments to ensure the proper pass-through has occurred. Any need for adjustments are tracked in the accounting database and in the tracking system for monthly foster parent payments. It is the job of the SASLAP Administrator to review the monthly tracking sheet with the Accounting Department to ensure that all payments to the foster parents are correct. In the future, SASLAP will only pay cash for exceptions when necessary. When it is deemed necessary, proper documentation (withdrawal slip, payment verification, signed receipts, etc.) will be maintained in the respective foster parents' file.

SASLAP's Executive Director and the Accounting Director will ensure that the C.P.A. preparing all future Cost Reports is notified of all related party transactions, donations, and late fees to ensure proper reporting of unallowable expenditures and related party transactions.

SASLAP has reviewed all client records and has ensured that a current YFT Review was available in every record. SASLAP's Administrator is responsible for ensuring that current YFT documentation is obtained and maintained for every client and that the Accounting Department has access to these records at all times via the SASLAP MIS or the SASLAP network.

Chapter 1-B

The Provider should strengthen controls over its financial process

Response: The Accounting Department provides SASLAP's Executive Director with monthly Financials and Monthly Cash Flow Reports as well as an updated monthly budget. This provides the Executive Director and Board of Directors constant access to financial information and cash flow trending. In order to strengthen access controls, the Accounting Director has further segregated user accounts to the accounting database and put in place additional checks and balances for check processing.

SASLAP now keeps and files all receipts for each transaction and writes on the receipt the program/reason for each transaction when the debit card is used. The Accounting department reviews transactions daily with the Executive Director to ensure the General Ledger is verified to be correct. This will ensure that expenditures are properly coded and accounted for. This will also ensure that the general ledger is accurate based on actual transaction information.

Additionally, the Executive Director is provided a Monthly Cash Flow Report that identifies all checks/payments that need to be processed (payroll, subcontractors, foster parents , vendors, etc.). No payment (or check) is processed without the permission of the Executive Director. Once a payment is authorized by the Executive Director, the payment is processed. All back-up (check, direct deposit authorization, etc.) is filed in the respective payroll, subcontractor, foster parent, or vendor file. There is only one signer of SASLAP's checks in the Accounting Department. A monthly check register is also given to the Executive Director with the monthly Financials for review.

The new policies and procedures adopted by SASLAP for key financial processes and information technology were approved by the BOD in a meeting on June 10, 2012 and the Policies and Procedures were updated with the BOD approval date.

Chapter 1-C

The Provider substantially complied with the Department's background check processes for employees, foster parents and household members

Response: All future background checks for new employees, foster parents, and/or subcontractors will be submitted with results received prior to employment or contract start date. Re-occurring back ground checks will be monitored by the Administrator to ensure that background checks are done every 24 months according to standards. SASLAP uses its Managed Information System to track initial and ongoing back-ground checks.

Chapter 1-D

The Provider should conduct monitoring visits of foster homes in accordance with department requirements

Response: The SASLAP Administrator will ensure that monitoring visits are conducted on all active foster homes at least once per quarter and all required documentation of the visit is maintained in the foster home file.

The SASLAP Administrator will ensure that at least one unannounced supervisory monitoring visit is conducted on all active foster homes at least once per year and all required documentation of the visit is maintained in the foster home file.

George A. Williams Jr. — 8/16/12

Signature of George A. Williams Jr., Administrative Director — Date

Rosalind R. Forte, MEW — 8-16-12

Signature of Rosalind Forte, Child Placing Administrator — Date

Management's Response from Antelope Valley Child, Youth, and Family Services

AVCYFS
Antelope Valley Child, Youth & Family Services

"TOUCHING THE LIVES OF CHILDREN AND FAMILIES ONE BY ONE"

August 16, 2012

State Auditor's Office
ATTN: Jennifer Wiederhold
P.O. Box 12067
Austin, TX 78711-2067

Re: Management Response to State Auditor's Office (SAO) Financial Audit of Residential Child Care Providers.

Dear Ms. Wiederhold:

Below please find Antelope Valley Child, Youth & Family Services' (AVCYFS) management responses to the On-site Audit of Residential Child Care Providers Report issued by the SAO August 6, 2012. We humbly submit the following response to be included in final report.

Chapter 2 – A

Recommendation: The provider should improve its compliance with cost reporting requirements.

Mgmt. Response: AVCYFS is in agreement with this finding. Although AVCYFS has consistently attended all State mandatory cost reporting trainings when offered, in the effort to ensure and maintain compliance with cost reporting requirements, AVCYFS was found to have a number deficiencies during this audit. AVCYFS has begun to address these deficiencies as follows:

Recommendation: The provider should:

- Maintain complete and accurate supporting documentation that fully supports all financial transaction included in its costs report.

- 1 -

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(972) 227-3500 • (972) 227-3505 (fax) • www.avcyfs.org

Mgmt. Response: AVCYFS is currently implementing a plan for the development of an automated filing system to improve the maintenance and accuracy of supporting documentation that fully supports all financial transactions.

Recommendation: The provider should:
Prepare its cost report in accordance with requirements. To help ensure this, the provider should:

- Maintain adequate supporting documentation for all expenditures, such as invoices and purchase receipts and provide those documents to its external accountant for entry into the general ledger.

Mgmt. Response: The automated filing system plan is inclusive of a server that is dedicated exclusively for all financial supporting documentation. The server will consist of individual automated files each with its own title (i.e. invoices, receipts, timesheets, etc.) The agency's Executive Assistant will be responsible for managing the automated financial server.

Additionally the Executive Assistant will be responsible for submitting all supporting financial documentation to the agency's external accountant for entry into the general ledger commencing October, 2012.

Recommendation: The provider should:
- Regularly review the financial information used to complete its cost reports to identify and correct errors in a timely manner.

Mgmt. Response: AVCYFS Executive Director and the agency's external accountant shall review, on a monthly basis, all financial information used to complete the agency's cost reports to identify and correct errors in a timely manner commencing October, 2012.

Additionally an internal audit of the supporting financial documentation maintained in the aforementioned automated filing system will be conducted once a month by the agency's Executive Assistant, commencing October, 2012.

Recommendation: The provider should:
- Report and disclose all related-party costs in accordance with the Commission's Cost Report Instructions.

- 2 -

Mgmt. Response: AVCYFS has always committed to disclosing all related-party costs and will continue to disclose all related-party costs in Accordance with the Commission's Cost Report Instructions.
AVCYFS' failure to report the two related party loans totaling $10,000 on the cost report was clearly an oversight on the part of the executive director. Clearly it was not information deliberately omitted off of the cost report, as it was reported on the executive director's personal tax return.

Additionally, the audit report indicates that AVCYFS overstated The cost of its building lease on its cost report. The lease amount of $15,120 reported instead of the $2,076 depreciation cost of the building was clearly another honest error as a result of a misinterpretation of the cost report instructions on the part of the executive director and the agency's external accountant.

As it appears, a clear and concise interpretation of the Cost Report and its instructions was clearly lacking. Hence the executive director and the agency's external accountant continue to be students of the Cost Report. However, since the audit, they have gained a fresher and clearer understanding of what is expected and are committed to gaining more understanding of the cost report and its instructions by communicating their lack of understanding and asking questions of the State's Cost Report Commission team, when needed.

Chapter 2 – B

Recommendation: The provider should:
- Strengthen its written policies and procedures for key financial processes by including more specific details about those processes. In addition, the board of directors should review and approve the provider's policies and procedures.

Mgmt. Response: AVCYFS is currently in the process of revising its written policies and procedures, in the effort to enhance its procedures to include more specific details about the processes. Additionally, though the agency's Executive Director has board approval to approve agency's policies and procedures, AVCYFS shall implement the practice of having the board of directors to review and approve all agency policies and procedures, beginning with the newly revised polices and procedures currently being revised.

- 3 -

Recommendation: The provider should:

- Regularly review financial information and update its board of Directors regarding its financial matters.

Mgmt. Response: AVCYFS has committed to submitting a "State of Affairs" report of the agency's financial status/matters commencing in the 1st and 3rd quarter of each year, commencing September 30, 2012.

Recommendation: The provider should:

- Provide detailed accounting records to its external accountant for purposes of accurately recording all financial transactions in the general ledger to help ensure the accuracy of the information the provider includes in its cost report.

AVCYFS has begun addressing this deficiency by developing new internal processes and forms designed to use for all agency financial transactions (i.e., purchase order, vendor requisition, (reimbursement forms) by the administrative team. The forms include detailed accounting information necessary for accurately recording all financial transactions in the general ledger by the agency's external accountant.

Chapter 2 – C

Recommendation: The provider should submit employees and foster home household members for background checks in accordance with the Dept.'s requirements.

Mgmt. Response: Although AVCYFS substantially complied with this requirement, enhancements to our process are being implemented to ensure that all background checks are submitted in a timely manner. Our current file requirement database, used to track the status of foster parents' background checks, is being enhanced to include all employees and foster home household members as well. The database is and will continue to be maintained by the agency's executive assistant. All enhancements to the database will be completed by August 30, 2011.

Chapter 2 – D

Recommendations: The provider should:

- Perform monitoring visits of all active foster homes at least once per quarter as required.

- 4 -

- Conduct and document at least one unannounced supervisory Monitoring visit of each active foster home at least once per year as required.
- Require all foster parents and provider staff to sign all required documentation.

Mgmt. Response: AVCYFS does consistently provide monitoring visits of all of its foster homes on a quarterly basis without fail, which includes three announced supervisory monitoring visits and one unannounced supervisory monitoring visit. Each foster parent and the agency staff person are required to sign the home inspection checklist for each supervisory monitoring visit conducted. During the state audit it was found that the home inspection checklist for two of the unannounced supervisory monitoring visits were missing from their files, although monitoring visits did occur, AVCYFS was unable to produce the documentation of such.

Additionally, the 4th supervisory monitoring report of two of the Homes indicated "announced" visit, where it should have indicated "unannounced", thus making it appear as if unannounced supervisory monitoring visits did not occur. Which in fact, they did occur. However, because the two homes are located 2 hours away from the agency's main office, the unannounced supervisory monitoring visits were conducted without notice during the time of a regular home visit. Because the minimum standards does not indicate that a supervisory monitoring visit can not be conducted during the time of a routine home visit, AVCYFS was unaware that it would be considered a compliance issue. Hence, since the state audit, AVCYFS has committed to conducting unannounced supervisory monitoring visits of these two homes separate from the routine home visits effective September, 2012.

<u>Chapter 2 – E</u>

Recommendation: The provider should:

- Amend its contract with its external accountant to incorporate security-related provisions to protect the provider's financial information.

- 5 -

Mgmt. Response: AVCYFS' Program Administrator will amend the agency's contract with its external accountant to incorporate security-related provisions to protect the agency's financial information. The amended contract will be completed by or before September 30, 2012.

Recommendation: - Develop and implement written information technology policies and procedures for its network. These policies and procedures should address password requirements, confidentiality of information, user access, and backup and recovery processes.

Mgmt. Response: The AVCYFS Management team in collaboration with their external information technology contractor will develop and implement written information technology policies and procedures inclusive of password requirements, confidentiality, user access, backup and recovery processes, for the agency's network. These policies and procedures will be completed and implemented by or before October 20, 2012.

Recommendation: - Document all back-up and recovery procedures, including the results of any back-up testing conducted.

Mgmt. Response: Effective September 1, 2012, AVCYFS Management team will have written back-up and recovery policies and procedures inclusive of how results of any back-up testing is conducted.

Recommendation: - Secure its server to minimize the risk of physical damage.

Mgmt. Response: AVCYFS is currently in the process of addressing this deficiency. Currently AVCYFS is accepting and reviewing bids of contractors to construct the appropriate security apparatus to encase its main server. The agency's executive director will select the ideal contractor for the job. It is anticipated that the server will be appropriately secured by or before September 20, 2012.

Thank you, for your time and attention to these responses. Should you have further questions or concerns please feel free to contact me.

Sincerely,
Brenda Barnes-Tucker. MSHSA. LCPAA
AVCYFS
972/227-3500

Management's Response from Unity Children's Home

UNITY CHILDREN'S HOME

P.O. BOX 672032
HOUSTON, TEXAS 77267
PHONE: 281-537-6498 FAX: 281-537-1479

August 17, 2012

State Auditor's Office
ATTN: Jennifer Wiederhold
P.O. Box 12067
Austin, Tax 78711-2067

RE: Unity Children's Home Response

Dear Ms Wiederhold:

- Unity Children's Home agrees with the recommendation to better maintain complete and accurate supporting documentation, including timesheets, for all financial transactions. The Agency has purchased time clocks that utilize QuickBooks Software that stores and maintain each employee's timesheet.
- Unity Children's Home agrees with the findings and will submit cost reports to (HHSC) by the established due date. To ensure timely submission of the cost report the Agency will require the accountant to submit the cost reports (30) days prior to the due date.
- Unity Children's Home agrees with the findings in the reporting of revenues, expenditures, and related party costs. Bank statements, invoices, and purchase receipts will be submitted monthly by the Program Manager to the Agency's Accountant to ensure accuracy in the reporting of the general ledger.
- Unity Children's Home agrees with the findings. The Agency's Accountant will be responsible for reviewing the instructions on reporting all Related Party Cost, and will be required to complete the Cost report in accordance with the mandated policies and procedures.
- Unity Children's Home agrees with the finding. The Agency has begun collaboration with the Accountant to develop written financial policies and procedures for key financial processes. These policies and procedures will be available as of October 1, 2012.
- Unity Children's Home agrees with findings. The Executive Director will review financial information and will update the Board of Directors quarterly regarding financial matters.
- Unity Children's Home agrees with the findings that (5) employees out of the 101 employees had not received a background check prior to their hire date. For payment purposes only, it was the Agency's practice to identify the hire date as the date the individual began Orientation;

however, the Agency has made corrections to set the hire date as the date all pre-employment information is collected.

- Unity Children's Home agrees with the finding. The Executive Director will obtain a signed contract with the Accountant that adequately provides for controls over all external accounting and information technology functions by October 1, 2012.

Sincerely,

Vivian Okundaye, LCCA
Executive Director

Management's Response from Carter's Kids, Inc.

Carter's Kids

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Richmond, TX 77469
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www.carterskids.org

August 20, 2012

Below are responses to recommendations after the on-site audit:

Auditor Recommendations, Chapter 4-A:

The Provider Should Improve Its Compliance with Cost Report Requirements

Auditor Recommendation:

Provider should maintain complete and accurate supporting documentation for all financial transactions.

Management Response: Management will maintain complete and accurate supporting documentation for all financial transactions such as invoices and purchase receipts. Invoices will be maintained in a vendor file and will include pertinent information such as the date it was paid, and the amount that was paid. Any invoices paid by check or automatic payment will be stamped and include the date paid, the amount paid and the method of payment (i.e. check number or auto debit) for the transaction. This process will allow the provider to be able to check outstanding vendor balances against what has been previously paid, and will also ensure that invoices are not paid more than once. The Administrator will be responsible for maintaining vendor files, and this process will be effective immediately.

Contracts for subcontractors have been, or will be prepared and maintained in that subcontractors file. Contracts will include the subcontractor's duties and rate of pay, as well as other relevant information. The Administrator will maintain the subcontractor files, which will be reviewed by The President.

Auditor Recommendation:

Provider should prepare it cost report in accordance with requirements.

Management Response:

Create its general ledger from source financial transaction documents, such as invoices and purchase receipts.

The provider will work with the external accountant to ensure that all source financial transaction documents such as invoices and purchase receipts, in addition to the monthly bank statements, are made available for general ledger preparation. The Administrator will work with an assistant to maintain the files needed so that the external accountant will be able to accurately trace and record financial transactions.

The provider included unallowable costs on its 2011 cost report:

To ensure that unallowable costs are not included on future cost reports, Management will not use Department funds to pay for any personal expenses. This action has taken effect immediately. Management will also work with the Cost Report preparer to ensure that any unallowable costs as defined by DFPS rules and regulations are disclosed and not included on the cost report as the report is being prepared. The President will work with the external cost report preparer on this issue.

The provider did not accurately report all expenditures on its 2011 cost report:

Management will also work with the external cost report preparer to ensure that all expenditures incurred during the cost reporting period are included on the cost report, regardless of the period they were paid, so that all expenses are reported on an accrual basis. Any costs that were paid during the cost reporting period that were incurred during a previous cost reporting period will be identified so that they will not be included on the current year cost report. The President will work with the cost report preparer on this issue.

Auditor Recommendation:

Calculate timesheets correctly, review payroll transactions, and document employee's rate of pay.

Management Response:

Management will work with house supervisors to ensure that all child care workers time sheets are accurately calculated. After payroll has been processed, the Administrator will review the payroll transactions against the timesheet to ensure that employees have not been under/over paid. Employees' rates of pay will be documented in the employee files.

Auditor Recommendation:

Review days of service and revenue reconciliations.

In order to accurately report revenue on the cost report, Management will maintain client census records on a regular basis for billing purposes, and reconcile payments received from the Department against those records. The Case Manager, will work with the Administrator to maintain the accuracy of those records. For cost report preparation, a detailed record of the days of service provided during the cost reporting period, as well as the reconciliation of the payments received from the Department, will be made available to the cost report preparer so that an accurate determination of the revenue that should be reported on the cost report can be made.

Auditor Recommendation:

Report all underpayments to the Department.

Management Response:

The Case Manager will review the billing records against the Departments disbursement summary, and any underpayments will be reported immediately.

Auditor Recommendation:

Report and disclose all related-party transactions.

Management Response:

The President will disclose and related party transactions, as defined by the Department, to the external cost report prepared, as the report is being prepared. The President will review the cost report to determine that these costs, if any, have not been included on the report.

Auditor Recommendation:

Regularly review the financial information used to complete the cost reports to identify and correct errors in a timely manner.

Management Response:

The President will work with the external accountant to have the financial statements prepared in a timely and regular basis throughout the cost report year to review and identify and correct any errors. The external cost report preparer will also work with the external accountant to also identify any transactions that are unclear, and to ensure that all transactions are reported for only for the current cost reporting period.

Auditor Recommendations, Chapter 4-B

The Provider Should Strengthen Controls Over its Financial Processes

Auditor Recommendation:

Develop and implement written policies and procedures for key financial processes.

Management Response:

Management is in the process of developing and implementing written policies and procedures for the accounting of revenues and expenditures. Management will identify who is responsible for reconciling revenues received from the Department, expenses incurred and paid, payroll processing, performing bank reconciliations, and recording transactions in the general ledger. The President, the Administrator and the External Accountant will be responsible for these duties. Any employees involved in accounting transactions will be fully trained and held accountable for them.

Auditor Recommendation:

Segregate key financial-related duties and implement levels of review for key financial processes.

Management is working on a strategy to segregate duties so that all accounting functions are not being performed by a single person. The President is working with the Administrator on this issue. Management plans to have procedures in place to drastically reduce and even eliminate the need to make ATM withdrawals to pay for clients expenditures to reduce the risk of fraud.

Auditor Recommendation:

Regularly review financial information and update its board of directors regarding its financial matter.

Management Response:

The President will work with both the External Accountant and Cost Report Preparer on financial information that is prepared and presented to the board for Carter's Kids for their review, including financial statements, the annual tax return and cost reports. Any concerns from the board will be addressed at the board meetings.

Auditor Recommendation, Chapter 4-C:

The Provider Complied the Department's Requirements for Initial Background Checks, but Should Strengthen Its Processes for Subsequent Background Checks of Employees and Subcontractors

Management Response:

The Administrator and Administrator Assistant will provide all background checks on all new hires at least a week in advance before they are hired to make sure the background is clear. The Administrator and Assistant will also complete recurring background checks in a timely manner by completing the background check at least a week in advance from the last date it was checked within 24 months. The Administrative Assistant will use a spreadsheet for a tracking system to make sure all backgrounds checks are completed.

Auditor Recommendations, Chapter 4-D:

The Provider Should Improve Access to and the Security Environment Surrounding Its Automated Systems, Applications, and Data

Auditor Recommendation:

The provider should obtain a signed contract with its external accountant that adequately provides for controls over all external accounting and information technology functions.

Management Response:

The Managing Member, will secure a signed contract with the external accountant that will adequately provide for all controls over all external accounting and information technology functions. The contract will establish procedures for securing confidential data that is received, stored, and processed by the external accountant, regardless of whether the information is received electronically or by paper copy. This contract will be secured within the next 30 days.

Management's Response from Agape Manor Home

Agape Manor Home – Child Placing Agency

3200 Broadway Blvd, Suite 360, Garland, Texas 75043
Phone- 972-840-8130 Fax 972-840-8199
www.agapemanorhome.org

August 20, 2012

Ms. Jennifer Wiederhold
Project Manager
State Auditor's Office
P.O. Box 12067
Austin, Texas 78711-2067

Re: Management's Formal Responses to On-Site Audits of Residential Child Care Providers.

Dear Ms. Wiederhold,

Below, Please find Agape Manor Home CPA's responses to the Report on On-Site Audits of Residential Child Care Providers dated August 6, 2012

Chapter 5-A The Provider Should Improve Its Compliance with Cost Report Requirements.

Agape Manor Home CPA agrees that there was error in maintaining supporting documentation for all the expenditures reported. As evidenced by the nature of expenses those were strictly business related such as employees' expense reimbursements and office supplies. However, Agape acknowledges the importance of maintaining supporting documentation for all expenses. Management has implemented a new system for safe keeping and maintaining the receipts and supporting documents for all expenses. Receipts and documentation for all business revenues and expenditures will be provided to the Accountant for book keeping and reconciliation purpose on a monthly basis.

Agency Administrator will be responsible for the retention and maintenance of all receipts and supporting documents.

Agape Manor Home will ensure strict compliance to cost report guidelines regarding the preparation and maintenance of complete reconciliation work sheet between its accounting records and cost reports.

In addition to the other cost report work sheets that are prepared now, a complete reconciliation sheet between the accounting records and cost report will be completed effective 2012 cost report. Executive Director will ensure the strict compliance to this cost report guide line.

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Chapter 5-B The Provider Should Strengthen Controls Over Its Financial Processes.

Agape Manor Home CPA agrees with this finding. While having good financial process in place, Agape has identified the areas that needed to strengthen controls over its financial process. Agape Manor Home will strive to continue having all financial information prepared by an accountant, reviewed for its accuracy and completeness. The financial information includes but not limited to general ledger, trial balance, income statement, balance sheet, invoices and credit card statements. This financial information will be reviewed by the Administrator and Executive Director.

Bank reconciliations will be conducted by Accountant and reviewed by the Executive Director. Agape Manor home will ensure strict compliance to Title 40 TAC, Section 749.131(5) regarding members of Board of Directors.

Agape Manor Home will add two more members with no conflict of interest to its Board of Directors so that majority of members do not have conflict of interest. The composition of the board will be changed by October 31st 2012.

Agape Manor Home has begun a new filing system for maintaining supporting documentation for all the expenditures. This file will include detailed receipts, credit card statements and invoices with the purpose of purchases so that Accountant will be able to properly classify the related expenditures in the general ledger. This file will be provided to the Accountant each month for proper accounting and book keeping.

Executive Director and Agency Administrator will ensure that detailed accounting records and supporting documents are provided to Accountant for accurately recording all financial transactions in the general ledger.

Chapter 5-C The Provider Submitted Background Checks for all Employees and Foster parents Tested: However. It Should Strengthen its Background Check Process for House hold Members.

Agape Manor Home agrees with this finding. As stated in the report, as of March 2012, Agape had current background checks for all 25 employees and 157 (99 percent) of 158 foster parents and/or household members who were active during the 2011 cost reporting period (January 2011 through December 2011).

Agape Manor Home gives highest priority to background checks for its employees, foster parents, household members, contractors and volunteers and is committed to obtain 100 percent compliance in this area. The 6 house hold members whose background checks were late, many

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were biological children of foster parents who turned 14 years of age and were missed. Agape has developed a new back ground check tracking system that includes minor household members with their birthdates that will trigger back ground checks by their 14th birth day. Further, all child placing staff are instructed to interview foster parents and children in the home to identify new household members and frequent visitors, as part of their monthly monitoring visit. Agape Manor Home is currently 100 percent complaint with all background checks.

Agape Manor Home has put systems into place now for all background checks that will be completed as per the DFPS minimum standards. The agency Administrator will monitor the activities to ensure compliance.

Chapter 5-D The Provider Should Ensure Supporting Documentation for Foster Home Monitoring Visits Is Maintained In A Centralized, Secure location And That The Monitoring Checklist Are Periodically Reviewed to Ensure Completeness.

Agape Manor Home CPA agrees that there was error in monitoring report documentation in our Houston office. The missing monitoring reports were a result of a case manager in our Houston office resigning and did not return a large amount of documentation to the agency.
The agency will continue to make monthly monitoring visits and at least one unannounced visits to all foster homes yearly. The monthly reports will be filed in each of the foster home charts and will be securely locked up during non-working business hours. In addition to the monthly monitoring, management staff will conduct semi-annual visits to all foster homes to ensure the home is following all of the minimum standards and agency policies. During this visit to the home the staff will assess the appropriateness of current placements in the home and parent's ability to perform duties associated with the care of the children. The semi-annual assessment will also provide another level of supervision and support to the foster homes. Children and foster parents will be interviewed in private by the case managers to assess the supervision and safety of the children during the monthly monitoring. Case manager will document this interview in the monthly monitoring report. As of May 1, 2012 Agape's foster home monitoring visits and documentation is in compliance with agency policies and minimum standards. The Treatment Director in Dallas and Program Manager in Houston will be responsible for reviewing home monitoring documentation to ensure that all the standards are being evaluated on a yearly basis and unannounced visits have occurred.

Chapter 5-E The Provider Should Improve the Security Environment Surrounding Its Automated Systems, Applications, and Data.

Agape Manor home agrees with this finding. The following measures have been taken to improve the compliances in the areas mentioned.

- Update its written contract with its external accountant to include provisions to secure the provider's data.

Agape Manor Home – Child Placing Agency

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Agape Manor Home will revise its contract with the External Accountant to include provisions related to the confidentiality of the provider's data and procedures for protecting electronic and paper records from destruction, loss, and unauthorized access. The Accountant is required to provide the Agency with updated Data every month electronically or as hard copy and backed up data every year either in a CD or external drive. This will be in force effective October 1st 2012.

- Update its policies and procedures for its network to include password requirements, anti-virus protection systems, and user access.

Agape Manor Home will revise the Information Technology policies and strengthen its procedures in order to improve the security, responsible use of its information technology facilities and protection of records from destruction, loss and unauthorized access. Agape will strictly enforce employee's access to data through secured password authentication and maintain anti-virus and other security software updated all the time in all its facilities. This will be complete by October 1st 2012.

- Complete backups and store them in a secure, off-site location.

Agape Manor home is currently having its data backed up on a daily basis in an external hard drive in a secure location within the Office building. This room is fully secured with access only to the management staff. However, Agape Manor Home will explore the option of contracting with a company that will store the data in their offsite storage location.

- Protect its server from unauthorized access

Currently the server computer is located both in the Dallas and Houston offices in the back room that can be locked. The Agency will consider moving the server computer in the Dallas office to a room exclusively for this purpose. The Agency will ensure only authorized personnel will have access to this room.

Agape Manor Home CPA appreciates all the assistance that was provided to the agency during the on-site audit. We strive to continue to provide the best care to our foster parents and children. Please let us know of any questions or concerns.

Sincerely,

Sabu Joseph, LMSW
Executive Director

Appendix 11

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	**Product Name**	**Release Date**
11-049	A Report on On-site Audits of Residential Child Care Providers	August 2011
10-043	A Report on On-site Audits of Residential Child Care Providers	August 2010
10-007	A Report on On-site Audits of Residential Child Care Providers	September 2009
08-046	A Report on On-site Audits of Residential Child Care Providers	August 2008
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

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Thomas "Tommy" Williams, Senate Finance Committee
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Health and Human Services Commission

Mr. Thomas Suehs, Executive Commissioner

Department of Family and Protective Services

Mr. Howard Baldwin, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Agape Manor Home
Antelope Valley Child, Youth, and Family Services
Carter's Kids, Inc.
Simply Love All People, Inc.
Unity Children's Home

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