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An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

October 2021

Report No. 22-006

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Overall Conclusion

Of the five residential child care contractors (providers) audited, two providers—Children's Hope Residential Services and ACH Child and Family Services' Residential Treatment Center—had financial controls in place to assist their operations in maintaining a sound fiscal basis. The five providers audited comprise three child-placing agencies and two general residential operations:

- Hope Rising, a child-placing agency.
- City of Hope Missions, a general residential operation.
- The Children's Shelter of San Antonio, a child-placing agency.
- Children's Hope Residential Services, a child-placing agency.
- ACH Child and Family Services' Residential Treatment Center, a general residential operation.

The other three providers audited—Hope Rising, City of Hope Missions, and The Children's Shelter of San Antonio—had weaknesses or significant weaknesses in controls over their financial processes. As a result, those providers did not always accurately report the funds they expended providing 24-hour residential child care services for fiscal year 2019 and fiscal year 2020.

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:

- **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.
- **Child-placing agencies**, which place or plan for the placement of a child in an adoptive home or other residential care setting.

During fiscal year 2020, the Department had contracts with 217 general residential operations or child-placing agencies to provide residential child care on a 24-hour basis.

The Department received approximately $540 million for providing services to 46,207 children in foster care during fiscal year 2020.

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 for the Department.

Sources: The Health and Human Services Commission's *2019 Cost Report Instructions for 24RCC* and *2020 Cost Report Instructions for 24RCC*; the Department; and *An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors* (State Auditor's Office Report No. 20-007, October 2019).

Foster Parent Monitoring and Payments

The three child-placing agencies audited did not always conduct supervisory visits of foster homes in accordance with all Department of Family and Protective Services (Department) requirements.

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

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

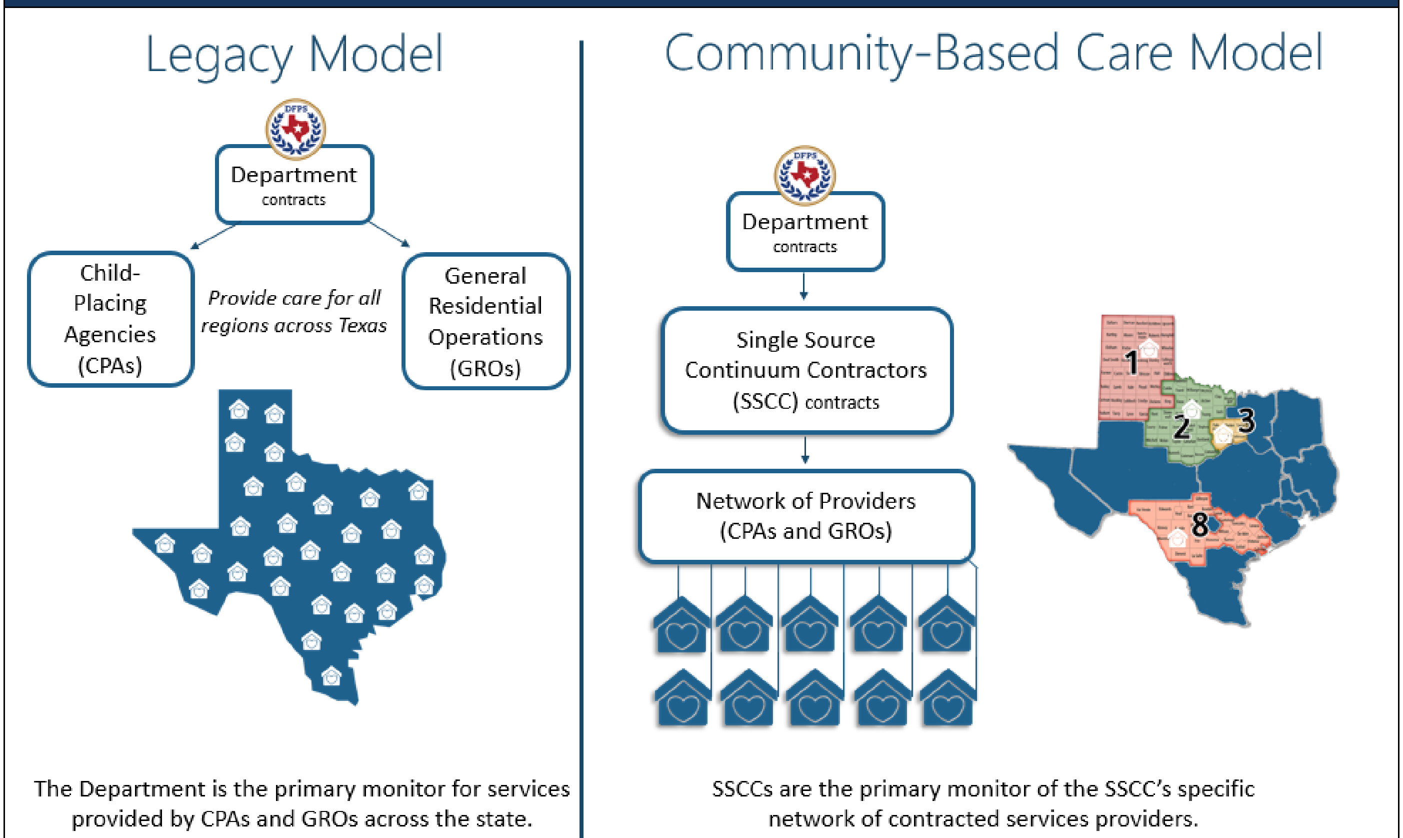
In addition, two of the three child-placing agencies—Hope Rising and Children's Hope Residential Services—did not always ensure that foster parents were paid in accordance with Department requirements. The other child-placing agency, The Children's Shelter of San Antonio, paid its foster parents the correct amount according to each child's level of care and days of service, as required.

Foster Care Models

The Department oversees children in the State's care through two different child care models: (1) the legacy model and (2) the Community-Based Care model (see Figure 1). Four of the providers audited follow the legacy foster care model, while ACH Child and Family Services' Residential Treatment Center follows the Community-Based Care model.

Figure 1

Child Care Models for Children in the State's Care



Source: Based on information from the Department.

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/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating [a]
1-A	Hope Rising Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Reports for Fiscal Years 2019 and 2020	Priority
1-B	Hope Rising Did Not Consistently Comply With All Foster Home Monitoring Requirements	High
2	City of Hope Missions Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Also Caused It to Report Errors in Its Cost Reports for Fiscal Years 2019 and 2020	Priority
3-A	The Children's Shelter of San Antonio Had Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Reports for Fiscal Years 2019 and 2020	High
3-B	The Children's Shelter of San Antonio Did Not Consistently Comply With All Foster Home Monitoring Requirements	High
4-A	Children's Hope Residential Services Had Controls Over Its Financial Processes; However, It Should Strengthen Its Processes Over Cost Report Preparation	Medium
4-B	Children's Hope Residential Services Did Not Consistently Comply With Some Foster Home Monitoring Requirements	Medium
5	ACH Child and Family Services' Residential Treatment Center Had Controls Over Its Financial Processes	Low

[a] A chapter/subchapter 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/subchapter 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/subchapter 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 the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

Auditors communicated other, less significant issues separately in writing to each provider's management.

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 agreed with the recommendations addressed to them in this report.

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.

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 for the Department.

The scope of this audit included the cost reporting periods for fiscal years 2019 and 2020 for five providers of 24-hour residential child care services for the Department. The scope also included a review of significant internal control components related to the providers' financial and foster parent monitoring processes.

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Detailed Results

Chapter 1

Hope Rising, A Child-Placing Agency

Hope Rising Background Information [a]	
Location [b]	Brenham, TX
Contract services audited	Child-placing agency
Year permit was issued to provider	2018
Number of children served - 2019	35
Number of children served - 2020	31
Total revenue from the Department for child-placing agency services	$573,131
Total expenditures reported on 2019 cost report	$1,101,659
Total expenditures reported on 2020 cost report	$1,910,525
Federal tax filing status	Non-Profit
Number of staff as of December 31, 2018	16

[a] From January 1, 2019, through December 31, 2020.

[b] The provider was located here for the entire scope of the audit and relocated to Houston in July 2021.

Sources: Hope Rising, the Department, and the U.S. Internal Revenue Service.

Hope Rising (provider), a child-placing agency, had significant weaknesses in its controls over its financial processes, such as a lack of review and approvals of expenditures and no policies and procedures for key financial areas. This resulted in a lack of supporting documentation for transactions and misclassified information in the provider's general ledger. As a result, Hope Rising's cost reports for fiscal years 2019 and 2020 contained significant errors.

The provider should (1) strengthen its processes to ensure that it maintains adequate documentation of financial and personnel records, (2) develop, document, and implement financial policies and procedures to help strengthen its oversight of expenditures, (3) strengthen controls over financial processes, and (4) comply with cost reporting requirements.

In addition, the provider did not always pay foster parents in accordance with Department of Family and Protective Services' (Department) requirements or conduct and adequately document foster home monitoring visits as required.

Child-placing agencies are required to comply with the Department's *Minimum Standards for Child Placing Agencies* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 749. Those *Minimum Standards* establish requirements for financial processes, as well as the monitoring of foster parents.

Chapter 1-A

Hope Rising Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Reports for Fiscal Years 2019 and 2020

Chapter 1-A Rating:
Priority [1]

The provider had significant weaknesses in its financial controls, which resulted in errors in its cost reports for fiscal years 2019 and 2020 and increases the risk that it will not operate on a sound fiscal basis. (See text box for information about the fiscal requirements for child-placing agencies.) Specifically, the provider:

Fiscal Requirements for Child-Placing Agencies

Title 26, Texas Administrative Code, Section 749.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner; (2) paying foster parents in compliance with the provider's agreement with the parents; and (3) making sure the needs of children in the provider's care are being met. It also requires providers to maintain complete financial records and make available for review (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

- Did not have adequate review processes or maintain adequate supporting documentation for expenditures. Without that documentation, the provider cannot verify that the related entries in its general ledger are accurate.
- Did not obtain required reviews of its financial records or demonstrate that it had the reserved funds required by the Department's *Minimum Standards*.
- Lacked written policies and procedures for any of its key financial processes during fiscal years 2019 and 2020.
- Submitted its cost reports for the wrong time periods and lacked the crosswalk needed to verify the accuracy of those reports. In addition, the provider misclassified payroll expenditures in its general ledger, resulting in a significant amount of errors in its cost reports.
- Did not consistently pay its foster parents in accordance with the Department's requirements.

The provider lacked adequate oversight processes over its financial information.

Expenditure review. The provider did not have an effective process in place to review expenditures prior to payment or entry into the general ledger. The provider was missing documentation, such as receipts or invoices, needed to

[1] The risk related to the issues discussed in Chapter 1-A is rated as Priority because they 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.

verify the accuracy for both non-payroll and payroll expenditures. For example:

- For 15 (23 percent) of 66 non-payroll expenditures tested, the provider was unable to provide any supporting documentation. For 4 of the expenditures tested, the provider had some documentation, but it was not sufficient to support the cost and/or type of expenditure.

- For 55 (93 percent) of 59 applicable payroll transactions tested, the provider did not have support for all charges. While the provider had some support for the payroll portion of the expenditures, it did not have documentation for the non-time charges. Those charges included items such as mileage and cell phone reimbursements to employees.

The Department's *Minimum Standards* require providers to maintain support for information submitted on the cost report. Without supporting documentation, auditors could not determine whether the provider correctly recorded and classified those expenditures in its general ledger and accurately reported them in its cost reports.

Purpose of a Cost Report

The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.

Source: The Health and Human Services Commission.

In addition, for expenditures that did have support, the provider did not verify they were classified correctly in its general ledger. Specifically:

- Three (6 percent) of the 51 non-payroll expenditures tested were not correctly classified in its general ledger.

- Forty nine (72 percent) of 68 payroll transactions tested were not correctly classified in its general ledger. For example, the provider misclassified cell phone reimbursements as mileage charges.

Also, for 3 (4 percent) of 68 payroll expenditures tested, the payment amount/rate was not supported by the information in the employee's personnel file. Further, for 3 payroll expenditures tested, the employees approved their own timesheets.

In addition, while the provider established an informal process to review and reconcile bank statements, it did not always follow that process. For example, the provider did not complete 3 (7 percent) of 41 bank reconciliations tested, and for 5 (13 percent) of the 38 remaining reconciliations that were completed, the provider did not perform appropriate follow-up and document when differences were identified. Consistently performing the bank reconciliations and following up on issues identified may help the provider identify errors in its general ledger.

By not having accurate information in the general ledger, the provider cannot rely on it when making financial decisions. In addition, the misclassified expenditures in its general ledger contributed to inaccurate reporting on the provider's cost reports.

External reviews and documented policies. The provider did not have an annual review of its financial records by a certified public accountant or documentation showing it had at least three months of operating expenses in reserve funds as required by the Department's *Minimum Standards*. In addition, the provider did not have written policies and procedures for any of its key financial processes for fiscal years 2019 and 2020. The provider did not establish written policies and procedures until March 2021. Detailed policies and procedures are important to help the provider comply with requirements and maintain consistency in the performance of key processes by assisting employees in understanding those processes and holding these employees accountable for following them.

The provider did not follow requirements for submitting its cost reports for fiscal years 2019 and 2020.

The provider did not follow the Health and Human Services Commission's (Commission) *2019 Cost Report Instructions for 24 RCC* and *2020 Cost Report Instructions for 24 RCC* when preparing its cost reports for fiscal years 2019 and 2020.

Incorrect time period. The provider reported both its fiscal year 2019 and fiscal year 2020 cost reports for the incorrect time periods. The cost report instructions require providers to report based on their fiscal year. However, the provider reported both cost reports based on the calendar years. As a result, auditors could not validate the totals reported on the cost reports.

Cost Report Testing

To test compliance with reporting requirements, auditors selected 10 line items totaling $704,783 in the provider's fiscal year 2019 cost report and 10 line items totaling $926,873 in its fiscal year 2020 cost report.

In addition, auditors tested 32 non-payroll expenditures totaling $89,072 that had supporting documentation and were included in the provider's cost reports.

Inaccurate line items. Auditors compared the cost report totals to the provider's financial information from the same time period. For both the 2019 and 2020 cost reports, none of the 20 cost report line items tested were accurately reported, primarily due to the misclassified expenditures from the provider's general ledger. In addition, 10 (30 percent) of 33 non-payroll expenditures tested were unallowable and were not accurately reported in the cost reports. As a result, the provider underreported its 2019 cost report by $29,552 and overreported its 2020 cost report by $170,577 for the line items tested.

Lack of a crosswalk. The Commission's cost report instructions also require a provider to submit a crosswalk reconciliation worksheet with its cost report. However, the provider did not maintain any of the supporting documentation it used to prepare its 2019 cost report and its reconciliation worksheet for its 2020 cost report did not tie to the provider's supporting financial details. The reconciliation worksheet should serve as a crosswalk between the expenditures recorded in a provider's general ledger and the expenditures in the cost reports. In addition, the provider did not have a review process to verify that the cost report is complete and accurate prior to submitting it.

Related-party payments not reported. The provider also did not report related-party payments for subcontractor services on its 2019 and 2020 cost reports as required. Auditors determined that the provider should have reported related-party payments of $11,091 for fiscal year 2019 and $2,195 for fiscal year 2020.

The provider did not consistently pay foster parents in accordance with requirements.

The provider did not (1) always reimburse foster parents the correct amounts based on each child's level of care and days of service as required or (2) maintain adequate support for those payments in its general ledger. (See Appendix 5 for information on the daily rate paid to foster families per child.) Specifically:

- Five (9 percent) of 58 foster parent payments tested were not calculated correctly, resulting in a $646 overpayment.
- Twelve (21 percent) of the 58 foster parent payments tested did not have adequate supporting documentation.

The provider did not have a process in place, such as a reconciliation or a review process, to verify the number of days of service and/or the rate of service. In addition, the provider had not updated its policies regarding payment rates since 2017, and the rates in its policies were lower than the minimum pass-through amounts set by the Department.

The provider did not have adequate controls to ensure that it complied with other requirements in the Department's *Minimum Standards*.

Conflicts of interest. The provider did not have adequate controls to ensure that board members were free from conflicts of interest as required by the Department's *Minimum Standards*. Specifically, during fiscal years 2019 and 2020, 3 (38 percent) of the 8 board members did not sign the provider's conflict of interest acknowledgement form as required by provider policy.

Auditors did not identify any conflicts of interest related to the current Board Members at the provider.

Personnel records. The provider did not maintain adequate support for its personnel records. Specifically, for 23 (92 percent) of 25 personnel files tested, the provider did not maintain all of the information required by the Department's *Minimum Standards*. For example, four files did not have documentation demonstrating that the employee met minimum qualifications for the position, including the provider's former executive director. The provider also did not have policies for maintaining this documentation, as is required by the Department's *Minimum Standards.*

Information technology controls. The provider did not have adequate user access controls over key information systems: the provider allowed the use of generic accounts and did not update their systems to remove login access for former employees.

Recommendations

The provider should:

- Update and implement detailed policies and procedures for oversight of key financial processes.
- Retain all required documentation for non-payroll and payroll expenditures and retain required documentation in employee personnel files.
- Prepare its cost report in accordance with requirements.
- Develop and implement a process to maintain all supporting documentation related to expenditures on its cost report.
- Reimburse its foster families in accordance with Department requirements.

Management's Response

Hope Rising agrees with the recommendations offered by the State Auditor's Office in this report. In fact, the Board of Directors was aware of many of the issues raised in the audit and had removed the Executive Director for improper, inappropriate and non-compliant behaviors in August 2020, eight months before being notified of the state audit. The fiscal years under audit, July 2018 through June 2020, were prior to the Executive Director's *termination and prior to the Board's bringing in considerable resources to repair the damage caused by the former leader's tenure.*

As a result of the Board's actions during fiscal year 2020-21, all administrative staff were replaced and new policies and procedures regarding financial transactions and employee conduct were implemented. Specifically, the following steps have already been taken:

- *A detailed financial policy and procedure manual was created and approved by the Board of Directors.*
- *Bank reconciliations are prepared monthly and approved by our Board Treasurer and CEO.*
- *Employee personnel files are organized and up-to-date. A checklist for required documentation is utilized when on-boarding new employees.*
- *An employee handbook was created and approved by the Board of Directors that supports the new payroll and non-payroll systems referenced below.*
- *A new system requiring documentation and proper approval for payroll and non-payroll expenditures has been implemented which will also provide the necessary support for the expenditures on the cost report.*
- *Qualified accounting professionals have been retained to assure that the cost report will be prepared in accordance with requirements, including the development of a crosswalk.*
- *Our cost report reporting year has been corrected.*
- *A new system is in use to assure payments to foster families are in line with the Department of Family and Protective Services requirements.*

Hope Rising has made great strides in improving controls over financial transactions and proper reporting since the termination of the prior Executive Director. We are currently planning for a review of the 2020-21 fiscal year financial statements by a well-respected nonprofit audit firm to confirm the outcome of the Board's compliance efforts. The current CEO is responsible for ensuring the correct cost reporting process is followed and the report is submitted on time as well as ensuring the review of 2020-2021 fiscal year financial statements are reviewed by an audit firm within four months of the posting of this audit.

Chapter 1-B

Hope Rising Did Not Consistently Comply With All Foster Home Monitoring Requirements

Chapter 1-B Rating:

High [2]

Hope Rising did not consistently conduct supervisory visits in accordance with all requirements in Title 26, Texas Administrative Code, Section 749.2815. (See text box for information about monitoring visit requirements.) Specifically, the provider:

- Did not perform a required quarterly visit for 7 (64 percent) of 11 foster families tested.
- Did not conduct a visit with all household members at least once a year for 1 (13 percent) of 8 applicable foster families tested.
- Did not make at least two unannounced visits for 3 (75 percent) of 4 applicable foster families tested.

Monitoring Visit Requirements

Title 26, Texas Administrative Code, Section 749.2815, requires child-placement staff to conduct supervisory visits: (1) in the foster home at least quarterly, (2) with both foster parents, if applicable, at least once every six months, and (3) with all household members at least once a year. It also requires at least two supervisory visits to be unannounced. Additionally, providers must document who was present during the visit, specific issues identified, and any rules evaluated during the visit, as well as obtain the signatures of each foster parent present for the visit and the child-placement staff conducting the visit.

In addition, the Department's *Minimum Standards* require signatures of all foster parents present for the monitoring visit. However, the provider's foster home monitoring form did not require foster parent signatures. Thus, for all 11 foster families tested, the foster parent's signature was not provided on the monitoring form. Having the form require those signatures would establish a means to ensure compliance with the Department's *Minimum Standards*.

The provider did not have adequate processes to ensure that it complied with Department requirements for foster parent monitoring, such as a review of or a schedule for monitoring. Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. The lack of consistency in conducting and adequately documenting the results of all monitoring visits weakens the provider's ability to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

[2] The risk related to the issues discussed in Chapter 1-B is rated as High because they 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.

Recommendation

The provider should improve its processes for foster home monitoring to ensure that it complies with all monitoring requirements, including obtaining all required signatures on monitoring forms.

Management's Response

Hope Rising also agrees with the recommendations offered by the State Auditor's Office in this section of the report. Beginning in August 2020, after the Executive Director's termination, the following initiatives were put in place:

- *A shared calendar documenting the timing of case managers' required visits for the year, including quarterly supervisory visits; annual visits with all family members and unannounced visits.*
- *Adding a line for foster parents' signature(s) to the Hope Rising monitoring forms.*

Hope Rising's current LCPAA is responsible for ensuring foster home monitoring requirements are met.

Chapter 2

City of Hope Missions Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Also Caused It to Report Errors in Its Cost Reports for Fiscal Years 2019 and 2020

City of Hope Missions Background Information [a]	
Location	Tyler, TX
Contract services audited	General residential operation
Year permit was issued to provider	2018
Number of children served - 2019	58
Number of children served - 2020	59
Total revenue from the Department for general residential operations services	$1,823,495
Total expenditures reported on 2019 cost report	$1,089,078
Total expenditures reported on 2020 cost report	$1,285,293
Federal tax filing status	S Corporation
Number of staff as of December 31, 2020	25

[a] From January 1, 2019, through December 31, 2020.

Sources: City of Hope Missions, the Department, and the U.S. Internal Revenue Service.

Chapter 2 Rating:

Priority[3]

City of Hope Missions (provider), a general residential operation, had significant weaknesses in its controls over its financial processes, including inadequate support for its financial records, a lack of oversight, weaknesses in processing expenditures, and inadequate policies and procedures.

Without adequate financial controls, the provider increases the risk that it will not operate on a sound fiscal basis.

Fiscal Requirements for General Residential Operations

Title 26, Texas Administrative Code, Section 748.161, requires providers to establish and maintain their operation on a sound fiscal basis, including: (1) paying employees in a timely manner and (2) making sure the children's needs are being met. It also requires providers to maintain complete financial records.

General residential operations are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for General Residential Operations* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 748. (See text box for information about the fiscal requirements for general residential operations.) Those *Minimum Standards* relate to financial processes at the provider.

The provider did not maintain adequate documentation to support its general ledger.

The provider relied on an external accountant to prepare its general ledger. However, the provider's external accountant used only limited supporting documentation, including bank statements and credit card statements, to create the provider's general ledger. Bank and credit card statements did not always have detailed information regarding (1) the item(s) purchased, (2) the individual who made the purchase, (3) and whether the purchase was a

[3] The risk related to the issues discussed in Chapter 2 is rated as Priority because they 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.

business expense. In addition, the provider did not maintain adequate supporting documentation for individual transactions. Specifically:

- **Non-Payroll Expenditures**. The provider was unable to provide supporting documentation for 58 (73 percent) of 80 non-payroll expenditures tested.
- **Payroll Expenditures**. The provider was unable to provide supporting documentation for 13 (20 percent) of 65 applicable payroll expenditures tested. For 7 of those payroll items tested, the documentation was not detailed enough to show whether the expense was reported in the correct fiscal year. In addition, the provider did not have documentation to support the employee pay rate for 56 (85 percent) of 66 applicable payroll expenditures tested.

As a result, the provider's general ledger did not contain sufficient details about the expenditures, which contributed to the misreported costs in both the provider's general ledger and cost reports for fiscal years 2019 and 2020 discussed below. Title 1, Texas Administrative Code, Section 355.105, requires providers to ensure that records are accurate and sufficiently detailed to support the legal, financial, and other statistical information contained in their cost reports.

Further, 33 (92 percent) of 36 personnel files tested did not contain all of the information required by the Department's *Minimum Standards*. For example: (1) 9 files did not have documentation demonstrating that the employees met minimum qualifications for the positions, (2) 21 files did not contain documented performance reviews, and (3) 1 file did not have a copy of the employee's driver's license.

The provider did not adequately oversee its financial processes to ensure that it operated on a sound fiscal basis.

As discussed above, the provider used an external accountant to prepare its general ledger and the provider did not exercise any oversight of the external work performed. Specifically, the provider did not obtain access to its general ledger. As a result of this, the provider did not (1) review the general ledger its external accountant prepared to verify that information was correct or (2) perform independent reviews of the external accountant's bank reconciliations.

The provider did not have a formal agreement, such as a contract, with the external accountant to outline key terms, such as the pricing, the term of the agreement, and responsibilities of the accountant. While not required, a contract would help ensure that both parties had a clear understanding of requirements and expectations, such as allowing the provider to monitor the external accountant's services and maintain access to the provider's financial information.

In addition, the provider did not create a budget for fiscal years 2019 and 2020 as required by the Department's *Minimum Standards*. A budget can help the provider ensure that it has sufficient funds on hand to cover anticipated expenses, which assists in maintaining its operations on a sound fiscal basis.

The provider had weaknesses in processing expenditures.

The provider did not have a formal process in place to review and approve non-payroll expenditures. In addition, the provider is not consistently reviewing and approving support for payroll transactions. Specifically:

- **Non-Payroll Expenditures.** Seven (32 percent) of 22 non-payroll expenditures tested that had supporting documentation available were not accurately reported in the provider's general ledger. A review and approval process would help the provider verify that the information in the general ledger was accurate.

- **Payroll Expenditures.** The provider asserted that they required certain approval for payroll transactions, but did not have a documented process for this. For 11 (17 percent) of 65 payroll transactions tested, the provider did not document those approvals.

The provider did not have adequate written financial policies and procedures.

The provider did not have adequate policies and procedures for its key financial processes. For example, the provider did not have written policies and procedures that contained guidance for reviewing and approving financial information, including expenditures and documentation requirements for expenditures. While it had policies that described payroll processes, those policies did not list the approvals required.

Additionally, the provider lacked adequate documented policies to meet the Department's *Minimum Standards* for addressing potential conflicts of interest and protecting key information technology. Detailed policies and procedures are important to help the provider comply with requirements and maintain consistency in the performance of key processes by assisting employees in understanding those processes and holding them accountable for following them.

The provider reported errors on its cost report.

The control weaknesses of the provider's financial processes contributed to the provider reporting unallowable non-payroll expenditures and misclassifying expenditures on its cost reports for fiscal years 2019 and 2020 in line items tested. (See text box and Appendix 1 for details about the samples selected for testing and sampling methodology.) Specifically:

- **Unallowable Expenditures.** The provider reported $4,250 in costs that were unallowable on its fiscal year 2019 cost report and $3,702 on its fiscal year 2020 cost report. Those unallowable costs included sales tax, gift cards, and unsupported expenditures. (See text box for information about the purpose of a cost report.)

- **Misclassified Expenditures.** The provider misclassified $173,018 in allowable expenditures on its fiscal year 2019 cost report and $196,622 in allowable expenditures on its fiscal year 2020 cost report. Those errors did not change the total amount of allowable and supported expenditures that the provider reported; however, misclassifications could misrepresent amounts for reimbursement from the U.S. Department of Health and Human Services under Title IV-E programs.

Related Parties. The provider also did not ensure that it reported all related-party transactions and expenditures as required. Specifically, it did not disclose related-party loans of $167,650 on its fiscal year 2019 cost report, and a loan of $68,000 on its fiscal year 2020 cost report. In addition, the provider did not have any documentation for one related-party loan it made for fiscal year 2019 for $1,500. However, this loan was repaid, with no interest, to the provider within that same fiscal year.

Cost Report Testing

To test compliance with reporting requirements, auditors selected 11 line items totaling $652,122 in the provider's fiscal year 2019 cost report and 11 line items totaling $540,763 in its fiscal year 2020 cost report.

In addition, auditors tested 18 non-payroll expenditures totaling $8,192 that had supporting documentation and were included in the provider's cost reports.

Purpose of a Cost Report

The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.

Source: The Health and Human Services Commission.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation that supports all financial transactions.
- Perform adequate oversight over its financial processes and reporting, including creating an annual budget and obtaining access to and performing reviews of its financial records.
- Update its written policies and procedures to include levels of review for key financial processes and create and implement information technology policies and procedures.
- Prepare its cost report in accordance with requirements.

Management's Response

Findings & recommendations	***agree/ disagree***	***responsible person***	***corrective actions***	***date of implementation***
Significant weakness in Control Of financial process	*Agree*	*Officer/Treasurer*	*Recommended by the board City Of Hope created 3 Officers* *President, Secretary & Treasurer* *-Treasurer will put process in place for weekly & monthly review on the financial process.*	*Real-time corrections. 11-1-2021*
Inaccurate classification/reporting of funds / cost report	*Agree*	*CPA*	*The current CPA will work on the recommendation & review all of 2021 financial expenditure to correct the miscoding and put process in place to avoid transactions with unsupported expenditure* *City Of Hope & its board will review the process and overview the ability of our current CPA for potential hiring of Industry specific CPA firm.*	*Real-time corrections & implementation and process in place by 11-1-2021*

Findings & recommendations	***agree/ disagree***	***responsible person***	***corrective actions***	***date of implementation***
Did not maintain adequate documentation to support its General ledger	*Agree*	*Internal Control team (consist of Treasurer, Executive D Administrator or designee Facility Manager & Single point Purchase in Charge*	*ED, Treasurer will have access on the QB file and ledgers for real-time monitoring of the financials*	*11/1/2021*
Payroll Expenditure -Unable to provide sufficient	*Agree*	*Administrator or designee, HR Team & ED*	*Implemented an ongoing Audit for new hires & existing staff for all Supporting documents & put Process in place to review within 24 hours of new hire for all required documents*	*10/1/2021*
Lack of financial process overview	*Agree*	*Board, Treasurer & ED*	*Retain access on QB General ledger and real-time Oversee & review*	*11/1/2021*
In-adequate financial policies & Procedures	*Agree*	*Board, Officers, ED*	*currently formulating & reviewing policies for Implementation*	*12/1/2021*
Annual Budget	*Agree*	*Board, Officers, ED, CPA*	*Established process in place to create annual Budget for a Minimum of 2 years*	*10/1/2021*
IT Policy & Procedures	*Agree*	*Board, ED, Administrator IT team.*	*Will create & implement policies & procedures on data security, storage and maintaining the process*	*12/1/2021*

Chapter 3

The Children's Shelter of San Antonio, A Child-Placing Agency

The Children's Shelter of San Antonio's Background Information [a]	
Location	San Antonio, TX
Contract services audited	Child-placing Agency
Year permit was issued to provider	2005
Number of children served - 2019	154
Number of children served - 2020	19
Total revenue from the Department for child-placing agency services	$1,510,907
Total expenditures reported on 2019 cost report	$2,328,322
Total expenditures reported on 2020 cost report	$2,249,941
Federal tax filing status	Non-Profit
Number of staff as of June 30, 2020	296

[a] From July 1, 2018, through June 30, 2020.

Sources: The Children's Shelter of San Antonio, the Department, and the U.S. Internal Revenue Service.

The Children's Shelter of San Antonio (provider), a child-placing agency, had weaknesses in the controls over its financial processes, including insufficient review and approval of expenditures and a lack of controls related to its cost reporting process. As a result, the provider did not always accurately report the funds it expended for providing 24-hour residential child care services for fiscal years 2019 and 2020.

The provider ensured that foster parents were paid in accordance with Department of Family and Protective Services (Department) requirements; however, they did not always conduct foster home monitoring visits as required.

The provider should strengthen its processes to ensure adequate documentation is kept for all expenditures and prepare its cost reports in accordance with requirements. The provider should also improve its foster home monitoring process so that it complies with all monitoring requirements.

Child-placing agencies are required to comply with the Department's *Minimum Standards for Child Placing Agencies* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 749. Those *Minimum Standards* relate to financial processes, as well as the monitoring of foster parents.

Chapter 3-A Rating:

High [4]

Chapter 3-A

The Children's Shelter of San Antonio Had Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Reports for Fiscal Years 2019 and 2020

The provider had weaknesses in the controls over its financial processes, including lack of supporting documentation for financial and personnel records, insufficient review and approval of expenditures, and an inadequate process for cost reporting. Without adequate financial processes, the provider increases its risk that it will not operate on a sound fiscal basis. (See text box for information about the fiscal requirements for child-placing agencies.)

> **Fiscal Requirements for Child-Placing Agencies**
>
> Title 26, Texas Administrative Code, Section 749.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner; (2) paying foster parents in compliance with the provider's agreement with the parents; and (3) making sure the needs of children in the provider's care are being met. It also requires providers to maintain complete financial records and make available for review (1) an annual review of financial records; or (2) proof of reserve funds equal to at least three months of operating expenses.

For all 65 foster parent payments tested, the provider paid its foster parents the correct amount according to each child's level of care and days of service as required by the Department. The payments were adequately supported, and the provider verified the foster homes prior to payment.

The provider did not maintain adequate support for financial and personnel records.

The provider did not maintain support for all of its non-payroll expenditures as required by the Department's cost report instructions. Specifically, the provider did not have supporting documentation for 8 (10 percent) of 82 non-payroll expenditures tested. Without that documentation, auditors could not determine whether those 8 expenditures were allowable, reported in the appropriate year, accurately coded in the provider's general ledger, or correctly classified on the provider's cost report.

Additionally, 7 (18 percent) of 39 personnel files tested did not contain all required information. For example, some personnel files did not contain documentation showing (1) that the employee met the minimum qualifications for the position or (2) the date of an employee's separation. For 1 (5 percent) of 22 board members, the provider did not maintain a signed conflict of interest annual disclosure statement. The remaining 21 board members did not sign a conflict of interest annual disclosure statement until after auditors requested copies of the statements.

[4] The risk related to the issues discussed in Chapter 3-A is rated as High because they 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.

The provider did not consistently review and approve its expenditures or correctly code the expenditures in its general ledger.

The provider did not consistently review and approve expenditures in accordance with its policies and procedures. Specifically:

- Six (8 percent) of 73 non-payroll expenditures tested that required an approval were not properly approved prior to payment.
- For 5 (16 percent) of 31 payroll expenditures tested, the staff's supervisor did not approve the timesheet prior to payment.

Additionally, the provider's review and approval process did not always verify that expenditures were correctly coded in its general ledger. Specifically, the provider did not accurately code in its general ledger 4 (5 percent) of the 74 non-payroll expenditures tested based on the supporting documentation provided. Two of those misclassified expenditures were reviewed and approved prior to payment.

The provider should strengthen its process for preparing its cost report.

The provider did not have an adequate process in place to ensure that all expenditures are accurately reported on the cost report in accordance with the Health and Human Services Commission's cost report instructions. For example, the provider's employee benefits calculation incorrectly included payroll tax expenses, which were carried forward to the fiscal year 2020 cost report. (See text box for information about the purpose of a cost report.)

As a result, the provider reported unallowable expenditures and misclassified expenditures on its cost reports for fiscal years 2019 and 2020 in the line items tested. (See text box and Appendix 1 for details about the samples selected for testing and sampling methodology.) Specifically:

Purpose of a Cost Report

The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.

Source: The Health and Human Services Commission.

Cost Report Testing

To test compliance with reporting requirements, auditors selected 11 expenditure line items totaling $1 million in the provider's fiscal year 2019 cost report and 10 line items totaling $450,175 in its fiscal year 2020 cost report.

In addition, auditors tested 73 non-payroll expenditures totaling $76,908 that had supporting documentation and were included in the provider's cost reports.

- **Unallowable Costs.** The provider reported unallowable costs totaling $51,811 on its fiscal year 2019 cost report and totaling $48,181 on its fiscal year 2020 cost report. Those costs were not allowed to be included in the cost reports because (1) the transaction was not supported by the provider's financial records, or (2) due to the nature of the transactions.

- **Misclassifications.** The provider misclassified expenditures totaling $84,297 on its fiscal year 2019 cost report and $39,840 on its fiscal year 2020 cost report. Those errors did not change the total amounts of allowable and supported expenditures that the provider reported; however, misclassifications could misrepresent amounts for reimbursement from the U.S. Department of Health and Human Services under Title IV-E programs.

Recommendations

The provider should:

- Maintain complete and accurate supporting documentation that supports all financial transactions.
- Maintain all signed conflict of interest annual disclosure statements and ensure that all board members sign the statements.
- Strengthen review and approval processes to verify that all expenditures are correctly entered into the general ledger.
- Prepare its cost report in accordance with requirements.

Management's Response

The Provider agrees with these recommendations which will be implemented by the Finance, Executive, and Human Resource offices.

The Provider is currently implementing a new process for all purchases and journal entries that will involve online input that is directly linked to its financial software general ledger. Every single transaction, journal entry, or purchase will have the appropriate backup or invoice/receipt attached to the electronic request. All purchases, once entered in the software, will get routed for approval to the director of the department, the chief of the department, and finally the CFO. A final check will occur before bills are paid. Each approval will involve verifying the proper backup is attached to the record before final approval or payment. In addition, we will verify the correct expense classifications are used and only charging allowable expenses to the cost report. Every journal entry will be approved by another person in the *finance office (accounting director entries will be approved by CFO and CFO entries will be approved by the accounting director).*

Human Resources will ensure verification of all required documentation is held in employee files via the HR software. Our internal Compliance Officer will periodically review employee records to verify necessary information is being kept.

Conflict of Interest Annual Disclosure Statements will also by Implemented by the Board Governance Committee. In FY22, the Board of Trustees approved the creation of the Board Governance Committee, replacing the Board Development Committee. Board Governance Committee functions include the oversight and management that all board requirements are met. Members of the Board Governance committee along with staff support will create matrixes to identify requirements and deadlines and will review regularly to ensure compliance.

The CFO and Grant Accountant will attend training on the Cost Report completion. The Grant Accountant will complete the report, verifying all expenses are allowable and classified in the appropriate place, and the CFO will review and approve before submitting on time.

Lastly, we are currently revising the financial policies to include enhanced internal controls over financial processes including segregation of duties and secondary review and approval of supporting documentation for expenses and bank reconciliations. The target date for full implementation is December 31, 2021.

Chapter 3-B

The Children's Shelter of San Antonio Did Not Consistently Comply With All Foster Home Monitoring Requirements

Chapter 3-B Rating:

High [5]

The provider did not consistently conduct supervisory visits in accordance with all requirements in Title 26, Texas Administrative Code, Section 749.2815. (See text box for information about monitoring visit requirements.) Specifically, the provider:

- Did not perform a required quarterly visit for 8 (35 percent) of 23 foster families tested.
- Did not conduct monitoring visits with both parents present every 6 months for 7 (47 percent) of 15 applicable foster families tested.
- Did not conduct visits with all household members at least once a year for 6 (32 percent) of 19 applicable foster homes tested.
- Did not have at least two unannounced visits for 15 (83 percent) of 18 applicable foster homes tested.

Monitoring Visit Requirements

Title 26, Texas Administrative Code, Section 749.2815, requires child-placement staff to conduct supervisory visits: (1) in the foster home at least quarterly, (2) with both foster parents, if applicable, at least once every six months, and (3) with all household members at least once a year. It also requires at least two supervisory visits to be unannounced. Additionally, providers must document who was present during the visit, specific issues identified, and any rules evaluated during the visit, as well as obtain the signatures of each foster parent present for the visit and the child-placement staff conducting the visit.

In addition, for 2 (9 percent) of 22 applicable foster families tested, the monitoring forms were missing the foster parent's signature as required. For both of those visits, the provider documented that both foster parents were present; however, the provider did not obtain signatures of both parents.

The provider did not conduct all required monitoring in part because its foster home monitoring policy did not fully comply with applicable requirements. Specifically, the provider's monitoring policy did not require child-placement staff to meet the following requirements established in the *Minimum Standards*:

- Conduct monitoring visits with both foster parents at least once every six months.
- Conduct monitoring visits with all household members at least once a year.
- Conduct unannounced monitoring visits once every six months.

[5] The risk related to the issues discussed in Chapter 3-B is rated as High because they 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.

- Document during the quarterly visits: (1) major life changes in the foster family, (2) changes to the foster home disaster and emergency plan, (3) challenging behaviors of the current children in the home.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. The lack of consistency in conducting and adequately documenting the results of all monitoring visits weakens the provider's ability to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Recommendation

The provider should improve its processes for foster home monitoring to ensure that it complies with all monitoring requirements, including revising its foster home monitoring plan to align with applicable requirements.

Management's Response

The Children's Shelter, Child Placing Agency, acknowledges and agrees with the SAO recommendations noted in Chapter 3-B. The management team at this child placing agency has reviewed the findings and recommendations with program staff.

The following has been initiated and implemented to ensure ongoing monitoring and compliance with both HHSC Minimum Standards and Title 26, Texas Administrative Code:

a. A review of findings with child placement management team on 10/07/21.

b. A review of findings with Board of Directors, Risk Management Committee, on 10/13/21.

c. A thorough review of the current Foster Home Monitoring, Compliance & Evaluation Plan conducted on 10/12/21.

d. Revised Foster Home Monitoring & Compliance Plan with alignment to applicable HHSC Minimum Standards and Texas Administrative Code on 10/15/21.

e. Revised home monitoring forms/checklists:

> *a. Case Manager Monthly Home Visit Checklist, REV 10/18/21*
>
> *b. Foster and/or Adopt Home Quarterly Evaluation, REV 10/01/21*

c. Foster Home Quarterly Evaluation Case Management, REV 10/01/21

d. Home Development Foster Home Compliance, REV 10/08/21

f. Retraining with program staff on updated Foster Home Monitoring, Compliance & Evaluation Plan on 10/20/21.

g. Foster Home files/records review conducted at random intervals by the agency's Compliance Team. The random review will monitor for compliance in the following areas not limited to.

a. Supervisory visits conducted (frequency, participants, type: announced, unannounced) in alignment with applicable requirements.

b. Documentation (required information per applicable requirements)

c. Required Signatures

d. Training

e. Addendums

h. Foster Home quarterly files/records review conducted internally in accordance with Council on Accreditation requirements coordinated by the agency's Compliance Team.

Chapter 4

Children’s Hope Residential Services, A Child-Placing Agency

Children’s Hope Residential Services Background Information [a]	
Location	Lubbock, TX
Contract services audited	Child-placing agency
Year permit was issued to provider	2013
Number of children served - 2019	709
Number of children served - 2020	617
Total expenditures reported on 2019 cost report	$8,208,317
Total expenditures reported on 2020 cost report	$7,942,173
Federal tax filing status	Non-Profit
Number of staff as of December 31, 2020	77

[a] From January 1, 2019, through December 31, 2020.

Sources: Children’s Hope Residential Services, the Department, and the U.S. Internal Revenue Service.

Children’s Hope Residential Services (provider), a child-placing agency, had financial controls in place to help its operation maintain itself on a sound fiscal basis. However, the provider should strengthen controls over the preparation of its cost report, payments made to foster parents, and retention of required documentation in employee personnel files. The provider did not always accurately report the funds that it expended providing 24-hour residential child care services for fiscal years 2019 and 2020.

In addition, the provider should improve its controls to ensure that foster parents are consistently paid in accordance with Department requirements. The provider should also improve its foster home monitoring process so that it complies with all monitoring requirements.

Child-placing agencies are required to comply with the Department of Family and Protective Services’ (Department) *Minimum Standards for Child Placing Agencies* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 749. Those *Minimum Standards* relate to financial processes, as well as the monitoring of foster parents.

Chapter 4-A

Children's Hope Residential Services Had Controls Over Its Financial Processes; However, It Should Strengthen Its Processes Over Cost Report Preparation

Chapter 4-A Rating:

Medium [6]

The provider had controls over its financial processes to help ensure that it operates on a sound fiscal basis. (See text box for more information about fiscal requirements for general residential operations.) Those controls included:

- Creating an annual budget, as required by the Department's *Minimum Standards*.
- Reviewing and approving of non-payroll expenditures.
- Maintaining financial policies and procedures.
- Implementing certain information technology general controls (such as having adequate passwords and backing up key data).

Fiscal Requirements for Child-Placing Agencies

Title 26, Texas Administrative Code, Section 749.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner; (2) paying foster parents in compliance with the provider's agreement with the parents; and (3) making sure the needs of children in the provider's care are being met. It also requires providers to maintain complete financial records and make available for review (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

In addition, the provider had appropriate supporting documentation and accurately coded in its general ledger most non-payroll expenditures tested, totaling $106,328, and had appropriate supporting documentation for all 60 applicable payroll expenditures tested, totaling $80,775.

However, the provider should strengthen controls over the preparation of its cost report, payments made to foster parents, and retention of required documentation in employee personnel files.

[6] The risk related to the issues discussed in Chapter 4-A is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

The provider should strengthen its process for preparing its cost report.

A majority of the expenditures tested that the provider reported on its fiscal years 2019 and 2020 cost reports were properly approved, supported, and accurately entered in the provider's general ledger. (See text box for information about the purpose of a cost report.)

However, the provider did not consistently comply with certain cost reporting requirements on the fiscal years 2019 and 2020 cost report line items tested. (See text box and Appendix 1 for details about the samples selected for testing and sampling methodology.) Specifically:

> **Purpose of a Cost Report**
>
> The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.
>
> Source: The Health and Human Services Commission.

> **Cost Report Testing**
>
> To test compliance with reporting requirements, auditors selected the following for testing:
>
> - For the 2019 cost report, 2 revenue line items totaling $4.0 million, and 8 expenditure line items totaling $3.1 million.
> - For the 2020 cost report, 2 revenue line items totaling $4.1 million, and 7 expenditure line items totaling $2.1 million.
>
> In addition, auditors tested 63 non-payroll expenditures totaling $96,403 that were included in the provider's cost reports.

- **Unallowable Expenditures.** In its fiscal year 2019 cost report, the provider reported $23,177 in costs that were unallowable according to cost report requirements. In its fiscal year 2020 cost report, the provider reported $125,418 in costs that were unallowable. For example, the provider included costs related to consulting or costs related to a different program.

- **Incorrect Reporting of Revenues**. The provider incorrectly reported all revenue line items tested on both its fiscal years 2019 and 2020 cost reports. For its fiscal year 2019 cost report, the provider underreported its revenue by $3,052,143, and for its fiscal year 2020 cost report, it overreported its revenue by $1,537,708. The provider did not use its general ledger to report the revenue in its cost report; as a result, it incorrectly reported the related revenue line items on its cost reports.

- **Misclassified Expenditures.** The provider misclassified expenditures totaling $241,397 on its fiscal year 2019 cost report and $30,923 on its fiscal year 2020 cost report. Those errors did not change the total amount of allowable and supported expenditures that the provider reported; however, misclassifications could misrepresent amounts for reimbursement from the U.S. Department of Health and Human Services under Title IV-E programs.

In addition, the provider did not have a review process to verify that it accurately reported expenditures and revenues on its cost reports. A process for review and approval of the cost report by a person who did not prepare it would help ensure the report's accuracy.

The provider paid the majority of foster parents accurately; however, it should strengthen controls to ensure that it consistently pays the correct rate.

The provider correctly recorded payments to foster parents in its general ledger and ensured that its foster families were verified before paying them. For 55 (92 percent) of the 60 foster parent payments tested, the provider paid the correct amounts based on each child's level of care and days of service. (See Appendix 5 for information on the daily rate paid to foster families per child.) However, for the other five foster parent payments tested, either the reimbursement amount was less than the minimum daily rate paid to foster families per child or was for the wrong number of days. Those five payments included two payments for which the amounts paid to the foster families were based on incorrect levels of care and three payments that were based on an incorrect number of days of care. As a result, for those five payments, the provider underpaid the foster parents by a total of $276.

The provider should ensure that it maintains required documentation in employees' personnel files.

For 5 (11 percent) of the 45 employee personnel files tested, the provider did not have all of the documentation required by the Department's *Minimum Standards*. Examples of missing documentation included (1) documentation showing the employee met minimum requirements for the job position, (2) a copy of a valid driver's license, and/or (3) a signed copy of an *Affidavit for Applicants for Employment with a Licensed Operation or Registered Child-Care Home.*

Recommendations

The provider should:

- Prepare its cost report in accordance with all requirements.
- Implement a process to review the cost report for accuracy and completeness.
- Reimburse its foster families in accordance with Department requirements.
- Retain all required documentation in employee personnel files.

Management's Response

Recommendation: Prepare its cost report in accordance with all requirements.

CH Response: Children's Hope Residential Services, INC. agrees with this recommendation.

All misclassified items identified in this audit have been reviewed by the VP of Financial. All items will be classified correctly on future cost reports.

Children's Hope Residential Services, Cost Reporting system was reviewed and the following revisions were implemented July 2021:

All under and over-reported days in care will be corrected through the first of the month and AR reconciliation process for DFPS payments.

On the 1st business day of each month the VP of Financial generates, for the previous month, a night in care report from Extended Reach for every child residing in foster care with Children's Hope. This report contains all accounts payable and receivable. At this time the report is locked in Extended Reach and no changes can be made by anyone except for by the VP of Financial. This is to ensure that data entered into Children's Hopes accounting system (QuickBooks) matches Extended Reach at all times. When the VP of Financial pulls reports from Extended Reach in preparation for the cost report there will not be any discrepancies between Extended Reach and Quickbooks.

Children's Hope has developed a more robust policy for Cost Reporting that includes the following:

The VP of Financial will pull the general ledger (for the cost reporting period) in QuickBooks and use it as the main reporting tool. The general ledger will be compared to the Profit and Loss statement for the corresponding year to ensure accuracy. All data used to produce the cost report will be saved on a usb flash drive and kept in a file in the VP of Financials office.

Monthly the VP of Financial will review the general ledger to ensure everything is coded and classed appropriately.

The VP of Financial will attend all required training for Cost Report Preparation. The VP of Financial will seek additional training related to Cost Reporting throughout the year to strengthen their knowledge.

Recommendation: Implement a process to review the cost report for accuracy and completeness.

CH Response: Children's Hope Residential Services, INC. agrees with this recommendation.

Upon completion of the cost report, VP of Financial and a designated employee will review the report before it is submitted to DFPS. All tools used to prepare the cost report will be traced back to the totals reported for accuracy. Proof of review and approval will be kept in the file along with all cost report supporting documentation.

Recommendation: Reimburse foster parents in accordance with Department requirements.

CH Response: Children's Hope Residential Services, INC. agrees with this recommendation.

Correction payments have been made to all families identified in this audit as being underpaid. These were completed July 2021.

Children's Hope Residential Services, DFPS payments system was reviewed and the following revisions were implemented July 2021:

On the 1st business day of each month the VP of Financial generates, for the previous month, a night in care report from Extended Reach for every child residing in foster care with Children's Hope. This report contains all accounts payable and receivable. At this time the report is locked in Extended Reach and no changes can be made by anyone except for by the VP of Financial. The night in care report is emailed to the Senior Administrator and Treatment Coordinator for the Child Placing Agency. The Senior Administrator emails each branches report to the corresponding Area Director for review. The Area Director reviews all accounts payable statements and accounts receivable for accuracy with levels of care, funding organizations and days in care. If any corrections are needed, the Area Director notes them on the Nights in Care Reconciliation form. The Area Director also gathers all level of care documentation for each child above basic level of care and attaches them to the Nights in Care Reconciliation form. The Area Director then signs and dates the form and all documentation is then emailed back to the Senior Administrator and Treatment Coordinator for review. Once approved by the Senior Administrator, the Nights in Care Reconciliation form along with level of care documentation is emailed to the VP of Financial for processing. The VP of Financial gives all AP's and AR's to the Financial Assistant and the Financial Assistant reviews each AP and AP statement for accuracy. If a child is listed above basic level of care and documentation is missing for proof, the

VP of Financial will contact the Area Director and Senior Administrator and request proof. The Financial Assistant then returns the AP's and AR's to the VP of Financial for approval. The VP of Financial then reviews all statements and signs the Night in Care Reconciliation form, approving processing of payments to the Foster Families for each branch. Throughout the month Provider Statements are received from DFPS and SSCC's. These are received by the VP of Financial and given to the Financial Assistant. The Financial Assistant enters the payments into an excel spreadsheet that is pulled from ER on the 5th business day of each month. This report contains all AR's. When payments are entered, if there is a discrepancy, the Financial Assistant researches in Extended Reach for clarification.

If after researching Extended Reach, the discrepancy cannot be resolved interlay, the Financial Assistant will contact the billing coordinator for that Region. All corrections are completed by the last day of each month. The final spreadsheet with all corrections are emailed to the VP of Financial by the 15th of the next month for review. All pending discrepancies will be resolved no later than 90 days. If needed, the VP of Financial will make the corrections in Extended Reach and in Children's Hope accounting system. Any under-payments to foster families are made right away and overpayments are withheld from the next month's reimbursement.

The Treatment Coordinator will complete a 100% compliance check (reviews each child's file in Extended Reach for accurate levels of care, accurate admission and discharge dates and accurate funding organizations) by the 10th of each month and send any errors or discrepancies to the VP of Financial.

Recommendation: Retain all required documentation in employee personnel files

CH Response: Children's Hope Residential Services, INC. agrees with this recommendation.

Children's Hope Residential Services, Employee File system was reviewed and the following revisions were implemented July 2021:

A form known as, Open Position Request Form was created and implemented in July 2021. This form is initiated by the hiring manager and must have all required signatures before it is submitted to HR for review. Recruitment for the position cannot begin without approval from the VP of Human Resources. Once reviewed, VP of HR or designee will email the hiring manager with an approval or denial. This form also ensures all key departments are aware. If this is a new position, the form prompts HR to require a job description for the position before an employee can be hired.

The missing job description discovered during the audit was for an ex-employee that transferred positions and an updated job description was not signed.

Children’s Hope currently has a policy in place to ensure the employee file contains a copy of a valid driver’s license and/or identification card. The policy also requires a signed copy of an Affidavit for Applicants for Employment with a Licensed Operation or Registered Child Care Home. There were two affidavits that could not be located during the audit. One was for an ex-employee and one for a current employee. The current employee has signed another affidavit and their employee file has been updated.

The expired license discovered in the audit was an ex-employee’s temporary driver’s license that expired 45 days after the issue date. A mistake was made by a previous employee by entering the expiration date in Extended Reach as the 5-year date and not the temporary license expiration date. Extended Reach keeps track of expiration dates for employees.

The VP of HR or designee will randomly audit employee files monthly for all branches. This was implemented July 2021.

Chapter 4-B

Children's Hope Residential Services Did Not Consistently Comply With Some Foster Home Monitoring Requirements

Chapter 4-B Rating:

Medium [7]

The provider conducted all required quarterly monitoring visits for all foster homes tested. However, it did not consistently conduct other required visits or obtain foster parent signatures in accordance with all requirements in Title 26, Texas Administrative Code, Section 749.2815. (See text box for more information about monitoring visit requirements.) Specifically, the provider:

Monitoring Visit Requirements

Title 26, Texas Administrative Code, Section 749.2815, requires child-placement staff to conduct supervisory visits: (1) in the foster home at least quarterly, (2) with both foster parents, if applicable, at least once every six months, and (3) with all household members at least once a year. It also requires at least two supervisory visits to be unannounced. Additionally, providers must document who was present during the visit, specific issues identified, and any rules evaluated during the visit, as well as obtain the signatures of each foster parent present for the visit and the child-placement staff conducting the visit.

- Did not visit with both foster parents at least every six months for 4 (11 percent) of 37 applicable foster families.
- Did not visit with all household members at least once a year for 4 (10 percent) of 40 applicable foster families.
- Did not perform at least two unannounced visits for 3 (7 percent) of 41 applicable foster families.
- Did not ensure that monitoring forms contained the foster parent's signature as required for 21 (36 percent) of 58 foster families.

To help ensure the consistency of foster family monitoring visits, the provider developed a monitoring form for caseworkers to use when determining a foster family's compliance with the Department's *Minimum Standards.* Provider policy requires caseworkers to use that form and provide it to an area director for review and approval. However, the provider did not ensure that caseworkers consistently complied with that policy. For example, for 16 (28 percent) of 58 foster families tested, the visit was either not documented on the required monitoring form or the form had not been reviewed and approved by an area director.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. The lack of consistency in conducting and adequately documenting the results of all monitoring visits weakens the provider's ability to identify areas in which the

[7] The risk related to the issues discussed in Chapter 4-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

foster parents may need additional resources to meet the needs of the children in their care.

Recommendation

The provider should improve its processes for foster home monitoring to ensure that it complies with all monitoring requirements, including obtaining all required signatures.

Management’s Response

Children’s Hope Residential Services, INC. agrees with this recommendation.

Children’s Hope Residential Services, Foster Parent monitoring system was reviewed and the following revisions were implemented July 2021:

The Treatment Coordinator will review at least 20% of all Foster Home monthly monitoring forms for each branch across Texas monthly. This review will be to ensure compliance with DFPS requirements. When reviewing, if issues are discovered, the testing will increase in increments of 10% up to 100%. A report is then submitted to the Senior VP and Senior Administrator for review. The Senior VP and Senior Administrator will address all issues accordingly and ensure compliance.

A form called “Safety Check Form” was developed to show proof of a home visit outside of the regular scheduled visits per DFPS requirements.

In addition to the Treatment Coordinators reviews, the Financial department will also perform reviews for missing signatures.

On the 25th of each month, the CPA submits all documentation required to Financial for employee mileage reimbursement. Each employee is required to provide the foster homes name and the corresponding child’s name for any mileage log entry. The Financial Assistant then reviews each’s employee’s mileage for accuracy. A random line on each employee’s mileage log is selected and the Financial Assistant then looks in Extended Reach for either a Home Visit Form or Safety Check form. In July 2021, the Financial Assistant began reviewing the form for all required signatures. If a form or required signature is missing, the log entry is redlined and not reimbursed. The Financial Assistant reviews 1% from each employee’s mileage log, if a discrepancy is found the review increases in increments of 10% up to 100%. Additionally, the Financial Assistant sends an email to the employee’s supervisor, Senior Administrator and Senior VP notifying them of the issues.

Children’s Hope has implemented a policy to ensure all Foster Homes have a home visit, every 6 months with that includes attendance by both Foster Parents, if applicable. The foster home form has been enhanced to include this.

The Senior VP has weekly meeting with all Foster Care Specialists to ensure they are performing home visits in accordance with DFPS requirements.

In July 2021 all CPA employees were re-trained on all requirements. Onboarding has been enhanced to ensure all employees receive the same training.

Chapter 5

ACH Child and Family Services' Residential Treatment Center Had Controls Over Its Financial Processes

ACH Child and Family Services' Residential Treatment Center Background Information [a]	
Location	Fort Worth, TX
Contract services audited	General Residential Operations
Year permit was issued to provider	2019
Number of children served - 2019	10
Number of children served - 2020	23
Total revenue from the Department for general residential operations	$1,731,362
Federal tax filing status	Non-Profit
Number of staff as of December 31, 2020	27

[a] From January 1, 2019 through December 31, 2020.

Sources: ACH Child and Family Services' Residential Treatment Center, the Department, and the Internal Revenue Service.

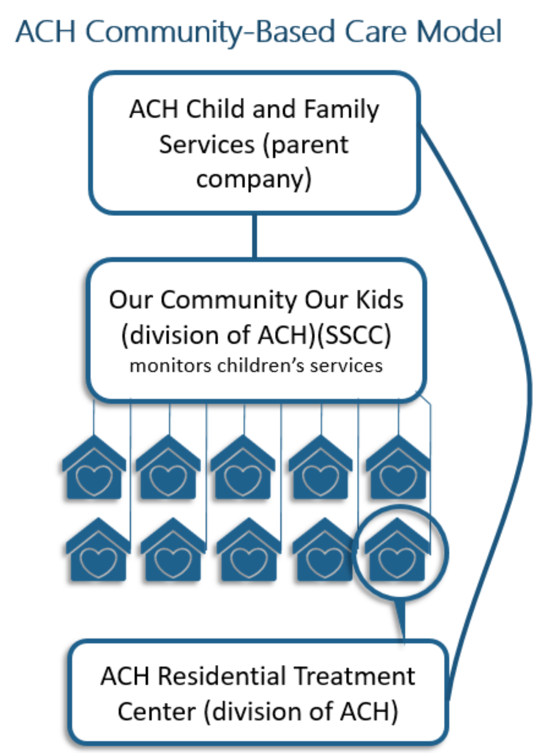
Chapter 5 Rating:

Low [8]

ACH Child and Family Services' Residential Treatment Center (provider), a general residential operation, had financial controls in place to assist its operation in maintaining a sound fiscal basis. General residential operations are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for General Residential Operations* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 748. Those *Minimum Standards* relate to financial processes at the provider.

The provider operates under the Community-Based Care model and is monitored by Our Community Our Kids (OCOK), the Single Source Continuum Contractor (SSCC) for the Department's Region 3b. Both the provider and OCOK are separate divisions within ACH Child and Family Services (see Figure 2).

Figure 2



Source: Based on information from the Department.

[8] The risk related to the issues discussed in Chapter 5 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

The provider had adequate controls over its financial processes to assist in remaining fiscally sound.

The provider had developed and implemented adequate controls related to key financial processes. (See the text box for information about the fiscal requirements for general residential operations.) For example, the provider:

- Maintained financial records for expenditures that were generally allowable, supported, and accurately recorded.
- Instituted review and approval procedures for its fiscal processes, including those for non-payroll and payroll expenditures, as well as monthly bank reconciliations.
- Prepared an annual budget indicating predictable funds sufficient for the year.
- Documented financial policies and procedures.

Fiscal Requirements for General Residential Operations

Title 26, Texas Administrative Code, Section 748.161, requires providers to establish and maintain their operation on a sound fiscal basis, including: (1) paying employees in a timely manner and (2) making sure the needs of children in their care are being met. It also requires providers to maintain complete financial records.

The provider was not required to submit a cost report for fiscal years 2019 and 2020.

The provider was not required to submit a cost report for either fiscal year 2019 or fiscal year 2020. The Health and Human Services Commission excused both cost reports because the provider's total number of Department-placed days was 10 percent or less of the provider's total days of service (see text box for more information about cost report excusals).

Cost Report Excusals

A provider must complete and submit a 24 RCC Cost Report for each contract unless excused from the requirement based on meeting one or more of the following conditions:

(1) The contract with the Department was terminated or was not renewed.

(2) The provider provided only Basic Level Services.

(3) The total number of State-placed days was 10 percent or less of the provider's total days of service.

(4) The total number of Department-placed days was 10 percent or less of the provider's total days of service.

Source: The Health and Human Services Commission.

The provider should ensure that it maintains required documentation in employees' personnel files.

For 4 (12 percent) of 34 employee personnel files tested, the provider did not have all of the documentation required by the Department's *Minimum Standards*. Examples of missing documentation included (1) a statement signed and dated by the employee documenting that the employee had read a copy of the operational policies, (2) any documentation of the employee's performance with the provider, or (3) a statement signed and dated by the employee indicating the employee must immediately report any suspected incident of child abuse.

Recommendation

The provider should retain all required documentation in employee personnel files.

Management's Response

ACH agrees with the recommendation to retain all required documentation in employee personnel files.

Since May of 2021, all employee documents, policy changes/document acknowledgements, updates, renewals, background information, and any other pertinent employee records are now housed on the UKG HRIS system. Only specific signed and/ or notarized documents are placed in a physical file folder with an electronic copy placed in a restricted folder (HR Compliance/Audit) accessible only by authorized Human Resources (HR) personnel. HR staff have been trained to assure consistency and continuity with respect to the procedure.

When updates to policies or procedures occur or new ones are issued, a system generated prompt in UKG requires an employee to view and acknowledge the documents or changes with an electronic signature before proceeding. HR runs a report twice a month to verify all documents have been signed. lf there are any outstanding documents HR contacts the employee for completion. If documents remain outstanding HR escalates the matter to the next level of management for further action to reach compliance.

During the 2020 performance review cycle, ACH introduced and began utilizing the UKG performance management system. Reviews are conducted in January/February for the prior year for anyone who was hired before October 1. ACH will continue to refine the performance review process during the 2021 performance cycle. This improvement will include capturing all employee self-assessment, supervisor review and comments, and acknowledgements within the UKG system. HR will run a delinquent report in February 2022, and work with employees to complete the process. Any outstanding documents will be escalated to the next level of management for further action.

ACH, under the direction of the Chief Human Resources Officer, will develop a consistent procedure for internal record review to self-monitor compliance. The procedure will be implemented by March 31, 2022.

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 (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 for the Department of Family and Protective Services (Department).

Scope

The scope of this audit included the cost reporting periods for fiscal years 2019 and 2020 for five residential child care contractors (providers) that provided 24-hour residential child care services for the Department. The scope also included a review of significant internal control components related to the providers' financial and foster parent monitoring processes (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included selecting five providers to audit based on (1) risk rankings developed by auditors with input from the Department and (2) the type of contract and the location of the contractor. The five providers selected were:

- Hope Rising.
- City of Hope Missions.
- The Children's Shelter of San Antonio.
- Children's Hope Residential Services.
- ACH Child and Family Services' Residential Treatment Center.

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:

- Auditors could not verify that City of Hope Missions' financial data and payroll data were sufficiently reliable for purposes of this audit because of the provider's lack of controls over key systems. The remaining four providers audited had financial data and payroll data that were sufficiently reliable for the purposes of this audit.

- The data that the Department provided from IMPACT, which it uses to record case information, was sufficiently reliable to perform audit procedures related to foster parent payments and foster parent monitoring, including sample selection for both testing areas.

Sampling Methodology

Auditors selected nonstatistical samples for tests of compliance and controls. Auditors also tested all related-party expenditures reported on the audited providers' cost reports or identified throughout testing.

Additionally, auditors performed a control test to determine whether each provider reconciled all applicable bank accounts appropriately. Auditors used non-representative random sampling to select 4 months from fiscal year 2019 and 4 months from fiscal year 2020.

Table 2 on the next page identifies the sampling methodology used for each provider, including the determination of whether or not the sample was representative. If a sample was representative, it would be appropriate to project those test results to the population, but the accuracy of the projection cannot be measured. If a sample was not representative, it would not be appropriate to project those test results to the population.

Table 2

Total Populations and Samples Selected For the Providers' Fiscal Years 2019 and 2020 Expenditures and Foster Parent Monitoring [a]					
Description	Hope Rising	City of Hope Missions	The Children's Shelter of San Antonio	Children's Hope Residential Services	ACH Child and Family Services' Residential Treatment Center
Cost Report Line Items					
Total Amount of Expenditures Reported	2019 - $1,101,659 2020 - $1,910,525	2019 - $1,089,078 2020 - $1,285,293	2019 - $2,328,322 2020 - $2,249,941	2019 - $8,208,317 2020 - $7,942,173	Not Applicable [b]
Total Amount of Expenditures Reported in Significant Cost Report Line Items Sampled	2019 - $520,567 2020 $771,875	2019 - $652,122 2020 – $540,763	2019 - $1,038,782 2020 - $450,175	2019 - $3,094,958 2020 - $1,890,635	Not Applicable [b]
Total Amount of Revenues Reported in Significant Cost Report Line Items Sampled	2019 – 184,216 2020 - $154,998	2020 - $0 [c]	Not Applicable [d]	2019 - $3,966,595 2020 - $4,367,557	Not Applicable [b]
Number of Significant Cost Report Line Items Sampled	2019 – 10 2020 – 10	2019 – 11 2020 – 11	2019 – 11 2020 – 10	2019 – 10 2020 – 10	Not Applicable [b]
Sampling Methodology	Directed	Directed	Directed	Directed	Not Applicable [b]
Representative Determination	Not Representative	Not Representative	Not Representative	Not Representative	Not Applicable [b]
Non-payroll Expenditures					
Total Amount of Non-payroll Expenditures Recorded in the Provider's General Ledger	$1,927,049	$731,172	$398,182	$2,352,310	$1,730,069
Amount of Non-payroll Expenditures Sampled	$752,568	$21,166	$111,677	$106,328	$20,765
Total Number of Non-payroll Expenditures Recorded	4,236	3,121	1,285	3,826	2,692
Number of Non-Payroll Expenditures Sampled	66	80	82	65	68
Sampling Methodology	Random and Directed	Random and Directed	Random and Directed	Random and Directed	Random and Directed
Representative Determination	Not Representative	Not Representative	Not Representative	Not Representative	Not Representative
Payroll Expenditures					
Total Amount of Payroll Expenditures Recorded in the Provider's General Ledger	$1,258,112	$1,214,260	$4,148,285 [e]	$4,916,181	$1,497,935
Amount of Payroll Expenditures Sampled	$167,467	$45,433	$150,328	$80,775	$96,350
Total Number of Payroll Expenditures Recorded	720	1,525	2,157	3,725	959

Total Populations and Samples Selected For the Providers' Fiscal Years 2019 and 2020 Expenditures and Foster Parent Monitoring [a]					
Description	Hope Rising	City of Hope Missions	The Children's Shelter of San Antonio	Children's Hope Residential Services	ACH Child and Family Services' Residential Treatment Center
Number of Payroll Expenditures Sampled [f]	68	67	65	62	62
Sampling Methodology	Random and Directed	Random and Directed	Random and Directed [g]	Random and Directed [g]	Random and Directed
Representative Determination	Not Representative	Not Representative	Not Representative	Not Representative	Not Representative
Foster Parent Payments					
Total Number Payments to the Provider from the Department	574	Not Applicable [h]	1,902	453	Not Applicable [h]
Amount of Payments to Foster Parents Sampled	$60,840	Not Applicable [h]	$57,787	$55,456	Not Applicable [h]
Number of Payments Sampled	58	Not Applicable [h]	65	60	Not Applicable [h]
Sampling Methodology	Random and Directed	Not Applicable [h]	Random and Directed	Random and Directed	Not Applicable [h]
Representative Determination	Not Representative	Not Representative	Not Representative	Not Representative	Not Representative
Foster Parent Monitoring					
Number of Foster Families	2019 - 12 2020 - 12	Not Applicable [h]	2019 - 75 2020 - 32	2019 - 238 2020 - 215	Not Applicable [h]
Number of Families Sampled	12 [i]	Not Applicable [h]	23	58	Not Applicable [h]
Sampling Methodology	Directed	Not Applicable [h]	Random and Directed [j]	Random	Not Applicable [h]
Representative Determination	Not Representative	Not Applicable [h]	Representative [j]	Not Representative	Not Applicable [h]

[a] The total number of sample items tested may not always match the results as reported because not all tests conducted were applicable to each sample item.

[b] ACH Child and Family Services' Residential Treatment Center was not required to submit a cost report in fiscal years 2019 and 2020.

[c] City of Hope reported $0 in Revenue Offsets, but it should have reported $126,230 in Paycheck Protection Program loans.

[d] Revenue line items were not tested for this provider.

[e] The total amount of payroll expenditures recorded in the provider's fiscal year 2020 general ledger includes only the amounts paid to the employees who worked at the provider exclusively. Employees who worked at both the provider and Family Tapestry, the Single Source Continuum Contractor for region 8a, were also included in the population, but the amounts paid to them were not included.

[f] The number of payroll expenditures tested may include employees with multiple transactions.

[g] Auditors used only directed sampling for payroll expenditure testing in fiscal year 2020.

[h] This provider is a general residential operation and does not have foster families.

Total Populations and Samples Selected For the Providers' Fiscal Years 2019 and 2020 Expenditures and Foster Parent Monitoring [a]					
Description	Hope Rising	City of Hope Missions	The Children's Shelter of San Antonio	Children's Hope Residential Services	ACH Child and Family Services' Residential Treatment Center

[i] All 12 families were included in Hope Rising's foster parent monitoring sample. Six were selected for fiscal year 2019 and the remaining six were selected for fiscal year 2020. One foster family for fiscal year 2020 was active for only one month and, therefore, was not applicable to the testing that auditors performed.

[j] For fiscal year 2019, auditors selected a representative random sample. For fiscal year 2020, auditors used random and directed sampling, and that sample was not representative.

Sources: The providers' cost reports for fiscal years 2019 and 2020, the providers' fiscal years 2019 and 2020 financial records, and the Department.

<u>Information collected and reviewed</u> included the following:

- Information from interviews with the Department's and Commission's residential child care program management and staff.
- Department program monitoring and licensing reports for the providers audited.
- The providers' documentation related to their financial position, including estimated annual budgets, annual financial audits (if applicable), and governing board meeting minutes.
- The providers' cost reports for fiscal years 2019 and 2020 and supporting documentation (if applicable).
- The providers' financial records and supporting documentation, including records and supporting documentation for (1) payroll expenditures and (2) non-payroll expenditures.
- The providers' personnel files.
- The providers' foster parent monitoring documentation and records for payments to foster parents.
- The providers' policies and procedures.
- Information from the Department on the payments it made to the providers audited.

<u>Procedures and tests conducted</u> included the following:

- Testing internal controls and information technology controls at the providers.

- Testing expenditures related to services provided to children.
- Testing related-party expenditures and contracts.
- Testing payroll records.
- Reviewing personnel files.
- Testing payments that the providers made to foster parents.
- Comparing each provider's general ledger to sampled line items identified in each provider's cost report.
- Testing the providers' foster parent monitoring records.

Criteria used included the following:

- Title 26, Texas Administrative Code, Chapters 748 and 749.
- Title 1, Texas Administrative Code, Chapter 355.
- Texas Government Code, Section 2155.1442.
- The Commission's *Uniform Terms and Conditions*.
- The Department's *Residential Childcare Contract Special Conditions for Child Placing Agencies and General Residential Operations*.
- The Department's Single Source Continuum Contractor Uniform Terms and Conditions.
- The Commission's *2019 Cost Report Instructions for 24RCC*.
- The Commission's *2020 Cost Report Instructions for 24RCC*.

Project Information

Audit fieldwork was conducted from March 2021 through October 2021. 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:

- Thomas Andrew Mahoney, CFE, CGAP (Project Manager)
- Alexander Sumners (Assistant Project Manager)
- Adam Berry, CFE
- James Collins
- Douglas Jarnagan, MAcc
- Derek Lopez, MBA
- Austin McCarthy, CPA
- Jessica McGuire, MSA
- Lauren Ramsey
- Tony White, CFE
- Link S. Wilson
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

Appendix 2

Issue Rating Classifications and Descriptions

Auditors used professional judgment 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 3 provides a description of the issue ratings presented in this report.

Table 3

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)/function(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.
Medium	Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the 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 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.
Priority	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.

Appendix 3

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components of internal control, which are listed in Table 4.

Table 4

Internal Control Components	
Component	**Component Description**
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.

Source: Internal Control – Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Appendix 4

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 *2019 Cost Report Instructions for 24RCC* and *2020 Cost Report Instructions for 24RCC.* The requirements are related to residential child care contractors' (providers) cost reporting, financial records, and foster parent monitoring.

Cost Reporting

The Commission uses the information in the providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs. Cost reporting processes and requirements include the following:

- **Cost Report Submission.** Each separately licensed provider that has a contract with the Department to provide residential child care services during a fiscal year must complete and submit a cost report for each contract unless excused from the requirement based on meeting certain conditions. The cost report must cover all of the provider's 24-hour residential child care activities, including all programs that are not Department related, at the licensed facility during the reporting period. Child-placing agencies with regional specific licenses that operate as one legal entity must submit one cost report for the entire legal entity.

- **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 applicable related-party transactions on the cost 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. Classifying an expense as “unallowable” 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 the contracted services. The unallowable classification does not mean that the providers may not make the expenditure.

- **Cost Allocation Methods.** Title 1, Texas Administrative Code, Section 355.102(j), states that providers must use direct costing whenever reasonably possible. Direct costing means that costs incurred for the benefits 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. If cost allocation is necessary for cost-reporting purposes, providers must apply the allocation method consistently across all contracted programs and business entities. Any change in allocation methods for the current year from those used in the previous year must be disclosed on the cost report and accompanied by a written explanation of the reasons for the change. Allocation methods based on revenue or revenue streams are not acceptable.

- **Reporting Expenses.** Title 1, Texas Administrative Code, Chapter 355.102(b), states that costs may not be entered and reported on the cost report either when no costs were actually incurred or when documentation does not exist for costs that were actually incurred during the reporting period. Additionally, Title 1, Texas Administrative Code, Section 355.101(c)(2)(A), states that is the provider’s responsibility to submit accurate and complete information in accordance with all pertinent Commission cost reporting rules and the cost report instructions on the cost report.

Financial Records

Title 1, Texas Administrative Code, Section 355.105(b)(2)(A), 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.

The Commission's *2019 Cost Report Instructions for 24RCC* and *2020 Cost Report Instructions for 24RCC* list 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, work papers used in the preparation of a cost report, trial balances, and cost allocation spreadsheets.

Foster Parent Monitoring

Title 26, 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 visit and the child-placement staff conducting the visit.

Appendix 5

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 children receiving services under a contract with the Department of Family and Protective Services. Tables 5 and 6 list the 24-hour child care rates effective September 1, 2017 (applicable for part of fiscal year 2019), and September 1, 2019, respectively.

Table 5

24-hour Residential Child Care Daily Payment Rates
Effective September 1, 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	$27.07	$48.47	$45.19
Moderate	$47.37	$85.46	$103.03
Specialized	$57.86	$109.08	$197.69
Intense	$92.43	$186.42	$277.37

[a] Emergency shelter services are also provided at the daily rate of $129.53.

Source: The Department of Family and Protective Services.

Table 6

24-hour Residential Child Care Daily Payment Rates
Effective September 1, 2019

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	$27.07	$49.54	$45.19
Moderate	$47.37	$87.36	$108.18
Specialized	$57.86	$110.10	$197.69
Intense	$92.43	$186.42	$277.37

[a] Emergency shelter services are also provided at the daily rate of $137.30.

Source: The Department of Family and Protective Services.

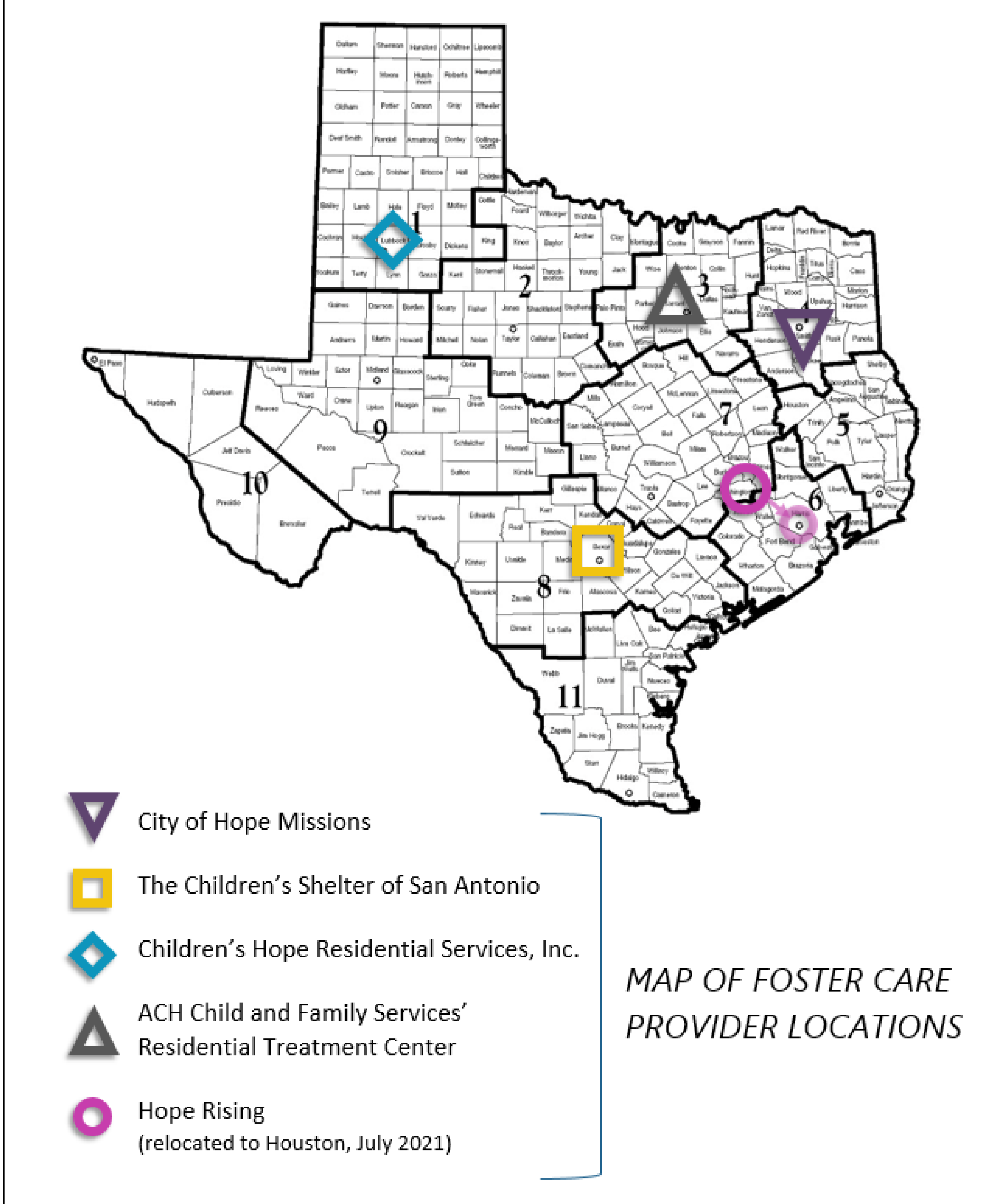
Appendix 6

Map of Providers' Locations

Figure 3 shows the locations of the five residential child care contractors audited and the Department of Family and Protective Services' 11 regions.

Figure 3

Locations of Residential Child Care Contractors Audited



Sources: The map was created by the Department of Family and Protective Services; provider locations were identified by the State Auditor's Office.

Appendix 7

Related State Auditor's Office Reports

Table 7

Related State Auditor's Office Reports		
Number	**Report Name**	**Release Date**
20-007	*An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors*	October 2019
19-004	*An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors*	October 2018
18-022	*An Audit Report on Foster Care Redesign at the Department of Family and Protective Services*	March 2018
18-004	*An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors*	October 2017
17-011	*An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors*	October 2016
15-043	*A Report on On-Site Financial Audits of Selected Residential Foster Care Contractors*	August 2015

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Ms. Cecile Erwin Young, Executive Commissioner

Department of Family and Protective Services

Ms. Jaime Masters, Commissioner

Board Members and Executive Directors of the Following Providers Audited

ACH Child and Family Services' Residential Treatment Center
Children's Hope Residential Services
City of Hope Missions
Hope Rising
The Children's Shelter of San Antonio