



An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

October 2016

Report No. 17-011



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Overall Conclusion

One of the four residential child care contractors (providers) audited had significant weaknesses in controls over its financial and cost reporting processes. In addition, another provider had significant weaknesses in its processes for obtaining the required background checks for foster families.

The other two providers audited generally complied with cost reporting requirements and background check requirements.

Faith Always Inspires True Healing Works Inc., a child placing agency, had serious weaknesses in the processes used to develop its 2015 cost report. Auditors could not determine whether it accurately reported funds it expended for providing child placing services. Overall, it complied with foster parent monitoring and background check requirements; however, it should establish processes for tracking all volunteers, foster parents, household members, and frequent visitors.

Kids At The Crossroads, Inc., a child placing agency, had significant weaknesses in its processes for obtaining required background checks for foster families. It also did not consistently comply with the Department of Family and Protective Services' (Department) requirements for monitoring foster families. It accurately reported the majority of its expenditures on its cost report for fiscal year 2015. However, it should improve its cost reporting processes to ensure that it complies with all cost reporting requirements, reports only allowable expenditures, and maintains complete and accurate documentation.

Background Information

Providers receive funds from the Department of Family and Protective Services (Department) for delivering goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in their care.

Providers deliver those goods and services through contracts with the Department, and they are required to report their expenditures on annual cost reports.

This audit included two types of providers with which the Department contracts:

- Child placing agencies, which place or plan for the placement of the child in an adoptive home or other residential care setting.
- General residential operations, which provide child care for 13 or more children up to the age of 18 years. The care may include treatment and other programmatic services.

During fiscal year 2015, the Department had 264 active contracts with 189 child placing agencies or general residential operations to provide residential child care on a 24-hour basis.

The Department received approximately \$403,579,148 for providing services to 29,532 children in foster care during fiscal year 2015. Approximately 59 percent of that amount came from the federal government and approximately 41 percent came 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: The Department's residential child-care contract for 2015, the Department's *Annual Report and Data Book 2015*, the Health and Human Services Commission's *Specific Instructions for Completion of the 2015 24-RCC Cost Report*, and the Department.

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

For more information regarding this report, please contact Cesar Saldivar, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Good Shepherd Residential Treatment Centre, Inc., a general residential operation, generally complied with background check requirements; however, it should strengthen its processes for ensuring that required fingerprint background checks are conducted. In addition, it generally complied with cost reporting requirements for the expenditures for which it had supporting documentation; however, it should maintain documentation that fully supports its cost report. It should also strengthen certain financial controls.

Guiding Light Rtc, a general residential operation, accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2015. However, it should maintain complete and accurate documentation that fully supports all expenditures in its general ledger and on its cost report. Additionally, it should strengthen certain controls over its financial processes to help ensure that it accurately reports expenditures. Overall, it complied with background check requirements.

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

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	Faith Always Inspires True Healing Works Inc.	Priority
2	Kids At The Crossroads, Inc.	High
3	Good Shepherd Residential Treatment Centre, Inc.	Medium
4	Guiding Light Rtc	Medium

^a A chapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The providers audited generally agreed with the recommendations in this report. Their management's responses are presented in Appendices 7 through 10.

Audit Objective and Scope

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors and verify whether the selected contractors are spending federal and state funds on required services that promote the well-being of foster children in their care.

The audit scope included the fiscal year 2015 cost reporting period for four residential foster care contractors that provided services to the Department.

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Faith Always Inspires True Healing Works Inc.

Detailed Results

Chapter 1

Faith Always Inspires True Healing Works Inc.

Chapter 1
Rating:
Priority ¹

Auditors identified serious weaknesses in the processes that Faith Always Inspires True Healing Works Inc. (provider) used to develop its 2015 cost report. The provider did not use a general ledger to prepare its 2015 cost report, as the Department of Family and Protective Services (Department) required. The provider also did not maintain all 2015 bank statements. As a result, auditors could not determine whether data necessary to form a conclusion regarding the audit objectives was complete, and auditors could not determine whether the provider accurately reported funds it expended for providing child placing services.

Overall, the provider complied with foster parent monitoring and background check requirements; however, it should establish processes for tracking all volunteers, foster parents, household members, and frequent visitors.

The provider should comply with cost report requirements.

The provider did not comply with cost report requirements when it prepared its 2015 cost report. Specifically:

- The provider did not use complete accounting records, such as a general ledger, to support the expenditures it reported on its 2015 cost report.

Faith Always Inspires True Healing Works Inc. Background Information ^a

Location	Desoto, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department of Family and Protective Services (Department)	9
Number of children served	302
Total revenue from the Department for child placing agency services	\$2,535,892
Total expenditures reported on 2015 cost report	\$1,392,074 ^b
Federal tax filing status	Non-profit corporation
Number of staff at year end	18

^a From January 1, 2015, through December 31, 2015.

^b This amount does not include payments made to foster parents.

Sources: Faith Always Inspires True Healing Works Inc.'s 2015 cost report, Faith Always Inspires True Healing Works Inc., and the Department.

¹ Chapter 1 is rated Priority because the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Faith Always Inspires True Healing Works Inc.

- The provider did not have a comprehensive worksheet for the reconciliation of its accounting records with its 2015 cost report.

According to the provider, its chief financial officer resigned in January 2016, and the provider could not access accounting records that the chief financial officer prepared, including bank reconciliations. The provider also contracted with an external accountant beginning in 2014; however, the provider did not obtain a 2015 general ledger from its external accountant until June 2016, which was almost two months after the provider submitted its 2015 cost report. Instead of using a general ledger to prepare its 2015 cost report, the provider relied on payroll journals and purchase receipts. Because the provider (1) developed its 2015 cost report without using a general ledger and (2) did not maintain all 2015 bank statements, auditors could not reconcile expenditure information to determine whether all payroll costs, foster parent payments, and purchases the provider reported on its 2015 cost report were complete and accurate.

Auditors tested some of the limited expenditure data available. The provider had support for all 36 payroll-related² expenditures tested and for 59 (98 percent) of 60 non-payroll expenditures tested. However, without complete and detailed accounting records or bank statements, auditors were unable to determine whether the expenditures were accurately reported in the provider's general ledger or on its fiscal year 2015 cost report.

The provider did not report any related party transactions on its 2015 cost report. However, without complete and detailed accounting records or bank statements, auditors were unable to determine whether the provider should have reported any related party transactions.

The provider should strengthen controls over its financial processes. As discussed above, the provider did not use complete accounting records, such as a general ledger, to create its 2015 cost report. The provider contracted with an external accountant to provide bookkeeping services. The provider asserted that the external accountant created a 2015 general ledger from the provider's bank statements and other supporting documents.

According to the provider, its external accountant would not provide the 2015 bank statements, and the provider asserted that it was unable to obtain them from the bank. The provider should maintain copies of all supporting financial records.

² The 36 payroll-related expenditures tested were mileage reimbursements to employees.

Faith Always Inspires True Healing Works Inc.

The provider did not comply with fiscal requirements in the Department's *Minimum Standards for Child Placing Agencies*. Those standards require child placing agencies to maintain at least one of the following for the Department to review:

- An annual review of financial records conducted by an independent certified public accountant in accordance with generally accepted accounting principles.
- Proof of reserve funds equal to at least three months of operating expense.

The provider did not obtain an annual review of its financial records from an independent certified public accountant. In addition, although the provider's bank statement for August 2016 showed a reserve of funds, because of the issues noted above regarding the provider's inaccurate and incomplete general ledger, auditors could not determine whether the provider had reserve funds equal to at least three months of operating expenses during the 2015 cost reporting period.

The Health and Human Services Commission's (Commission) *Specific Instructions for Completion of the 2015 24-RCC Cost Report* requires providers to maintain records that are accurate and sufficiently detailed to substantiate financial information in providers' cost reports. (See Appendix 3 for additional information about cost report requirements.) The Commission uses provider cost reports to determine the daily rates that providers receive 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 Commission to set the daily rates at inappropriate amounts.

The provider complied with foster parent monitoring and background check requirements; however, it should establish processes for tracking volunteers, foster parents, household members, and frequent visitors.

The provider conducted monitoring visits at foster homes in accordance with Department requirements; however, it did not maintain lists of active foster parents and their related household members and frequent visitors. **Auditors tested 42 foster homes that were active during the 2015 cost report period and determined that the provider appropriately conducted all required monitoring visits in a timely manner. For several errors identified during audit fieldwork, the provider later sent auditors evidence that foster parents signed quarterly monitoring visit reports using foster parent checklists. Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department standards.**

Faith Always Inspires True Healing Works Inc.

The provider generally complied with background check requirements; however, it should establish processes for tracking volunteers, foster parents, household members, and frequent visitors. **The provider generally submitted the names of employees, foster parents, household members, and frequent visitors for background checks to the Department in accordance with the Department's requirements. As of March 31, 2016, the provider had current background checks for all 292 employees, foster parents, household members, and frequent visitors who were active during the 2015 cost reporting period (January 2015 through December 2015). See Appendix 4 for additional information about background check requirements.**

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's employees and foster families³ active during the cost reporting period. Based on the results of those checks, none of the provider's employees or foster families had misdemeanor or felony convictions that would pose a risk to children in the provider's care.⁴

The provider uses an automated system to store information about foster parents, household members, and frequent visitors. The foster parents are responsible for entering frequent visitors' information into that system. However, the provider was unable to generate a report of foster parents, household members, and/or frequent visitors from that system. Instead, the provider relied on lists of background checks that had been run in the past that the Department had provided. Based on that information, auditors were unable to ensure that all household members and frequent visitors had received background checks as required.

The provider submitted the names of several volunteers for background checks to the Department during the 2015 cost reporting period; however auditors were unable to determine whether all volunteers received a background check. The provider did not maintain a list of volunteers or any personal identification information, such as driver's license numbers, to identify the volunteers.

³ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

⁴ *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. 16-025, May 2016) 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.

Faith Always Inspires True Healing Works Inc.

Recommendations

The provider should:

- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost reports.
- Obtain an annual review of its financial records by a certified public accountant.
- Establish a process to track all volunteers, foster parents, household members, and frequent visitors.

Chapter 2
Rating:
High ⁵

Kids At The Crossroads, Inc. (provider) had significant weaknesses in its processes for obtaining required background checks for foster families.⁶ The provider also did not consistently comply with Department requirements for monitoring foster families.

The provider accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2015. However, the provider should improve its controls to ensure that it complies with all cost reporting requirements, reports only allowable expenditures, and maintains complete and accurate documentation that fully supports all expenditures in its general ledger and on its cost report.

The provider had significant weaknesses in its processes for obtaining the required background checks for foster families.

Auditors tested the provider’s background checks for 14 employees who provided foster care services and 104 foster family members who were active during the 2015 cost reporting period (January 2015 through December 2015). The provider had current central registry and name-based background checks for the 14 employees tested. However, four employees did not have current fingerprint background checks.

The provider did not have adequate processes to ensure that the foster families had obtained and cleared all required background checks prior to having access to the children in care. The provider did not comply with the background check requirements for 37 members of the foster families tested. Specifically:

Kids At The Crossroads, Inc. Background Information ^a	
Location	Austin, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department of Family and Protective Services (Department)	21
Number of children served	187
Total revenue from the Department for child placing agency services	\$2,693,728
Total expenditures reported on 2015 cost report	\$2,702,158
Federal tax filing status	Nonprofit corporation
Number of staff at year end	14

^a From January 1, 2015, through December 31, 2015.

Sources: Kids At The Crossroads, Inc.’s 2015 cost report; Kids At The Crossroads, Inc.; and the Department.

⁵ Chapter 2 is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

⁶ Foster families consist of foster parents, caregivers, frequent visitors, and household members aged 14 and older.

Kids At The Crossroads, Inc.

- For one foster family household member, the provider never performed the required background checks.
- For 12 foster family members (including 3 foster parents, 4 caregivers, 2 frequent visitors, and 3 household members), the provider did not ensure that all required background checks were cleared prior to allowing those individuals to have access to children in care. The background checks were conducted from 1 day late to 594 days late.
- For 24 foster family members (including 18 foster parents, 1 caregiver, and 5 household members), the provider did not perform the required background checks within the previous two years, as required by Title 40, Texas Administrative Code, Section 745.625.

In addition, the provider did not adequately track foster family members. The provider gave auditors a list of foster family members; auditors subsequently determined that list was not complete and identified 10 additional names that should have been included on the list. In addition, the provider did not have a formal process to track the start and termination dates of frequent visitors and caregivers. Instead, the provider relied primarily on verbal communication with the foster families regarding the start and termination dates. As a result, auditors were unable to determine whether all foster family members received background checks as required. See Appendix 4 for additional information about background check requirements.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's employees and foster families active during the cost reporting period. Based on the results of those checks, none of the provider's employees or foster families had misdemeanor or felony convictions that would pose a risk to children in the provider's care.⁷

The provider generally performed quarterly monitoring of foster homes; however, it did not have processes to ensure that it complied with all monitoring requirements.

The provider performed quarterly monitoring visits for 28 (93 percent) of the 30 foster homes tested from January 2015 through December 2015; however, it did not always comply with the additional requirements in Title 40, Texas Administrative Code, Section 749.2815, for monitoring foster

⁷ 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. 16-025, May 2016) 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.

Kids At The Crossroads, Inc.

families. (See Appendix 3 for additional information about foster parent monitoring requirements.) Specifically:

- For 19 (73 percent) of 26 applicable foster homes tested, the provider did not conduct at least 2 unannounced visits per year, as required.
- For 3 (19 percent) of 16 applicable foster homes tested, the provider did not have documentation showing that both foster parents were present at a monitoring visit every 6 months, as required.
- For 19 (73 percent) of 26 applicable foster homes tested, the provider did not have documentation showing that it conducted a monitoring visit with all household members present at least once during the year, as required.

The provider used a spreadsheet to track its foster home monitoring and to attempt to ensure compliance with the requirements. However, that process was not working adequately. In addition, although the provider created the required home monitoring plan, that plan did not contain all of the elements required by Title 40, Texas Administrative Code, Section 749.2815.

The provider accurately reported the majority of its expenditures for fiscal year 2015; however, it should improve its controls to ensure that it complies with all cost reporting requirements.

The provider had complete supporting documentation for 57 (95 percent) of 60 non-payroll expenditures tested and included on its 2015 cost report. However, many of those expenditures were unallowable or were from a different year and should not have been included in the 2015 cost report. Specifically:

- Fourteen (23 percent) of 60 non-payroll expenditures tested totaling \$2,634 were unallowable costs that should not have been included on the 2015 cost report. That included 12 expenditures totaling \$1,498 for reimbursements the provider made to foster parents. One expenditure for \$1,116 was a depreciation transaction for assets that did not meet the capitalization threshold in the cost report instructions. The remaining expenditure for \$20 was related to a program outside of the provider's contract with the Department for child placing services.
- For 6 (10 percent) of 60 non-payroll expenditures tested totaling \$4,613 the provider did not record the expenditures in the correct fiscal year.

The provider had supporting documentation for 55 (96 percent) of the 57 payroll items tested. Auditors noted, however, that 4 (7 percent) of those 55 payroll transactions totaling \$1,765 were from the previous fiscal year.

Kids At The Crossroads, Inc.

The provider appropriately identified related-party transactions on its cost report. That included accurately removing amounts in excess of an arm's length transaction for rental payments to a related party.

The provider should strengthen its controls over financial processes.

The provider had written policies and procedures and implemented certain financial controls, such as requiring approvals for travel and expense report items; however, it did not have documented approvals for other types of non-payroll expenditures. The provider asserted that the executive director verbally approved all purchases exceeding \$100 before it made those purchases.

The provider also did not use the accrual basis of accounting, as required by Title 1, Texas Administrative Code, Section 355.105. As a result, the provider classified some payroll and non-payroll expenditures in the incorrect year.

Recommendations

The provider should:

- Consistently perform all required monitoring of foster families.
- Consistently perform all required background checks for employees and foster families.
- Accurately record expenditures on its cost reports in accordance with requirements.
- Strengthen its controls over financial processes to:
 - ♦ Review expenditures included on its cost reports for allowability.
 - ♦ Obtain required approvals of its employee or foster parent expenditure reimbursements.
- Prepare its cost report on an accrual basis.

Good Shepherd Residential Treatment Centre, Inc.

Chapter 3

Good Shepherd Residential Treatment Centre, Inc.

Chapter 3
Rating:

Medium ⁸

Good Shepherd Residential Treatment Centre, Inc. (provider) generally complied with Department background check requirements; however, it should strengthen its processes for ensuring that required fingerprint background checks are conducted.

The provider generally complied with cost reporting requirements for the expenditures for which it had supporting documentation; however, it should maintain documentation that fully supports its cost report.

The expenditures that the provider reported on its fiscal year 2015 cost report reconciled to its general ledger. However, the provider did not always have supporting documentation for those reported expenditures.

The provider was unable to provide supporting documentation for 46 (58 percent) of 79 non-payroll expenditures tested. **Without**

supporting documentation, auditors could not determine whether \$59,379 in non-payroll expenditures tested were allowable and accurately reported in the provider's general ledger or on its fiscal year 2015 cost report.

The provider also should not have included 11 non-payroll expenditures tested on the current year cost report.⁹ Seven of those expenditures were late fees, which Title 1, Texas Administrative Code, Section 355.103, states should not be included on the cost report. Five expenditures, totaling \$4,315, were from the previous fiscal year. (See Appendix 3 for additional information about cost report requirements.)

Good Shepherd Residential
Treatment Centre, Inc.

Background Information ^a

Location	Tomball, TX
Contract services audited	General residential operation
Number of years provider has contracted with the Department of Family and Protective Services (Department)	14
Number of children served	101
Total revenue from the Department for general residential operation services	\$1,726,684
Total expenditures reported on 2015 cost report	\$1,781,230
Federal tax filing status	Nonprofit Corporation
Number of staff at year end	33

^a From January 1, 2015, through December 31, 2015.

Sources: Good Shepherd Residential Treatment Centre, Inc.'s 2015 cost report; Good Shepherd Residential Treatment Centre, Inc.; and the Department.

⁸ Chapter 3 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

⁹ Expenditures may overlap between the two fiscal years, and some expenditures included more than one type of error.

Good Shepherd Residential Treatment Centre, Inc.

In addition, auditors determined that the provider overpaid 1 non-payroll expenditure tested by \$100 because it did not take a credit it was given.

The provider incorrectly reported 3 (10 percent) of 30 payroll expenditures tested. Two expenditures were reported incorrectly due to mathematical errors that resulted in a net underpayment of \$19. One expenditure for \$574 should have been reported in the previous fiscal year.

The provider had weaknesses in controls over its financial processes.

The provider did not use the accrual basis of accounting, as required by Title 1, Texas Administrative Code, Section 355.105. As a result, the provider classified some payroll and non-payroll expenditures in the incorrect year, as discussed above.

In addition, the provider did not have documented procedures addressing how expenditures should be supported, classified, and recorded in the general ledger.

The provider also did not provide copies of vendor invoices or receipts to the external accountant who prepared its fiscal year 2015 cost report. The external accountant was provided only canceled checks and debit/withdrawal descriptions from bank statements. Without more complete documentation, the external accountant could not verify that the cost report complied with all requirements. In addition, the provider did not review the cost report for accuracy and compliance with reporting requirements before the cost report was submitted.

The provider did not receive an annual review of financial records conducted by an independent certified public accountant, as required by Title 40, Texas Administrative Code, Section 748.163. By not obtaining that required review, the provider is at increased risk that inaccurately recorded financial information would not be identified and would be included on its cost report.

Overall, the provider complied with background check requirements; however, it should strengthen its processes to ensure that all required fingerprint background checks are conducted.

Auditors tested the provider's background checks for 63 employees and volunteers who provided foster care services during fiscal year 2015. The provider generally complied with certain background check requirements; however, it should strengthen its processes for ensuring that fingerprint background checks are conducted as required. Specifically:

- Thirty-one employees and volunteers tested started after January 2014, and the provider ensured that those individuals cleared the required central registry and name-based criminal background check prior to their

Good Shepherd Residential Treatment Centre, Inc.

start dates. However, for 4 of those 31 individuals, the provider did not receive the results of the required fingerprint background check prior to those individuals' start dates, as required by Title 40, Texas Administrative Code, Section 745.626. Those checks were conducted between 12 days late and 30 days late.

- For 4 (6 percent) of 63 employees and volunteers tested, the provider did not initially have evidence of the required fingerprint background renewal checks within the previous 2 years. The fingerprint background checks for two of those four employees were still pending as of September 2016; the fingerprint background checks for the remaining two employees were cleared as of September 2016.

The provider did not have documented procedures for following up on fingerprint background check renewal results. By not following up on those renewal checks in a timely manner, there is an increased risk that the provider may be unaware of a misdemeanor or felony conviction that would pose a risk to children in the provider's care. See Appendix 4 for additional information about background check requirements.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's employees and volunteers active during the cost reporting period. Based on the results of those checks, none of the provider's employees or volunteers had misdemeanor or felony convictions that would pose a risk to children in the provider's care.¹⁰

Recommendations

The provider should:

- Ensure that it accurately records expenditures in its general ledger and on its cost reports in accordance with cost reporting requirements.
- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and cost reports.
- Document policies and procedures to maintain sufficient financial documentation and appropriately record information in the general ledger and cost report.

¹⁰ 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. 16-025, May 2016) 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.

Good Shepherd Residential Treatment Centre, Inc.

- Ensure that the preparer of the cost report has all of the necessary documents.
- Implement a process to review the cost report for accuracy and completeness.
- Obtain an annual review of its financial statements by a certified public accountant as required by Title 40, Texas Administrative Code, Section 748.163.
- Perform background checks for employees within the required time frames stated in the Texas Administrative Code.
- Develop documented procedures for following up on fingerprint background check renewal results.

Chapter 4
Rating:
Medium ¹¹

Guiding Light Rtc (provider) accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2015. However, the provider should maintain complete and accurate documentation that fully supports all expenditures in its general ledger and on its cost report. Additionally, it should strengthen certain controls over its financial processes to help ensure that it accurately reports expenditures.

Overall, the provider complied with Department background check requirements.

The provider accurately reported the majority of its expenditures on its 2015 cost report; however, it did not consistently maintain supporting documentation.

The expenditures that the provider reported on its 2015 cost report reconciled to its general ledger. However, the provider did not always have supporting documentation for those reported expenditures.

The provider was unable to provide supporting documentation for 14 (25 percent) of 57 non-payroll expenditures tested. Without supporting documentation, auditors could not determine whether \$31,958 in expenditures tested were allowable and accurately reported in the provider's general ledger or on its 2015 cost report.

For 2 of the 57 non-payroll expenditures tested, the provider miscalculated the depreciation expense. That resulted in a net understatement of depreciation by \$3,724 on the cost report.

Guiding Light Rtc Background Information ^a	
Location	San Antonio, TX
Contract services audited	General residential operation
Number of years provider has contracted with the Department of Family and Protective Services (Department)	3
Number of children served	75
Total revenue from the Department for general residential operation services	\$1,426,124
Total expenditures reported on 2015 cost report	\$1,272,238
Federal tax filing status	Limited liability company
Number of staff at year end	27

^a From January 1, 2015, through December 31, 2015.

Sources: Guiding Light Rtc's 2015 cost report, Guiding Light Rtc, and the Department.

¹¹ Chapter 4 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

The provider had errors for 6 (17 percent) of 36 payroll expenditures tested on its cost report. **Specifically:**

- Two expenditures should have been recorded in the prior fiscal year. This was due to the provider not using the accrual basis of accounting for its payroll transactions, as required by Title 1, Texas Administrative Code, Section 355.105.
- For three expenditures, the provider miscalculated regular and overtime hours. As a result, the provider overpaid employees \$167.
- For one expenditure, the provider paid an amount that did not match the total on a severance agreement.

As a result of the errors noted above, the provider overstated its payroll expenditures on its 2015 cost report by \$6,467.

The provider also did not appropriately disclose a related-party transaction on its 2015 cost report. The provider's owner's sister works part time as the payroll/accounts payable clerk, but the provider did not report that as a related-party transaction, as required by Title 1, Texas Administrative Code 355.102. (See Appendix 3 for additional information about cost report requirements.)

The provider had weaknesses in controls over its financial processes.

The provider did not use the accrual basis of accounting, as required by Title 1, Texas Administrative Code, Section 355.105. As a result, the provider classified some payroll and non-payroll expenditures in the incorrect year, as discussed above.

The provider had policies and procedures related to expenditures. However, those policies and procedures did not address asset management, and the provider did not consistently follow the policies and procedures related to expenditures.

The provider also did not provide copies of vendor invoices or receipts to the external cost report preparer who prepared its 2015 cost report. Instead, the external cost report preparer was provided the general ledger, which included a description of each purchase, and a payroll expense report. Without more complete documentation, the external cost report preparer could not verify that the cost report complied with all requirements.

In addition, the provider did not obtain an annual review of its financial records conducted by an independent certified public accountant, as required by Title 40, Texas Administrative Code, Section 748.163. By not obtaining that required review, the provider is at increased risk of not

identifying inaccurately recorded financial information and including that information on its cost report.

The provider generally complied with criminal history background check requirements.

The provider complied with background check requirements for 35 (97 percent) of 36 employees tested; one fingerprint background check was requested 86 days late. It did not have documented procedures for following up on fingerprint background check renewal results. See Appendix 4 for additional information about background check requirements.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's employees active during the cost reporting period. Based on the results of those checks, none of the provider's employees had misdemeanor or felony convictions that would pose a risk to children in the provider's care.¹²

Recommendations

The provider should:

- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and cost reports.
- Prepare its cost report on an accrual basis.
- Appropriately report all related-party transactions in accordance with cost reporting requirements.
- Strengthen its controls over financial processes, including:
 - ♦ Providing its external accountant with all source documentation to prepare the general ledger.
 - ♦ Documenting policies and procedures on asset management.
 - ♦ Obtaining an annual review of its financial statements as required by Title 40, Texas Administrative Code, Section 748.163.
- Develop documented procedures for following up on fingerprint background check renewal results.

¹² 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. 16-025, May 2016) 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.

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 and verify whether the selected contractors are spending federal and state funds on required services that promote the well-being of foster children in their care.

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

Scope

The audit scope included the fiscal year 2015 cost reporting period for four residential foster care contractors (providers) that provided services to the Department.

Methodology

The audit methodology included selecting four providers based on (1) State Auditor's Office risk rankings and input from the risk rankings the Department uses in its annual statewide monitoring plan, (2) the type of contract and location of the provider as reported by the Department, and (3) the Department's fiscal year 2016 contract monitoring schedule. The four providers selected were:

- Faith Always Inspires True Healing Works, Inc.
- Kids At The Crossroads, Inc.
- Good Shepherd Residential Treatment Centre, Inc.
- Guiding Light Rtc

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 the providers.

Data Reliability and Completeness

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

- Three providers—Guiding Light Rtc, Good Shepherd Residential Treatment Center, Inc., and Kids At The Crossroads, Inc.—had financial data that was sufficiently reliable for purposes of this audit.
- For one provider, Faith Always Inspires True Healing Works Inc., auditors determined that data necessary to perform the audit objectives was unreliable. That provider did not use a general ledger to generate its 2015 cost report, as required by the Department. The provider also did not maintain all 2015 bank statements. Those weaknesses are discussed in Chapter 1.
- All four providers had employee lists that were sufficiently reliable to perform audit procedures related to employee background checks.
- The two child-placing agencies—Kids At The Crossroads, Inc. and Faith Always Inspires True Healing Works Inc.—provided incomplete foster family lists, which include foster parents, caregivers, household members, and frequent visitors. However, auditors were able to compile lists to perform audit procedures related to foster family monitoring and background checks.

Sampling Methodology

Auditors selected nonstatistical samples to test the following:

- Foster parent monitoring.
- Foster parent payments.
- Payroll expenditures.
- Direct and administrative expenditures.

The samples listed above were selected primarily through random selection designed to be representative of the population. In many cases, auditors used professional judgment to select additional items for testing, and those sample items generally were not representative of the population. The test results as reported do not identify which items were randomly selected or selected using professional judgment. Therefore, it would not be appropriate to project the test results to the population.

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 records and supporting documentation for payroll expenditures, and direct and administrative expenditures.
- Providers' personnel files.
- Providers' foster parent monitoring plans, monitoring files, and records for payments to foster parents.
- Providers' policies and procedures, including policies and procedures for information technology.
- List of the providers' employees, volunteers, foster parents, family members, frequent visitors, and caregivers.
- Information from the Department on the results of background checks that providers performed.
- Information from the Department on the payments it made to providers.
- Background check results from the Department of Public Safety.
- *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. 16-025, May 2016).*

Procedures and tests conducted included the following:

- Testing internal controls and information technology controls at providers.
- Testing expenditures related to services provided to children.
- Testing related-party expenditures and contracts.
- Testing payroll records.

- Testing payments that the providers made to foster care parents.
- Comparing each provider's general ledger, where available, to each provider's cost report.
- Testing foster parent monitoring records.
- Testing to determine whether, as of March 31, 2016, all required background checks were conducted on employees, volunteers, foster parents, family members, frequent visitors, and caregivers active during the 2015 cost reporting period. Auditors also tested whether the background checks were conducted prior to each individual's start date for individuals who started on or after January 1, 2014 and within the previous two years. The required background checks were Department central registry checks, Department of Public Safety criminal history background checks, and Federal Bureau of Investigation fingerprint background checks (fingerprint background checks were not required for frequent visitors).
- Reviewing Department of Public Safety criminal background check results for convictions that would prohibit a person from being present in a child-care operation for employees, volunteers, foster parents, family members, frequent visitors, and caregivers active during the 2015 cost reporting period.

Criteria used included the following:

- Code of Federal Regulations, Title 2, Part 200.
- Title 40, Texas Administrative Code, Chapters 745, 748, and 749.
- Title 1, Texas Administrative Code, Chapter 355.
- Texas Government Code, Section 2155.1442.
- Texas Human Resources Code, Chapters 42 and 43.
- Contracts between the Department and providers.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2015 24-RCC Cost Report*.
- The Department's *Licensed or Certified Child Care Operations: Criminal History Requirements*.
- The Department's *Foster or Adoptive Homes: Criminal History Requirements*.

Project Information

Audit fieldwork was conducted from April 2016 through October 2016. 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:

- Fabienne Robin, MBA (Project Manager)
- William J. Morris, CPA (Assistant Project Manager)
- Mohammad Ali Bawany
- Brady Bennett, MBA, CFE
- John Felchak
- Arnton Gray
- Jamie Kelly, MBA
- Jack Lee, CPA
- Nicole McClusky
- Jonathan W. Morris
- Shelby Rounsaville
- Krista L. Steele, MBA, CPA, CFE, CIA, CGAP
- Jacqueline M. Thompson, CFE
- Jennifer Wiederhold, CGAP
- George D. Eure, CPA (Quality Control Reviewer)
- Cesar Saldivar, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Selected Requirements for Residential Child Care Providers

The following is a summary of (1) selected Health and Human Services Commission (Commission) and Department of Family and Protective Services (Department) requirements in the Texas Administrative Code and (2) selected requirements in the Commission's *Specific Instructions for Completion of the 2015 24-RCC Cost Report*. The requirements are related to residential child care providers' cost reporting, financial records, and foster parent monitoring.

Cost Reporting

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.

- **Cost report submission.** Each separately licensed residential child care provider that has a contract with the Department to provide residential child care services during a fiscal year is required to submit a cost report to the Commission. A separate cost report is required for each separately licensed facility that the provider operates. The cost report must cover all of the provider's 24-hour residential child care activities, including all programs that are not related to the Department, at the licensed facility during the reporting period.
- **Accurate Cost Reporting.** Title 1, Texas Administrative Code, Section 355.102(c), states that providers are responsible for accurate cost reporting and for including in cost reports all costs incurred, based on an accrual method of accounting, that are reasonable and necessary.
- **Related Party Transactions.** Title 1, Texas Administrative Code, Section 355.102(i)(6), requires providers to disclose all related-party transactions on the cost report for all costs that providers report, including related-party transactions occurring at any level in the provider's organization. Providers must make available, upon request, adequate documentation to support the costs incurred by the related party.
- **Allowable and Unallowable Costs.** Title 1, Texas Administrative Code, Section 355.102, states that allowable and unallowable costs, both direct and indirect, are 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.

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 operation and are not for personal or other activities not directly or indirectly related to the provision of contracted services. The classification does not mean that the providers may not make the expenditure.

- Cost allocation methods. Providers must use direct costing 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. Whenever direct costing of shared costs is not reasonable, providers must allocate costs either individually or as a pool of costs across the business components sharing the benefits. The allocation method must be a reasonable reflection of the actual business operations. Providers must apply any allocation method used for cost-reporting purposes consistently across all contracted programs and business entities. Providers must fully disclose any change in allocation methods for the current year from the previous year. Providers must obtain prior written approval from the Commission to use an unapproved allocation method.
- Reporting revenue. Single source continuum contractors must report the following revenue types separately: (1) revenue paid to all subcontractors; (2) revenue received from all referral sources other than the Department; and (3) system enhancement fees paid by the Department. Other providers must report the following revenue types separately: (1) revenue received from a single source continuum contractor; and (2) revenue received from all referral sources other than the Department.
- Reporting expenses. Providers may include only adequately documented, reasonable, necessary, and allowable program expenses incurred or accrued during the reporting period on their cost reports. The costs covering all of a 24-hour residential child care provider’s activities must be reported in accordance with the published Department guidelines, as well as with state and federal laws, rules, and regulations regarding allowable and unallowable costs.

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 Commission's *Specific Instructions for the Completion of the 2015 24-Hour RCC Cost Report* lists in detail the records that providers must retain, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, loan documents, asset records, inventory records, minutes of board of directors meetings, workpapers used in the preparation of a cost report, trial balances, and cost allocation spreadsheets.

Foster Parent Monitoring

- Title 40, Texas Administrative Code, Section 749.2815, requires child placing agencies to conduct supervisory visits (1) in foster homes on at least a quarterly basis; (2) with both foster parents, if applicable, at least once every six months; and (3) with all household members at least once a year. At least two visits 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.

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

Texas Human Resources Code, Section 42.056, specifies that the following individuals are required to have fingerprint checks: current and prospective employees; current and prospective foster parents; prospective adoptive parents; and individuals who are at least age 14 who are counted in child-to-caregiver ratios, will reside in a prospective adoptive home, have unsupervised access to children, or reside in the facility or family home. Title 40, Texas Administrative Code, Section 745.615, does not require fingerprint checks for frequent visitors.

Title 40, Texas Administrative Code, Section 745.651, specifies the types of criminal convictions that may preclude an individual from being present at a residential care provider. The Department of Family Protective Services details those types of convictions in three charts¹³ that specify whether a

¹³The Department of Family Protective Services publishes three charts every January in the *Texas Register* and posts the charts on its Web site at http://www.dfps.state.tx.us/Child_Care/Child_Care_Standards_and_Regulations/Criminal_Convictions.asp.

conviction permanently or temporarily bars a person from being present at an operation while children are in care, whether a person is eligible for a risk evaluation, and whether a person who is eligible for a risk evaluation may be present at the operation pending the outcome of the risk evaluation. Based on those charts, the following types of criminal convictions from the Texas Penal Code may preclude an individual from being present at a residential care provider:

- Title 4, Section 15.031 (criminal solicitation of a minor).
- Title 5 (offenses against the person). Examples of these offenses include criminal homicide, kidnapping, 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, and sale or purchase of a child.
- Title 7 (offenses against property). Examples of these offenses include arson, robbery, forgery, credit card and debit card abuse, breach of computer security, exploitation of a child, elderly individual, or disabled individual and online solicitation of a minor.
- Title 8 (offenses against public administration). Examples of these offenses include impersonating a public servant, failure to stop or report aggravated sexual assault of a child, and violations of the civil rights of a person in custody.
- Title 9 (disorderly conduct and related offenses). Examples of these offenses include stalking, animal abuse, dog fighting, prostitution-type offenses, obscene displays, and sexual performance by a child.
- Title 10 (offenses against public health, safety, and morals). Examples of these offenses include making a firearm accessible to a child and intoxication-related offenses.
- Title 11 (organized crime). Examples of these offenses include engaging in organized criminal activity and coercing/inducing/soliciting membership in a criminal street gang.
- Any like offense under the law of another state or federal law.

For any felony offense that is not listed in a Department of Family and Protective Services chart and that is within 10 years of the date of conviction or for which a person is currently on parole, the person must have an

approved risk evaluation prior to being present at an operation while children are in care.

Title 40, Texas Administrative Code, Section 745.657, 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, labor trafficking, sex trafficking, emotional abuse, physical neglect, neglectful supervision, or medical neglect.
- Any central registry finding of child abuse or neglect (whether sustained or not) for which 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 745.659, specifies several 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 745.657. The Department of Family and Protective Services will notify the provider in writing:

- Whether the conviction permanently bars a person from being present at an operation while children are in care.
- Whether the conviction temporarily bars a person from being present at an operation while children are in care.
- Whether the provider may request a risk evaluation for a person. If that person is eligible for a risk evaluation, the Department of Family Protective Services will determine whether the person may be present at an operation while children are in care pending the outcome of the risk evaluation.

Payment Rates for 24-hour Residential Child Care Providers

All 24-hour residential child care providers are paid a fixed daily rate for each child placed in their care based on each 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 3 lists the 24-hour residential child care rates for fiscal year 2015 and Table 4 lists the 24-hour residential child care rates for fiscal years 2016 and 2017.

Table 3

24-hour Residential Child Care Daily Payment Rates Fiscal Year 2015			
Child's Service Level Classification ^a	Minimum Daily Rate Paid to Foster Family per Child	Daily Rate Paid to Child Placing Agency per Child	Daily Rate Paid to General Residential Operation per Child
Basic	\$23.10	\$41.94	\$45.19
Moderate	\$40.44	\$76.31	\$103.03
Specialized	\$51.99	\$101.65	\$148.11
Intense	\$92.43	\$186.41	\$260.17
^a Emergency shelter services are also provided at the daily rate of \$122.20.			

Source: The Department of Family and Protective Services.

Table 4

24-hour Residential Child Care Daily Payment Rates Fiscal Years 2016 and 2017			
Child's Service Level Classification ^a	Minimum Daily Rate Paid to Foster Family per Child	Daily Rate Paid to Child Placing Agency per Child	Daily Rate Paid to General Residential Operation per Child
Basic	\$23.10	\$43.71	\$45.19
Moderate	\$40.44	\$76.72	\$103.03
Specialized	\$51.99	\$101.86	\$162.30
Intense	\$92.43	\$186.42	\$260.95
^a Emergency shelter services are also provided at the daily rate of \$129.53.			

Source: The Department of Family and Protective Services.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
15-043	A Report on On-site Financial Audits of Selected Residential Foster Care Contractors	August 2015
14-043	A Report on On-site Audits of Residential Child Care Providers	August 2014
13-048	A Report on On-site Audits of Residential Child Care Providers	August 2013
13-036	An Audit Report on Caseload and Staffing Analysis for Child Protective Services at the Department of Family and Protective Services	May 2013
13-029	An Audit Report on Child Protective Services Funding, Direct Delivery Staff, and Disproportionality Efforts at the Department of Family and Protective Services	April 2013
12-050	A Report on On-site Audits of Residential Child Care Providers	August 2012
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

Management's Responses from Faith Always Inspires True Healing Works Inc.



October 25, 2016

State Auditor's Office
ATTN: Fabienne Robin
P.O. Box 12067
Austin, Texas 78711-2067

FaithWorks! Inc. has made many enhancements to our current agency management, agency fiscal and agency risk operations since July 2016. These changes were implemented immediately following the State Auditor's Office site visit and address all of the recommendations of the State Auditor's Office. It is significant to note, that the agency was both responsive and immediate in modifying agency operations in order to address the 3 key findings and recommendations from the State Auditor's Office.

In terms of agency management, the FaithWorks! Inc. Board of Directors is now led by a new Board Chair who is a former Associate Superintendent with Dallas Independent School District. Her tenured public service experience combined with her professional training, Master of Business Administration and finance expertise have been key elements in restructuring the financial management and supervision of this agency.

In terms of agency fiscal management, the FaithWorks! Inc. Board of Directors advertised, interviewed and selected (3) final candidates to replace the former Chief Financial Officer. The hiring of a Chief Financial Officer is a key element to the reorganization of fiscal operations with FaithWorks! Inc. and will ensure that this agency complies with all cost report requirements and with all fiscal requirements contained in the Department's Minimum Standards for Child Placing Agencies. Further, in addition to replacing the former Chief Financial Officer, this agency now maintains copies of all agency fiscal information and documents in order to have complete and accurate fiscal documentation that fully supports all expenditures recorded in its general ledger and on its cost reports.

Recommendation: The provider did not comply with fiscal requirements in the Department's Minimum Standards for Child Placing Agencies.

In response to the State Auditor recommendations, FaithWorks! Inc. shall comply with all fiscal requirements required in the Department's Minimum Standards for Child Placing Agencies in the following manner:

- First, no later than December 31, 2016 FaithWorks! Inc. shall have selected, hired and trained the agency Chief Financial Officer to oversee all agency fiscal operations.





- The Chief Financial Officer selected shall be a Certified Public Accountant which will ensure that all financial records of Faithworks! Inc. are reviewed by a CPA which will comply with all fiscal requirements in the Department's Minimum Standards for Child Placing Agencies prior to the agency annual review. Further, this will ensure that all financial documents are reviewed according to the requirements contained within the Texas Administrative Code.
- Second, per TAC 749.163, the agency shall continue to contract with an independent Certified Public Accountant in order to annually review the agency financial records.
- The contracted CPA shall perform an agency audit every other year and shall complete an annual financial review during alternating years. These annual reviews and audits shall be conducted by an independent CPA in accordance with Generally Accepted Accounting Principles.
- Third, FaithWorks! Inc. shall review and approve the agency General Ledger each month in order to ensure the maintenance of a complete and accurate financial document that fully supports all agency expenditures.
- Fourth, no later than December 31, 2016, the agency shall contract with an identified Cost Report Professional that is identified, approved and trained through Health and Human Services for the purpose of submitting the agency 2016 Cost Report.
- Fifth, prior to the submission of the 2016 Cost Report, no later than March 5, 2017, FaithWorks! Inc. shall review the 2016 Cost Report in order to ensure its accuracy and completeness.
- Sixth, FaithWorks! Inc. has developed and is in use a new Reimbursement and Expenditure Reporting Form that is consistent with the new Cost Reporting line items. The creation of these new forms ensure that all current agency coding financial documentation is consistent with new Cost Reporting line items.
- Finally, although the agency shall contract for completion and submission of the 2016 Cost Report, agency staff shall also be trained in cost report preparation and will attend the annual training to ensure that the agency cost reports is accurate prior to submission.





Recommendation: The provider should comply with cost report requirements.

In response to the State Auditor recommendations, FaithWorks! Inc. shall comply with cost reporting requirements in the following manner:

- First, this agency currently maintains all accounting records on site in order to support all agency expenditures.
- Second, FaithWorks! Inc. shall review and approve the agency General Ledger each month in order to ensure the maintenance of a complete and accurate financial document that fully supports all agency expenditures.
- Third, no later than December 31, 2016, the agency shall contract with an identified Cost Report Professional that is identified, approved and trained through Health and Human Services for the purpose of submitting the agency 2016 Cost Report.
- Fourth, prior to the submission of the 2016 Cost Report, no later than March 5, 2017, FaithWorks! Inc. shall review the 2016 Cost Report in order to ensure its accuracy and completeness.
- Finally, through the maintenance of on-site agency fiscal records, the agency Board Chairperson, agency CPA and accounting staff are able to ensure that all agency expenditures are complete in order to create a comprehensive worksheet for the reconciliation of agency accounting records for cost reporting.

Finally, in terms of risk management, FaithWorks! Inc. has implemented a Background Check List which identifies all active foster parents, related household hold members, frequent visitors, agency staff, and volunteers in order to ensure that all Background checks are consistent with the Texas Administrative Code.

Recommendation: The provider conducted monitoring visits at the foster homes in accordance with Department requirements; however, it did not maintain lists of active foster parents and their related household members and frequent visitors.

- In response to the State Auditor recommendations, FaithWorks! Inc. currently maintains a list of active foster parents, related household members, volunteers and frequent visitors in the following manner:





- First, the Director of Development established a process in July 2016, a process to track all active foster parents, household members, volunteers and frequent visitors.
- It is significant to note that this process has been implemented since July 2016 and this agency currently maintains a list of all active foster parents, household members, volunteers and frequent visitors on a digital spreadsheet.

FaithWorks! Inc. is appreciative of the State Auditor's Office and its on-site, objective review of agency performance. As noted in the issue rating for presented risks contained within this report, FaithWorks! Inc, has immediately and effectively addressed all three recommendations. To this end, as noted above, we have addressed all perceived risk which may critically impact this agency's ability to effectively administer agency programs and functions. In closing, your diligence in assisting our agency in identifying, assessing and strengthening of potential risk has allowed us to increase agency compliance, further safeguard the State's resources and provide a more efficient and effective service to the citizens of the State of Texas.

Be Blessed!

Kerensa Taylor, MSW, LCPA
Executive Director



Management's Response from Kids At The Crossroads, Inc.



KIDS AT THE CROSSROADS, INC.
AUSTIN: 3505 LARCHMONT COVE AUSTIN, TX 78704 512.346.8315 FAX 512.916.4453
HOUSTON: 5870 HWY 6 NORTH SUITE 309, HOUSTON, TX 77084 281-345-7358 FAX 281-345-7366
BROWNWOOD: P.O. BOX 837, BROWNWOOD, TX 76801 325.938.7366 FAX 325.641.0652
EMAIL; info@katc-tx.org www.kidsatthecrossroads.org

Kids at the Crossroads Management's Response

Overall Response: In late April 2016 the Houston offices of Kids at the Crossroads were flooded. The damage was extensive. Employee, foster parent and children's files were for the most part (95%), not recoverable. For many reasons rebuilding the files and replacing documents turned out to be more challenging than expected. The loss of documentation significantly affected the results of this audit.

Participating in the audit provided a platform for KATC to identify strengths and limitations as well as challenge the organization to enhance our strengths and reduce our limitations. For that, we are grateful.

Recommendations

Consistently perform all required monitoring of foster families. KATC accepts the findings of the SAO as written.

Management's Response

KATC tracks the monitoring of foster homes and families with a Quarterly Visit Form. The form has been revised to comply with DFPS requirements for monitoring foster families. In 2016, additional tracking was added to our database to track the quarterly visits. Every time a Quarterly Monitoring Report is completed, it is tracked as to who was visited and whether the visit was announced or unannounced. An automated alert is generated if a Quarterly has not been completed at the designated time. In addition, a report will be run on a quarterly basis by the Treatment Director with an automated task to be generated for the report to be run. This report shows all homes and status of all Quarterlies that have been completed and the type of Quarterly that has been completed.

Checkboxes have additionally been added to the first page of the quarterly report indicating clearly whether the visit was with the entire family and/or both foster parents. We have also updated our signature page to include all household members and to have them sign when present if of age/ability to do so. The above procedures provide the capability to perform all required monitoring of foster families and homes.

Implementation will be completed by 1/1/17. Child placement management staff will be responsible for implementation.

Recommendations

Consistently perform all required background checks for employees and foster families, KATC accepts the findings of the SAO as written.

Management's Response

Since the audit, KATC has implemented several procedures to ensure we are obtaining the required background checks. With our transition to an electronic database, we are continuing to add in additional features to allow us to more effectively comply with the Texas Administrative Code guidelines.

- a. Currently our database allows us to better track both household members and non-household members (e.g. frequent visitors, respite providers and babysitters) who require background checks by placing these all on one tab of the foster home record. The database includes information such as their relationship, age and when a background check was submitted as well as when a background check clears. The start date and termination date are now tracked within the system as well.
- b. In order to ensure more timely completion of checks, the database puts an item on the task list of the person responsible when background checks are due (tasks show up 45 days in advance) and sends an email to the person responsible 10 days before the expiration date of the check.
- c. In order to better track those who need checks as well as when changes need to be made to this list, a monthly report is being generated based on the current data in our system for each household each month. This report is printed and taken to the monthly meeting with foster parents. The foster parents review the report and indicate if someone should be added or taken off the report and sign off on the report. The report is then scanned and uploaded to our system and any changes are documented in the system to support obtaining the information as noted above and background checks are run/updated as needed. To ensure these reports are completed on a monthly basis, there are due dates associated to them which allow alerts to be sent out as reminders and tasks to appear on the task list in our database. In addition an alert is generated if they are not completed and sent to the Executive Director as well as the person responsible for completing the report.

Implementation will be completed by 1/1/17. Child placement management staff will be responsible for implementation.

Recommendations

Accurately record expenditures on its cost reports in accordance with requirements. KATC accepts the findings of the SAO as written.

Strengthen its controls over financial processes to:

Review expenditures included on its cost reports for allowability.

Obtain required approvals of its employee or foster parent expenditure reimbursements. KATC accepts the findings of the SAO as written.

Prepare its cost report on an accrual basis.

KATC accepts the findings of the SAO as written.

Management's Response

KATC financial policies and procedures have been reviewed and are being updated to reflect GAAP accounting and cost report requirements. This will insure KATC cost report is prepared on an accrual basis. This will also insure issues of accurately recording expenditures and allowability of expenditures are completed correctly. Agency supervisors are currently meeting two times per month to review compliance with all background checks, quarterly evaluations and the required approval of employee and foster parent expenditure reimbursements. Non-payroll expenditures exceeding \$100 will be submitted and approved by the Executive Director.

Implementation will be completed by 1/1/17. KATC Accountant will be responsible for implementation. The Executive Director will approve and sign the Cost Report as well purchases exceeding \$100.00.

Respectfully submitted,

Daniel S. Fry, M.Div., LMFT
Executive Director

Management's Response from Good Shepherd Residential Treatment Centre, Inc.



Good Shepherd Residential Treatment Centre

23538 Coons Rd.
PO Box 1120
Tomball, Texas 77377-1120

Office: (281) 374-0777 Internet: Goodshepherdrtc@aol.com

"Ensure that it accurately records expenditures in its general ledger and on its cost reports in accordance with cost reporting requirements"

Good Shepherd agrees with the recommendation.

Good Shepherd will consult with our CPA management and with the Certified Cost Report Preparer to insure that expenditures in its general ledger and cost reports are in accordance with cost reporting requirements and are accurately reported.

**Personnel: CEO, Comptroller, CPA and Certified Cost Report Preparer.
Time Frame: January 1, 2017**

"Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and cost reports."

Good Shepherd agrees with the recommendation.

Good Shepherd will maintain complete and accurate documentation of all expenditures in its general ledger and cost reports.

**Personnel: Comptroller and Certified Cost Report Preparer.
Time Frame: January 1, 2017**

"Document policies and procedures to maintain sufficient financial documentation and appropriately record information in the general ledger and cost report."

Good Shepherd agrees with the recommendation.

Good Shepherd will develop written policies and procedures to maintain sufficient financial documentation so as to accurately record information in the general ledger and cost report.

**Personnel: CEO, Comptroller, in consultation with Certified Cost Report Preparer.
Time Frame: February 1, 2017**

"Ensure that the preparer of the cost report has all the necessary documents."

Good Shepherd agrees with the recommendation.

**Good Shepherd will provide the cost report preparer with all necessary documents for the accurate preparation of the cost report.
Personnel: Comptroller, Certified Cost Report Preparer.
Time Frame: January 1, 2017**

“Implement a process to review the cost report for accuracy and completeness”

Good Shepherd agrees with the recommendation.

**Good Shepherd shall consult with the cost report preparer during the process of cost report preparation and shall review the cost report for accuracy and completeness before filing and signature of acceptance for final filing.
Personnel: CEO, Certified Cost Report Preparer and Comptroller.
Time Frame: January 1, 2017**

“Obtain an annual review of its financial statement by a Certified Public Accountant as required by Title 40, Texas Administrative Code, Section 748.163”

Good Shepherd agrees with the recommendation.

**Good Shepherd shall have an annual review by a Certified Public Accountant.
Time Frame: Our financial year ends December 31, 2016; we will submit all financial records required for a review to a Certified Public Account for the review process and its completion as it produced and forwarded to Good Shepherd by the Certified Public Accountant.
Personnel: CPA
Time Frame: January 1, 2017**

“Perform background checks for employees within the required time fame stated in the Texas Administrative Code.

Good Shepherd agrees with the recommendation:

**Good Shepherd will perform background checks for employees within the required time frame.
Personnel: Facility Manager
Time Frame: Immediately**

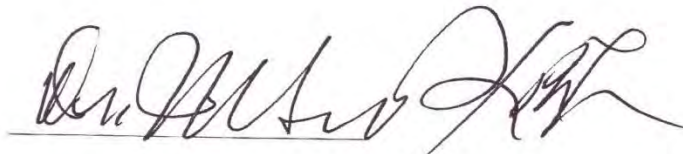
“Develop documented procedures for following up on fingerprint background check renewal results”

Good Shepherd agrees with the recommendation:

Good Shepherd will develop written procedures for follow up background renewal results.

**Personnel: Facility Manager, Texas State Background Check Unit, Austin, Texas
Licensing Representative, Houston, Texas.**

Time Frame: December 1, 2016



Dr. J. Charles Hinds, CEO
Good Shepherd Residential Treatment Centre, Inc.
Tomball, Texas

Management's Response from Guiding Light Rtc

Guiding Light Residential Treatment Center
17603 Tucker Place
San Antonio, Texas 78221
Office: 210-627-2187 Fax: 210-627-2191

October 25, 2016

State Auditor's Office
ATTN: Fabienne Robin
P.O. Box 12067
Austin, Texas 78711-2067

Subject: Guiding Light Residential Treatment Center Audit Responses

1) Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and costs reports.

Response:

Effective October 1, 2016 all documentation for expenditures will be provided to GL's accountant and cost report preparer. Documents will be provided to the accountant monthly and to the cost preparer at year end to assist in preparation of the annual report.

Implementation effective 4th Quarter 2016

Responsibility –CEO
Sr. Executive Director

(2) Prepare its cost report on an accrual basis.

Response:

Cost report will be prepared on an accrual basis. Guiding Light will request acknowledgement from both the company accountant and cost report preparer to review requirements and ensure compliance.

Acknowledgement completed by December 31, 2016

Responsibility –Sr. Executive Director

(3) Appropriately report all related-party transactions in accordance with cost reporting requirements.

Response:

Guiding Light will fully comply with Title 1, Texas Administrative Code, Section 355.102 (i)(6). To ensure future compliance Guiding Light will disclose both personnel and business entities as identified by the

State Auditors. A review of all potential transactions will be conducted with the cost report preparer prior to completion and submission of the annual cost report.

Implementation – Effective with 2016 Cost Report Preparation
Responsibility –Sr. Executive Director

(4) Strengthen its controls over financial processes including:

(a) Providing its external accountant with all source documentation to prepare the general ledger.
Effective October 1, 2016 Guiding Light will submit monthly documentation of every expense to the accountant and a copy of the monthly bank reconciliation. All documentation will be completed and submitted by the 20th of the following month.

Implementation – November 20, 2016
Responsibility –Sr. Executive Director
Payroll/AP Specialist

(b) Documenting policies and procedures on asset management.

Guiding Light will develop a comprehensive asset management policy and implement by January 1, 2017. Guiding Light will purchase QuickBooks software to assist in execution of this policy. Guiding Light will review this policy with the company accountant to ensure it meets Generally Accepted Accounting Principles (GAAP). This policy will include the following: Annual Physical Inventory Process; Purchase of Equipment/Furniture; and Risk Analysis.

Implementation- January 1, 2017
Responsibility –Sr. Executive Director

(c) Obtaining an annual review of its financial statements as required by Title 40, Texas Administrative Code, Section 748.163.

Guiding Light will have a third party annual review of its financial statements completed prior to the completion of the annual Cost Report.

Implementation – January 1, 2017
Responsibility-CEO

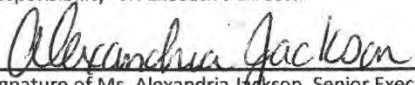
(5) Background Checks Testing.

Response:

Guiding Light will ensure all follow ups are completed on fingerprint background check renewal results. Guiding Light will complete all background check renewals on an annual basis. The backgrounds will be completed no later than February 15th of each year. Guiding Light will print each background and place it in each employee file as they come in. The Guiding Light email will be monitored daily to ensure the background checks has been completed. If a background check is not completed within 10 business

days, then Guiding Light will contact our DFPS Background Check Licensing Representative for assistance regarding the result of the background check.

Implementation-January 1, 2017
Responsibility- Sr. Executive Director



Signature of Ms. Alexandria Jackson, Senior Executive Director

10.25.16

DATE

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Otto, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Mr. Charles Smith, Executive Commissioner

Department of Family and Protective Services

Mr. Henry "Hank" Whitman, Jr., Commissioner

Board Members and Executive Director of the Following Providers Audited

Faith Always Inspires True Healing Works Inc.

Good Shepherd Residential Treatment Centre, Inc.

Guiding Light Rtc

Kids At The Crossroads, Inc.



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