An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

The following providers were audited for this report:

- Promise Rose Residential Care Home Inc., a licensed general residential operation.
- Safe Haven Adolescent Home, a licensed child-placing agency.
- New Pathways RTC, LLC, a licensed general residential operation.
- Presbyterian Children's Homes and Services, a licensed child-placing agency.

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Of the four residential child care contractors (providers) audited, one provider—Presbyterian Children's Homes and Services (Presbyterian Children's Homes)—had adequate financial controls in place to help maintain its operations on a sound fiscal basis for fiscal year 2022. Three providers—Promise Rose Residential Care Home Inc. (Promise Rose), Safe Haven Adolescent Home (Safe Haven), and New Pathways RTC, LLC (New Pathways)—had weaknesses in the controls over their financial processes.

Both of the two child-placing agencies audited—Safe Haven and Presbyterian Children's Homes—should improve their foster parent payment processes. In addition, Safe Haven and Presbyterian Children's Homes did not consistently comply with all of the Health and Human Services Commission's (Commission) foster home monitoring requirements.

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

HIGH

PROMISE ROSE RESIDENTIAL CARE HOME INC. – FISCAL PROCESSES

Promise Rose had weaknesses in its financial processes, including inadequate oversight of its expenditures, insufficient controls over its information systems, and weaknesses in its fiscal year 2022 cost reporting process.

Chapter 1 | p. 9

HIGH

SAFE HAVEN ADOLESCENT HOME – FISCAL PROCESSES

Safe Haven had weaknesses in its financial processes, including inadequate oversight of its expenditures and fiscal year 2022 cost reporting process.

Chapter 2-A | p. 15

HIGH

SAFE HAVEN ADOLESCENT HOME – FOSTER PARENT MONITORING

Safe Haven did not consistently maintain documentation to show that it visited all foster homes quarterly, as required by the Commission's *Minimum Standards for Child-Placing Agencies*.

Chapter 2-B | p. 22

For more information about this audit, contact Audit Manager Willie Hicks or State Auditor Lisa Collier at 512-936-9500.

October 2023 | Report No. **24-004**

HIGH

NEW PATHWAYS RTC, LLC – FISCAL PROCESSES

New Pathways had weaknesses in its financial processes, including inadequate oversight of its expenditures and fiscal year 2022 cost reporting process.

Chapter 3 | p. 24

MEDIUM

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES – FISCAL PROCESSES

Presbyterian Children's Homes had adequate financial controls in place during its 2022 fiscal year. However, controls over its cost reporting process, payments to foster parents, and conflict-of-interest compliance should be improved.

Chapter 4-A | p. 31

MEDIUM

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES – FOSTER PARENT MONITORING

Presbyterian Children's Homes conducted monitoring visits with children in the care of its foster families. However, it did not consistently document all of the information required by the Commission's *Minimum Standards for Child-Placing Agencies* for monitoring visits.

Chapter 4-B | p. 37

Note on Confidential Findings

To minimize security risks, auditors communicated details about audit findings related to certain security weaknesses in a separate report to Promise Rose.

PRIORITY

Those findings were rated Priority, indicating critical risk. Action is needed to address the noted concerns and reduce risks to a more desirable level.

Auditors made recommendations in the confidential report to address the findings. Promise Rose agreed with the recommendations.

That separate report references confidential information. Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit. Those recommendations are provided at the end of each chapter in this report. The providers agreed with the recommendations addressed to them.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objectives.

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.

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.

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.

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.

For more on the methodology for issue ratings, see Report Ratings in Appendix 1.

Background Information

Residential Foster Care Contractors

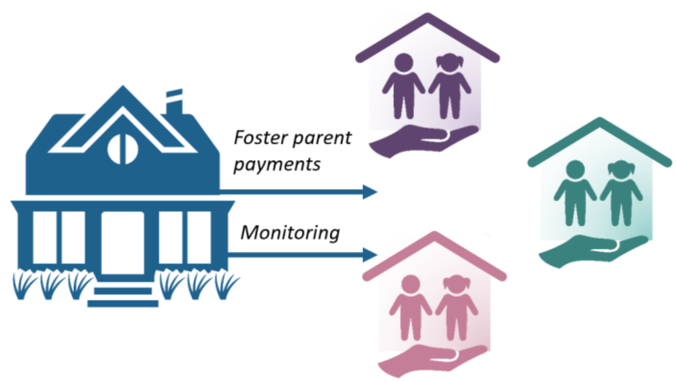
Residential foster care contractors (providers) deliver goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in their care through contracts funded by the Department of Family and Protective Services (Department). Providers that contract with the Department must report revenues, expenses, and other required information to the Health and Human Services Commission (Commission) in annual cost reports. This audit included two types of providers with which the Department contracts: general residential operations and child-placing agencies (see Figure 1). In fiscal year 2022, the Department contracted with 250 of these providers (see Figure 2 on the next page).

Figure 1

Types of Residential Foster Care Providers

General Residential Operations

General residential operations provide 24-hour care for seven or more children 17 years or younger and may provide various treatment services, emergency care services, or therapeutic camps. The general residential operations category includes residential treatment centers.



Child-Placing Agencies

Child-placing agencies are persons or organizations other than a child's parent or guardian who plan for placement of a child or place a child in a child care facility, foster home, or adoptive home. Foster family homes provide 24-hour care for six or fewer children 17 years or younger.

Source: The Commission.

Figure 2

Residential Foster Care Contract Information for Fiscal Year 2022

Category	Total
Number of Department contracts with general residential operations and child-placing agencies	250
Number of children in foster care	24,925
Department funding for foster care contract payments	$586 million [a]

[a] Projected funding amount as determined by the Department.

Source: The Department.

Audit Requirements

Texas Government Code, Section 2155.1442(b), requires the Commission to contract with the State Auditor's Office to perform on-site financial audits of providers that deliver foster care services for the Department as necessary. The State Auditor's Office, in consultation with the Commission, shall select the providers to audit based on providers' risk assessment rating, allegations of fraud or misuse of state or other contract funds, or other appropriate audit selection criteria.

Minimum Standards for Fiscal Requirements

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 that the children's needs are being met. It also requires providers to maintain complete financial records.

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 either (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

Minimum Standards for Monitoring Visits Conducted by Child-Placing Agencies

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 that at least two supervisory visits be unannounced. At least once every quarter, the supervisory visit must evaluate and document the following:

- Any change to household members, frequent visitors, or persons who will provide support as a caregiver during an unexpected event or crisis situation;
- Any major life change in the foster family as described in Title 26, Texas Administrative Code, Section 749.2805 (relating to *What is a "major life change in the foster family"?*);
- Any change to the foster home disaster and emergency plans as described in Title 26, Texas Administrative Code, Section 749.2907 (relating to *What disaster and emergency plans must each foster home have?*); and
- Any challenging behaviors of the current children in the home, the level of stress the foster family is currently experiencing (including any significant change in finances), and any methods for responding to each child's challenging behavior and/or alleviating any significant stress the foster family is experiencing.

Child-placing agencies must document each visit in the home's record. The documentation must include the names of all household members present during the visit, specific issues identified and any rules evaluated, results of the evaluation, deficiencies found, plans for achieving compliance, plans for follow-up to ensure that compliance was achieved, and any changes to the information in the foster home screening since the last supervisory visit, including the reasons for any change in the home's verification.

Documentation of the visit must be signed by each foster parent present for the visit and the child-placement staff conducting the visit.

Cost Report Requirements

The 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. The following cost report requirements were considered for purposes of the audit:

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.

Reporting Related-party Transactions. Title 1, Texas Administrative Code, Section 355.102(i)(6), requires providers to disclose all related-party transactions on the cost report for all costs that providers report, including related-party transactions occurring at any level in the provider's organization. Providers must make available, upon request, adequate documentation to support the costs incurred by the related party.

Regarding compensation of owners and related parties, Title 1, Texas Administrative Code, Section 355.105(b)(2)(B)(xi), requires providers to maintain, at minimum, a detailed written description of actual duties, functions, and responsibilities; documentation substantiating that the services performed are not duplicative of services performed by other employees; time sheets or other documentation verifying the hours and days worked; the amount of total compensation paid for these duties, with a breakdown detailing regular salary, overtime, bonuses, benefits, and other payments; documentation of regular, periodic payments and/or accruals of the compensation; documentation that the compensation is subject to payroll or self-employment taxes; and a detailed worksheet indicating how the total compensation was allocated across business components receiving the benefit of these duties.

Regarding bonuses paid to related parties, Title 1, Texas Administrative Code, Section 355.105(b)(2)(B)(xi)(I), requires the provider to maintain clearly defined bonus policies in its written agreements with employees or in its overall employment policy to include the basis for distributing the bonuses.

For bonuses to owners and/or related parties to be allowable, Title 1, Texas Administrative Code, Section 355.103(b)(1)(A)(i), requires, among other things, that bonuses must be clearly defined in a written agreement or employment policy, must not be made only to related parties, and must be made available to all employees of the same classification type, unless the employee classification type predominately consists of related parties, in which case the bonuses are unallowable costs.

Classification of Allowable Costs. Title 1, Texas Administrative Code, Section 355.102(a), states that allowable 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. An unallowable classification does not mean that the providers may not make the expenditure; it means that the expense should not be used to determine reimbursement.

Unsupported Expenses. Title 1, Texas Administrative Code, Section 355.102(b), states that costs may not be entered and reported on the cost report (1) when no costs were actually incurred or (2) when documentation for costs does not exist, even if those costs were actually incurred during the reporting period.

Financial Record Requirements for Cost Reports. 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.

Additionally, the Commission's *2022 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)* lists in detail the records that providers must retain to demonstrate the necessity, reasonableness, and relationship of the costs to provider care, 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.

HIGH

Chapter 1

Promise Rose Residential Care Home Inc. – Fiscal Processes

Promise Rose Residential Care Home Inc. (Promise Rose), a licensed general residential operation, had control weaknesses over its financial processes, including insufficient controls over its information systems and in its fiscal year 2022 cost reporting process. Without adequate financial processes, there is an increased risk that Promise Rose will not operate on a sound fiscal basis. (See Background Information for details about the fiscal requirements for a general residential operation and cost report requirements.)

Fiscal Year 2022 Summary [a]

General residential operation permit issued in 2018.

A nonprofit corporation, located in Houston, Texas.

32 employees

10 children served

Total revenue received from the Department for general residential operation services:	**$850,609**
Total expenditures reported on cost report:	**$1,374,869**

[a] From January 1, 2022, through December 31, 2022.

Sources: Promise Rose, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

Promise Rose had weaknesses in the controls over its financial processes.

Promise Rose established controls over its financial processes that included:

- Reviewing and approving hourly employee time sheets prior to payment. All 20 hourly employee time sheets tested were appropriately reviewed and approved.

- Preparing monthly bank reconciliations. All nine monthly bank reconciliations tested were appropriately completed and the applicable account balances reconciled to the general ledger.

- Documenting policies and procedures (1) for financial management and (2) to meet the Health and Human Services Commission's (Commission) *Minimum Standards for General Residential Operations* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 748, in the areas of record-keeping, personnel, information technology, and conflicts of interest.

However, Promise Rose had weaknesses with other financial processes tested.

Annual Budget. Promise Rose did not prepare an annual budget for fiscal year 2022. Promise Rose indicated that it relied instead on historical financial information to manage its operations. The Commission's *Minimum Standards* require a general residential operation to establish and maintain a budget to help ensure that sufficient funds are on hand to maintain operations on a sound fiscal basis.

Financial Records. Promise Rose did not consistently maintain documentation to support the accuracy and appropriateness of expenditures in its general ledger in compliance with the Commission's cost reporting requirements. Specifically:

- **Non-payroll expenditures.** Of 37 expenditures tested[1], 4 (11 percent) did not have documentation, such as invoices or receipts, to support their accuracy. These transactions included purchases for maintenance services, recreation fees, and food costs.

- **Payroll expenditures.** All 29 payroll expenditures tested[2], which related to 21 employees, lacked documentation to support the accuracy of hourly pay rates and salaries paid to its employees. Promise Rose could not provide documentation that supported the agreed-upon hourly

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[1] The sample of non-payroll expenditures tested was based on a population of 1,926 transactions totaling $374,352 recorded in Promise Rose's fiscal year 2022 general ledger.

[2] The sample of payroll expenditures tested was based on a population of 724 payroll transactions totaling $1,013,667 recorded in Promise Rose's fiscal year 2022 payroll register.

rates and salary amounts paid to the employees tested. These expenditures were also incorrectly reported on the provider's cost report, which is discussed below in the "Unallowable expenditures" section.

In addition, Promise Rose did not have either documentation to support the bonus amounts paid to the applicable employees tested or policies and procedures for how bonuses are calculated and awarded to its employees as required by the Commission's *Minimum Standards*.

Personnel Records. The personnel records for 4 (19 percent) of 21 employee records associated with the payroll expenditures tested did not contain all information required by the Commission's *Minimum Standards*. Specifically:

- Two employee records did not have documentation showing that the employees met the minimum qualifications for their positions.
- Two employee records did not include the date and reason for employment separation.

Information Technology. Promise Rose did not have adequate controls that would ensure the accuracy of financial data managed by its information systems. Auditors communicated details about the weaknesses identified in a separate report to Promise Rose.

Expenditures listed on the cost report included unallowable costs and accounting errors.

Auditors tested a sample of 37 non-payroll expenditures totaling $22,979, 29 payroll expenditures totaling $92,648, and 10 expenditure line items[3] from Promise Rose's fiscal year 2022 cost report, totaling $674,167. The expenditures tested were not always allowable, classified appropriately, and accurately reported on the cost report. Specifically:

- **Unallowable expenditures.** On its fiscal year 2022 cost report, Promise Rose included unallowable expenditures totaling $343,716. This amount included $343,114 in:

[3] The sample was selected by identifying significant line items that had high dollar amounts and belonged to commonly misreported expenditure categories.

- The non-payroll and payroll expenditures previously discussed.
- Three (30 percent) of the 10 expenditure line items tested that lacked adequate documentation to support the accuracy of related-party transactions.

Additionally, non-payroll expenditures totaling $602 for sales tax and a floral arrangement were not allowable due to the nature of the expenses.

- **Misclassified expenditures.** Promise Rose misclassified $14,845 in expenses on its cost report. Of that misclassified amount, $13,750 should have been reported as assets rather than expenses because they were related to the purchase of a vehicle and re-paving the provider's parking lot. The remaining $1,095 represented multiple expenditures that were allowable and supported; however, they were misclassified. For example, a training conference was classified as office supplies rather than as staff/training. Misclassifications could cause misrepresentation of amounts for reimbursement that the Department of Family and Protective Services (Department) receives from the U.S. Department of Health and Human Services under Title IV-E programs. (See Background Information for more information about reimbursement rates.)
- **Inaccurate expenditure line item.** Promise Rose erroneously reported a $6,999 employee bonus twice, which resulted in overstating the total expenditures on the cost report by that amount.

The cost report did not include all related-party costs.

Auditors tested the 4 related-party transactions for employee payroll that Promise Rose identified in its cost report, totaling $306,147. However, auditors identified 2 additional related-party transactions, totaling $48,595, that were not reported in compliance with the Commission's cost reporting requirements (see Background Information for the cost report requirements pertaining to related-party transactions). The undisclosed related-party transactions identified comprised (1) a $46,800 payment for property leased from the chief financial officer, of which only $13,265 should have been reported as an allowable expense[4], and (2) a $1,795 payment for maintenance services provided by a relative of the chief executive officer.

Recommendations

Promise Rose should:

- Prepare an annual budget in accordance with the Commission's *Minimum Standards.*
- Maintain complete and accurate documentation that supports all financial transactions.
- Retain required documentation in employee personnel files.
- Ensure that all expenditures on its cost report are adequately supported, properly classified, and accurately reported.
- Ensure that all related-party expenses are reported, properly supported, and disclosed in accordance with Commission cost reporting requirements.

Management's Response

- Annual Budget: Promise Rose will create an Annual Budget to establish and maintain a budget to help ensure that sufficient funds are on hand to maintain operations on a sound fiscal basis. The Chief Finance Director will complete the budget annually. Promise Rose Board of Directors will meet, review, and discuss the annual budget for approval.
- Financial Records: Promise Rose will ensure that the CPA categorizes all receipts in the appropriate category. The CPA will support the

[4] The Commission's cost report instructions stipulate that in a related-party transaction only the actual cost to the related party—or the cost to the provider, whichever is lower—is allowable. In this instance, only the annual property taxes and insurance (totaling $13,265) should have been included in the cost report.

accuracy of all receipts and ensure that all receipts are collected and secured in accordance with the Commission's Minimum Standards.

- Bonuses: Promise Rose will ensure that documentation to support the bonus amounts paid to the applicable employees is supported by policies and procedures for how bonuses are calculated and awarded to its employees by the Commission's Minimum Standards. Promise Rose Board of Directors will meet, review, and discuss all bonuses prior to acceptance.
- Personnel Records: Promise Rose will ensure that all employee records have required documentation showing that the employees met the minimum qualifications for their positions. All documents will be uploaded and placed in the employee files.
- Personnel Records: Promise Rose will ensure that terminated records include the date and reason for employment separation.
    - PRRCH Response: Promise Rose Residential Care Home, Inc. agrees with these recommendation.

The Finance Director and Promise Rose Bookkeeper will prepare an annual budget in accordance with the Commission's Minimum Standards.

The Finance Director and Promise Rose Bookkeeper will maintain complete accurate documentation that supports all financial transactions.

The Executive Director will retain the required documentation in the employee personnel files.

The Finance Director and Promise Rose Bookkeeper will ensure that expenditures on its cost report are adequately supported, properly classified, and accurately reported.

The Finance Director and Promise Rose Bookkeeper will ensure that all-related party expenses are reported, properly supported, and disclosed in accordance with Commission cost reporting requirements.

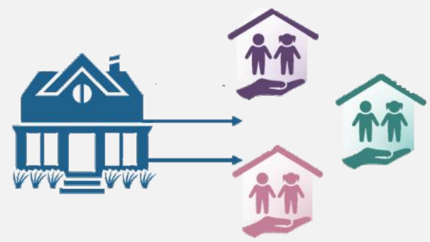
Implementation Date: December 1, 2023

HIGH

Chapter 2-A
Safe Haven Adolescent Home – Fiscal Processes

Safe Haven Adolescent Home (Safe Haven), a licensed child-placing agency, had control weaknesses over its financial processes, including its cost reporting and foster parent payment processes. Without adequate financial processes, there is an increased risk that Safe Haven will not operate on a sound fiscal basis. (See Background Information for details about the fiscal requirements for a child-placing agency and cost report requirements.)

Fiscal Year 2022 Summary [a]



Child-placing agency permit issued in 2006.

A nonprofit corporation located in Houston, Texas.

12 employees

160 children served

Total revenue received from the Department for child-placement services:	**$1,694,724**
Total expenditures reported on cost report:	**$1,786,142**

[a] From January 1, 2022, to December 31, 2022.

Sources: Safe Haven, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

Safe Haven had weaknesses in the controls over its financial processes.

Safe Haven established controls over its financial processes that included:

- Accurately recording payroll expenditures in the general ledger and maintaining timesheets and supporting documentation for employee pay rates.
- Preparing monthly bank reconciliations. All 12 monthly bank reconciliations tested were appropriately completed and applicable account balances reconciled to the general ledger.

- Maintaining adequate controls over information technology, including appropriate user access, current antivirus protocols, and secure data backups.

- Documenting policies and procedures for financial management and those that meet the Health and Human Services Commission's (Commission) *Minimum Standards for Child-Placing Agencies* (*Minimum Standards*) in the areas of record-keeping, personnel, information technology, and conflicts of interest.

In addition, Safe Haven maintained most of the information required by the Commission's *Minimum Standards* in its personnel records for the 13 employees associated with the payroll expenditures tested, such as qualifications for the position and job description.

However, Safe Haven had weaknesses with other financial processes tested.

Annual Budget. Safe Haven did not create a budget for fiscal year 2022 as required by the Commission's *Minimum Standards*. A budget can help ensure that the provider has sufficient funds on hand to cover anticipated expenses, which assists in maintaining operations on a sound fiscal basis.

Financial Records. Of 29 non-payroll expenditures tested[5], 3 (10 percent) did not have documentation to support the accuracy of the expenditures recorded in Safe Haven's general ledger as required by the Commission's cost report requirements, which are listed in Title 1, Texas Administrative Code, Chapter 355.

In addition, employee bonus payments associated with the payroll expenditures tested were not supported with a documented bonus policy that established the basis for bonuses, including the qualifications required and the calculation used. As a result, the bonus expenditures tested were unallowable costs, according to the Commission's cost report requirements.

Review and Approval Processes. Safe Haven did not consistently maintain documentation demonstrating that non-payroll and payroll expenditures were approved as required by its policies. Specifically, for 9 (38 percent) of 24 applicable non-payroll expenditures tested, Safe Haven did not maintain support indicating that the appropriate personnel reviewed and approved the expenses prior to payment. In addition, for 10 (34 percent) of 29 payroll

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[5] The sample of non-payroll expenditures tested was based on a population of 1,788 transactions totaling $396,979 recorded in Safe Haven's fiscal year 2022 general ledger.

expenditures[6] tested, Safe Haven did not maintain email support demonstrating that the payroll register and hourly time sheets were provided to appropriate personnel for review and approval.

Safe Haven included unallowable costs and misclassified expenses in the cost report.

Auditors tested a sample of 29 non-payroll expenditures totaling $6,155, 29 payroll expenditures totaling $60,762, and 10 expenditure line items[7] from Safe Haven's cost report, totaling $511,611. The expenditures tested were not always allowable and classified appropriately. Specifically:

- **Unallowable expenditures**. Safe Haven reported a total of $3,485 in expenditures that were unallowable on its fiscal year 2022 cost report. These included the non-payroll and bonus payments discussed above, as well as certain expenditure line items. Specifically, 8 (80 percent) of the 10 line items tested included expenses not related to Safe Haven's child-placing agency, but to its general residential operation and adoption operation. Those expenses included staff wages, building equipment, payroll and cost report services fees, direct care costs for children, and mileage reimbursements.
- **Related-party costs**. Safe Haven reported all 3 related-party transactions that auditors identified; these were payroll expenditures totaling $78,397. However, 2 (67 percent) of the 3 related-party transactions tested included year-end bonuses totaling $674. While the payroll expenditures were supported and allowable, Safe Haven did not have support to show the calculation used to determine the bonus amounts, as discussed earlier in this chapter. Additionally, Safe Haven did not document the approval of the bonuses by its Board of Directors.
- **Misclassified expenditures.** Safe Haven also misclassified $6,206 in allowable expenses, which affected 3 (30 percent) of the 10 expenditure lines tested. For example, some meal costs were classified as

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[6] The sample of payroll expenditures tested was based on a population of 340 transactions totaling $728,960 recorded in Safe Haven's fiscal year 2022 payroll register.

[7] The sample was selected by identifying significant line items that had high dollar amounts and a high risk of being misreported on the cost report.

transportation costs. The misclassified expenditures did not change the total amount of allowable and supported expenditures that Safe Haven reported; however, misclassifications could cause misrepresentation of amounts for reimbursement that the Department of Family and Protective Services (Department) receives from the U.S. Department of Health and Human Services under Title IV-E Programs. (See Background Information for details about reimbursement rates.)

Safe Haven should strengthen its approval process for foster parent payments.

Safe Haven accurately recorded payments to foster parents in its general ledger and ensured that its foster families were verified before issuing payments. Most of the 26 foster parent payments tested[8], totaling $23,862, were the correct amount based on Safe Haven's fee policy. However, Safe Haven did not document the chief executive officer's review and approval for 5 (19 percent) of 26 foster parent payments tested as required by its policies and procedures.

Recommendations

Safe Haven should:

- Prepare an annual budget in accordance with the Commission's *Minimum Standards.*
- Maintain complete and accurate documentation that supports all financial transactions.
- Establish a bonus policy in accordance with Commission cost reporting requirements.

[8] The sample of foster parent payments identified was based on a population of 1,101 foster care payments, totaling $1,694,724, from the Department to Safe Haven for fiscal year 2022. Each payment was tested to determine its accuracy based on level of care and days of service. (See the Fiscal Year 2022 Summary on the first page of this chapter for the total revenue that Safe Haven received from the Department.)

- Ensure that all expenditures on its cost report are adequately supported and properly classified.
- Prepare its cost report in accordance with all requirements.
- Follow its review and approval procedures for foster parent payments.

Management's Response

- Prepare an annual budget in accordance with the Commission's Minimum Standards.

Agree/Disagree: Agree

Answer: Safe Haven historically has created and reviewed annual budgets. Recently, Safe Haven has used a running budget that is used monthly and reviewed by the CEO and Board of Directors. Safe Haven CEO and Board of Directors will ensure that a complete full calendar year budget is created and reviewed at the start of each year and at each BOD meeting.

Responsible Party: CEO

Target Date: November 15, 2023

- Maintain complete and accurate documentation that supports all financial transactions.

Agree/Disagree: Agree

Answer: The CEO will ensure that all receipts and invoices are collected and maintained in the financial record to back up all expenses. The CEO is reviewing bank and credit card statements monthly, and matching all receipts to the statements.

Responsible Party: CEO

Target Date: Immediately

- Establish a bonus policy in accordance with Commission cost reporting requirements.

Agree/Disagree: Agree

Answer: The CEO and the Board of Directors will establish a corporate Bonus Policy (per Title 1, Texas Administrative Code, Chapter 355) that will be reviewed and approved by the Board of Directors to be followed.

Responsible Party: Board of Directors

Target Date: Target Date: November 15, 2023

- Ensure that all expenditures on its cost report are adequately supported and properly classified.

Agree/Disagree: Agree

Answer: The CEO and the Accounting Staff will review all expenditures on a quarterly basis to ensure proper classification of expenses.

Responsible Party: CEO and Accounting Director

Target Date: Immediately

- Prepare its cost report in accordance with all requirements.

Agree/Disagree: Agree

Answer: Safe Haven used two separate preparers for the CPA and the GRO for 2022. Safe will move from 2 preparers to 1 preparer to help ensure that the information submitted for each are appropriate for the identified contract. The CEO will ensure that the Cost Report is prepared in accordance with all requirements. Reviewing all expenses quarterly will ensure the proper classification of expenses that are used on the Cost Report.

Responsible Party: CEO and Accounting Director

Target Date: Immediately

- Follow its review and approval procedures for foster parent payments.

Agree/Disagree: Agree

Answer: Safe Haven CEO has always reviewed, approved and confirms funding in email confirmation to the accounting office. The previous emails were lost in a server attack. The CEO will ensure that all reviews, confirmations, and approvals for foster parent payments are backed up with paper copy and saved on the MSN Network.

Responsible Party: CEO and Accounting Director

Target Date: Immediately

HIGH

Chapter 2-B
Safe Haven Adolescent Home – Foster Parent Monitoring

Safe Haven established a foster parent monitoring form and controls that were adequately designed to help ensure compliance with the Commission's *Minimum Standards*. However, Safe Haven did not consistently maintain supporting documentation to show that it performed the required monitoring visits with all foster homes. (See Background Information for more details about the monitoring visit requirements for child-placing agencies.)

Safe Haven did not consistently comply with foster home monitoring requirements.

Safe Haven could not provide monitoring documentation for 4 (36 percent) of 11 foster homes tested[9] to show that quarterly monitoring visits were conducted in compliance with the Commission's *Minimum Standards*. For those four foster homes, Safe Haven did not have evidence to verify that it obtained signatures of all foster parents present during visits and that it conducted:

- All quarterly supervisory visits.
- Visits with both foster parents present every six months.
- Visits with all household members at least once per year.
- At least two unannounced visits.

Safe Haven's management asserted that monitoring documentation was lost as the result of a ransomware attack on its email server in November 2022. Electronic copies of monitoring documentation were uploaded by case managers onto the email system for their supervisors to review. However, the electronic copies were lost because they were still on the email server at the time of the ransomware attack. Additionally, case managers did not maintain the original paper copy of the monitoring documents because the case managers destroyed those documents after the electronic copies were emailed

[9] The 11 foster homes were selected from 99 foster homes that had children in their care during Safe Haven's 2022 fiscal year.

to supervisors. As a result, auditors could not verify that those four foster homes received monitoring visits each quarter in accordance with the Commission's *Minimum Standards*.

Monitoring visits are a primary way for child-placing agencies to help ensure that foster homes comply with all Commission requirements. A lack of consistency in conducting and adequately documenting the results of all its monitoring visits weakens Safe Haven's ability to identify and monitor areas in which foster parents may need additional resources to meet the needs of the children in their care.

Recommendations

Safe Haven should maintain documentation of all its monitoring visits in compliance with the Commission's *Minimum Standards*.

Management's Response

> **Agree/Disagree:** Agree
>
> **Answer:** The CPA Licensed Program Administrator will ensure that all Quarterly Foster Home Monitoring Visit documents will be uploaded into Extended Reach (Client/Foster Home Database), and Submitted to the assigned Supervisor for review and approval. Once the Supervisor has approved the documentation, the Supervisor will Finalize/Complete/Save the Monitoring documents in Extended Reach. These documents will also be uploaded into the Secure Share File on the Safe Haven MSN Network.
>
> **Responsible Party:** CEO and Licensed Program Administrator
>
> **Target Date: Immediately**

HIGH

Chapter 3
New Pathways RTC, LLC – Fiscal Processes

New Pathways RTC, LLC (New Pathways), a licensed general residential operation, had control weaknesses over its financial processes, including its cost reporting process. Without adequate financial processes, there is an increased risk that New Pathways will not operate on a sound fiscal basis. (See Background Information for details about the fiscal requirements for a general residential operation and cost report requirements.)

Fiscal Year 2022 Summary [a]

General residential operation permit issued in 2020.

A limited liability company, located in Angleton, Texas.

24 employees

23 children served

Total revenue received from the Department for general residential operation services:	**$1,161,810**
Total expenditures reported on cost report:	**$1,062,822**

[a] From January 1, 2022, to December 31, 2022.

Sources: New Pathways, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

New Pathways had weaknesses in the controls over its financial processes.

New Pathways established controls over its financial processes that included:

- Review and approval of timesheets. All 18 hourly employee time sheets tested were appropriately reviewed and approved.
- Adequate controls over information technology, including appropriate user access, current antivirus protocols, and secure data backups.
- Documented policies and procedures that meet the Health and Human Services Commission's (Commission) *Minimum Standards for General Residential Operations* (*Minimum Standards*) in the areas of record-keeping, personnel, information technology, and conflicts of interest.

Additionally, personnel records associated with the payroll expenditures tested contained most of the information required by the Commission's *Minimum Standards*, which are listed in Title 26, Texas Administrative Code, Chapter 748, such as minimum qualifications for the position and job description.

However, New Pathways had weaknesses in other financial processes tested.

Annual Budget. New Pathways did not have a process for preparing an annual budget and did not create a budget for fiscal year 2022. The Commission's *Minimum Standards* require a general residential operation to establish and maintain a budget to help ensure that sufficient funds are on hand to maintain operations on a sound fiscal basis.

Bank Reconciliations. New Pathways did not perform reconciliations of its bank accounts during the fiscal year 2022 cost reporting period. However, reconciliations of all bank accounts were completed in June 2023, after auditors requested the information. A lack of periodic bank account reconciliations increases the risk that New Pathways might not identify errors, irregularities, and improper adjustments made to its bank accounts.

Financial Records. Of 29 non-payroll expenditures tested[10], 4 (14 percent) did not have adequate documentation to support the accuracy of the expenditures recorded in its general ledger. Specifically, those transactions, which included purchases from stores and a payment to an individual, did not have documentation, such as invoices or receipts, to support their accuracy. In addition, New Pathways did not have documentation to demonstrate the accuracy of the pay rates used to calculate payroll amounts paid to its hourly and salary employees for 26 of the payroll expenditures tested[11]. As a result, auditors could not verify whether these expenditures were accurately recorded in the general ledger.

Purchase Approval. New Pathways could not provide the signed expense approval forms for 8 (36 percent) of 22 applicable non-payroll expenditures tested, including the 4 expenditures that were missing supporting documentation discussed above, 3 expenditures that New Pathways indicated were verbally approved, and 1 expenditure that was missing an approval form. New Pathways created the approval form for its staff to complete when making

[10] The sample of non-payroll expenditures tested was based on a population of 639 transactions totaling $236,297 recorded in New Pathways' fiscal year 2022 general ledger.

[11] The sample of payroll expenditures tested was based on a population of 561 transactions totaling $637,524 recorded in New Pathways' fiscal year 2022 payroll register.

a purchase with its debit card. Staff are expected to submit the form and the receipt for approval to the administrator after making a purchase.

Lack of Financial Policies and Procedures. While New Pathways ensured that the appropriate staff prepared, submitted, and approved timesheets, and it established a form for approving purchases that staff made, it did not have documented policies and procedures for those financial processes. Written policies and procedures are important to help New Pathways comply with standards and maintain consistency in the performance of key processes by assisting staff in understanding those processes and holding staff accountable for following them.

New Pathways included unallowable costs and misclassified expenses on its cost report.

Auditors tested a sample of 29 non-payroll expenditures totaling $6,565, 26 payroll expenditures totaling $28,311, and 10 expenditure line items[12] on New Pathways' cost report, totaling $778,816. The expenditures tested were not always allowable and classified correctly. Specifically:

- **Unallowable expenditures.** New Pathways reported $28,086 in expenditures that were unallowable. This total includes the non-payroll and payroll expenditures discussed above that did not have documentation to support the accuracy and appropriateness of the transactions tested.
- **Related-party costs**. New Pathways reported all related-party transactions identified, which were payroll expenditures totaling $21,000, in accordance with the Commission's cost report requirements. However, the related-party cost was unallowable because New Pathways did not have documentation to support the accuracy of the pay rate for the salaries paid.
- **Misclassified expenditures.** New Pathways reported $3,937 in allowable but misclassified expenses on its cost report. For example, a monthly recurring expense classified as a medical expense was an office supply/software expense. The misclassified expenditures did not change

[12] The sample was selected by identifying significant line items that had high dollar amounts and a high risk of being misreported on the cost report.

the total amount of allowable and supported expenditures that New Pathways reported; however, misclassifications could cause misrepresentation of amounts for reimbursement that the Department of Family and Protective Services (Department) receives from the U.S. Department of Health and Human Services under Title IV-E Programs. (See Background Information for details about reimbursement rates.)

Recommendations

New Pathways should:

- Create an annual budget as required by the Commission's *Minimum Standards*.
- Maintain complete and accurate documentation that supports all financial transactions reported in the cost report.
- Verify that expense approval forms are completed and submitted for all debit card purchases made by its staff.
- Develop and implement written policies and procedures for its financial processes.
- Ensure that all expenditures on its cost report are adequately supported and properly classified.

Management's Response

General Statement

We are in the process of collaborating with our Certified Public Accountants (CPAs) to implement Expensify as our expense monitoring and reporting system. This new system will play a pivotal role in efficiently managing our company's spending by granting authorized employees their own corporate cards for company expenses while closely monitoring their activity.

Under this new system, employees will be mandated to scan their receipts directly into Expensify, eliminating the practice of copying and filing physical receipts. To ensure transparency and adherence to financial policies, we are in the process of developing comprehensive documentation that outlines various aspects, including approved spending guidelines, purchasing authority, expense recording procedures, communication standards, and more.

In partnership with our CPAs, we are also working to establish appropriate expense categories, set budgets for each category, and define spending limits in alignment with these categories. This will aid us in maintaining fiscal discipline and controlling costs effectively.

Moreover, we are in the process of creating a robust reporting and internal auditing system. This will enhance our ability to consistently monitor our expenses, promote accountability, and ensure compliance with our financial procedures and policies.

We appreciate your understanding and support as we work towards the successful implementation of this vital expense management system, which will contribute to the overall financial integrity of our organization.

Specific Responses

Create an annual budget as required by the Commission's Minimum Standards. (Agree)

- We've employed historical spending data to formulate a categorized budget for the future. Collaborating with our certified public accountants (CPAs), we're in the process of defining the expense categories, establishing budget allocations and limits for each category, and implementing alerts triggered by these category-specific spending thresholds.

Projected Implementation Date: 11-15-23

Job Title of Person responsible for implementation: Executive Assistant

Maintain complete and accurate documentation that supports all financial transactions reported in the cost report. (Agree)

- Every employee granted spending authority for New Pathways will be issued a corporate expense card, enabling us to maintain meticulous oversight and monitoring of all transactions.

Projected Implementation Date: 11-1-23

Job Title of Person responsible for implementation: Executive Assistant and Child Care Administrator

Verify that expense approval forms are completed and submitted for all debit card purchases made by its staff. (Agree)

- We will replace our current method of filling out paper forms and archiving receipts with Expensify's digital receipt-scanning system. This new system will automate the tracking and categorization of expenses, generating monthly reports for quicker and simpler expense monitoring, reporting, and reconciliation.

Projected Implementation Date: 10-16-23

Job Title of Person responsible for implementation: Executive Assistant and Child Care Administrator

Develop and implement written policies and procedures for its financial processes. (Agree)

- We are collaborating with our Certified Public Accountants (CPAs) and leveraging Expensify's resources to develop our spending and reporting policies and procedures.

Projected Implementation Date: 12-1-23

Job Title of Person responsible for implementation: Executive Assistant and CPAs

Ensure that all expenditures on its cost report are adequately supported and properly classified. (Agree)

- We are collaborating with our certified public accountants (CPAs) to harmonize our expenditure categories with the ones they employ for tax filing. This will ensure that our spending is correctly categorized. Additionally, we plan to integrate Expensify with our CPAs' accounting software and establish a reporting schedule to provide them with the necessary data to assist us in maintaining compliance.

Projected Implementation Date: 11-15-23

Job Title of Person responsible for implementation: Executive Assistant, Cost Report Preparer and CPA's

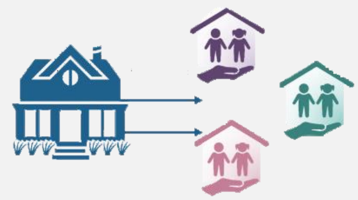
MEDIUM

Chapter 4-A

Presbyterian Children's Homes and Services – Fiscal Processes

Presbyterian Children's Homes and Services (Presbyterian Children's Homes), a licensed child-placing agency, had financial controls in place during its 2022 fiscal year to help maintain its operations on a sound fiscal basis. However, it should improve controls over its cost reporting process and payments to foster parents. Additionally, it should ensure that its board members comply with conflict-of-interest disclosure requirements. (See Background Information for details about the fiscal requirements for a child-placing agency and cost report requirements.)

Fiscal Year 2022 Summary [a]



Child-placing agency permit issued in 1999.

A nonprofit corporation located in Austin, Texas, with several branch facilities throughout Texas.[b]

138 employees

135 children served

Total revenue received from the Department for child-placement services:	**$1,356,793**
Total expenditures reported on cost reports:	**$6,403,801**

[a] From January 1, 2022, through December 31, 2022.

[b] The contract audited also includes facilities in Houston, Itasca, Wichita Falls, and Waxahachie, Texas.

Sources: Presbyterian Children's Homes, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

Presbyterian Children's Homes had adequate controls over certain financial processes.

Presbyterian Children's Homes financial controls included:

- Adopting an annual budget that was approved by the governing board for fiscal year 2022.
- Documenting policies and procedures for financial management and to meet the Health and Human Services Commission's (Commission)

Minimum Standards for Child-Placing Agencies (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 749, in the areas of record-keeping, personnel, and conflicts of interest.

- Preparing monthly bank reconciliations. All nine monthly bank reconciliations tested were appropriately completed and the applicable account balances reconciled to the general ledger.

- Maintaining adequate controls over information technology, including appropriate user access, antivirus protocols, and system backup procedures.

In addition, Presbyterian Children's Homes maintained the information required by the Commission's *Minimum Standards* in its personnel records for the eight employees associated with the payroll expenditures tested.

Presbyterian Children's Homes reported allowable costs that included misclassified expenditures on its cost report.

Auditors tested a sample of 32 non-payroll expenditures[13] totaling $8,607, 19 payroll expenditures[14] totaling $32,357, and 8 expenditure line items[15] from Presbyterian Children's Homes' cost report, totaling $2,463,554. The fiscal year 2022 cost report reconciled to the provider's general ledger and expenditures were allowable and supported in accordance with the Commission's cost report requirements. However, the expenditures tested were not always classified appropriately in its cost report. Specifically, Presbyterian Children's Homes misclassified $12,947 in allowable expenses, which affected 4 (50 percent) of the 8 expenditure line items tested. For example, $12,005 of the misclassified expenditures were related to internet expenses classified as non-depreciable equipment. The misclassified expenditures did not change the total amount of

[13] The sample of non-payroll expenditures tested was based on a population of 568 transactions totaling $90,001 recorded in Presbyterian Children's Homes' fiscal year 2022 general ledger.

[14] The sample of payroll expenditures tested was based on a population of 149 transactions totaling $294,755 recorded in Presbyterian Children's Homes fiscal year 2022 payroll register.

[15] The sample was selected by identifying significant line items that had high dollar amounts and a high risk of being misreported on the cost report.

allowable and supported expenditures that Presbyterian Children's Homes reported; however, misclassifications could cause misrepresentation of amounts for reimbursement that the Department of Family and Protective Services (Department) receives from the U.S. Department of Health and Human Services under Title IV-E Programs. (See Background Information for details about reimbursement rates.)

Presbyterian Children's Homes should strengthen controls to maintain accuracy of foster parent payments.

Presbyterian Children's Homes implemented processes to help ensure that foster parent payments were supported, approved, and accurately recorded in its general ledger. However, it should strengthen its controls to verify that its foster parents are paid at the correct daily rate. Of 32 foster parent payments tested[16], 5 (16 percent) were calculated using an incorrect daily rate, resulting in underpayments to foster families. Specifically:

- Presbyterian Children's Homes issued three foster parent payments from July through September 2022 at the moderate daily rate for a foster child. However, the Department used the higher, specialized daily rate for those three payments to Presbyterian Children's Homes for that foster child. Using the lower daily rate resulted in the provider underpaying the foster parents a total of $536 from July through September 2022.

  Presbyterian Children's Homes did not receive payments from the Department for July through September 2022—which would have shown an increase in the daily rate—until November 2022. However, Presbyterian Children's Homes did not identify the daily rate discrepancy once the three payments were received, and as a result it did not correct the prior payments to the foster parents. Presbyterian Children's Homes asserted that it was not aware the daily rate had

[16] The sample of foster parent payments identified was based on a population of 972 foster care payments from the Department to Presbyterian Children's Homes for fiscal year 2022. Each payment was tested to determine its accuracy based on level of care and days of service. (See the Fiscal Year 2022 Summary on the first page of this chapter for the total revenue that Presbyterian Children's Homes received from the Department.)

changed for those three payments until after auditors brought the matter to its attention.

- Two foster care payments were calculated at an incorrect daily rate, resulting in underpayments to the foster parents totaling $669 for the months of April and May 2022.

(See Appendix 2 for information on the required daily rate paid to foster families per child).

Presbyterian Children's Homes should verify that all board members complete conflict-of-interest forms annually.

Presbyterian Children's Homes adopted a conflict-of-interest policy, in accordance with the Commission's *Minimum Standards*, that required its trustees, board members, and officers to complete a Conflicts of Interest Annual Disclosure Statement yearly; however, 7 (41 percent) of 17 board members did not complete the required form for fiscal year 2022. The annual submission of the required form helps ensure that the majority of the governing board's voting members do not have a conflict of interest that would potentially interfere with objective decision-making.

Recommendations

Presbyterian Children's Homes should:

- Strengthen controls to ensure that expenditures are classified appropriately in its general ledger.
- Reimburse its foster families in accordance with Department requirements.
- Verify the accuracy of the daily rate used to calculate the foster parent reimbursement amount prior to payment.
- Ensure that all board members complete the conflict-of-interest disclosure forms as required.

Management's Response

SAO Finding: Presbyterian Children's Homes reported allowable costs that included misclassified expenditures on its cost report.

SAO Recommendation: Strengthen controls to ensure expenditures are classified appropriately in its general ledger.

Management's Response: Presbyterian Children's Homes agrees with this finding and the related recommendation. Please note, the misclassification was related to allowable expenses, and was caused by an inadvertent error when copying data from our general ledger into the cost report. Moving forward, Presbyterian Children's Homes will review the transfer of data more closely to ensure accuracy.

SAO Finding: Presbyterian Children's Homes should strengthen controls to maintain accuracy in foster parent payments.

SAO Recommendation: Reimburse its foster families in accordance with Department requirements.

Management's Response: Presbyterian Children's Homes agrees with this finding and the related recommendations. Please note, the Department is required to alert all child placing agencies of any changes in the level of care of foster children. The reimbursement associated with this finding was related to one foster family and was centered around payments the Department failed to make to Presbyterian Children's Homes for three consecutive months, July through September, for unknown reasons. As required by the Commission's Minimum Standards, Presbyterian Children's Homes submitted monthly payments to the foster family, during the aforementioned three months, at the moderate level of care rate until the child's discharge, as no other information was provided by the Department regarding a change in the child's level of care. After the SAO brought the discrepancy to the attention of Presbyterian Children's Homes, immediate action was taken, and the total deficiency payment was made to the foster family involved. Moving forward, Presbyterian Children's Homes will conduct an additional reconciliation related to level of care payment discrepancies for each licensed home and foster child, flag any discrepancies, and report them to the Department for verification. Presbyterian Children's Homes will also maintain an active list of all impacted clients, notes on follow up communication with the Department, and final resolution dates for auditing purposes.

SAO Recommendation: Verify the accuracy of the daily rate used to calculate the foster parent reimbursement amount prior to payment.

Management's Response: Presbyterian Children's Homes agrees with this finding and the related recommendations. Please note, the reimbursement associated with this finding was related to one foster family. Moving forward, Presbyterian Children's Homes will conduct an additional reconciliation related to level of care payment discrepancies for each licensed home and foster child, and report them to internal staff for verification prior to submitting payment to the foster family.

SAO Finding: Presbyterian Children's Homes should verify that all board members complete conflict-of-interest forms annually.

SAO Recommendation: Ensure that all board members complete the conflict-of-interest disclosure forms as required.

Management's Response: Presbyterian Children's Homes agrees with this finding and related recommendation. Note that during 2022, there were no known actual conflicts of interest or related party transactions. Also, all board members have completed an annual conflict-of-interest disclosure form during 2023, and no conflicts of interest or related party transactions were reported. Moving forward, Presbyterian Children's Homes will follow up to ensure that all trustees complete a disclosure form annually.

MEDIUM

Chapter 4-B
Presbyterian Children's Homes and Services – Foster Parent Monitoring

Presbyterian Children's Homes established a foster parent monitoring form and controls that were adequately designed to help ensure compliance with most of the Commission's *Minimum Standards* requirements. However, Presbyterian Children's Homes should strengthen those controls to ensure that the monitoring visits are conducted in accordance with all requirements. (See Background Information for more details about the monitoring visit requirements for child-placing agencies.)

Presbyterian Children's Homes complied with most foster home monitoring requirements.

Presbyterian Children's Homes conducted monitoring visits with foster children in the 10 foster homes tested[17] including (1) quarterly supervisory visits and (2) at least one monitoring visit with all household members present. Additionally, Presbyterian Children's Homes performed two unannounced monitoring visits for eight applicable foster homes tested. Presbyterian Children's Homes' monitoring documentation included observations on the well-being of the children and any follow-up actions needed.

However, Presbyterian Children's Homes could not provide documentation to show that it conducted monitoring visits every six months with both foster parents for 4 (50 percent) of the 8 applicable foster homes tested.

Monitoring visits are a primary way for child-placing agencies to help ensure that foster care homes comply with all Commission requirements. A lack of consistency in conducting and adequately documenting its visits with both foster parents weakens Presbyterian Children's Homes' ability to identify areas

[17] The 10 foster homes were selected from 72 foster homes that had children in their care during Presbyterian Children's Homes' 2022 fiscal year.

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

Recommendations

Presbyterian Children's Homes should implement a process to verify that monitoring visits are conducted with both foster parents present at least once every six months, in compliance with the Commission's *Minimum Standards*.

Management's Response

> **SAO Finding:** Presbyterian Children's Homes complied with most foster home monitoring requirements.
>
> **SAO Recommendation:** Presbyterian Children's Homes should implement a process to verify that monitoring visits are conducted with both foster parents present, at least once every six months, in compliance with the Commission's Minimum Standards.
>
> **Management's Response:** Presbyterian Children's Homes agrees with this finding and related recommendation. Please note, based on the information documented in the monthly Contact Notes for each foster home, all families had contacts every six months where both foster parents were present. However, in some instances, the form verifying these visits was signed by one foster parent but not both. Moving forward, Presbyterian Children's Homes will modify agency forms to require signatures from all foster parents present at a visit.

Appendix 1

Objectives, Scope, and Methodology

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

Jacqueline Thompson, CFE (Project Manager)

Ileana Barboza, MBA, CFE, CGAP

Alex Kipple

Derek Lan

Tyler Miller, MPSA, CFE

Daniel Spencer, MSA, CFE

Daniel Aung Thu

Kiara White, MPP, CFE

Sarah Puerto, CIA, CFE (Quality Control Reviewer)

Willie Hicks, CIA, MBA, CGAP (Audit Manager)

Objectives

The objectives of this audit were to perform on-site financial audits of selected residential foster care contractors (providers) and verify whether the selected providers 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 providers.

Scope

The scope of this audit included the fiscal year 2022 cost-reporting period for four selected providers that delivered 24-hour residential child care services for the Department of Family and Protective Services (Department). The scope also included a review of significant internal control components related to the providers' financial and foster parent monitoring processes.

Methodology

We conducted this performance audit from March 2023 through October 2023 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. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to each provider's management for consideration.

Addressing the Audit Objectives

We selected four providers to audit based on (1) risk rankings developed by auditors with input from the Department, (2) contract value, and (3) the type of contract and the location of the provider. The four providers selected were:

- Promise Rose Residential Care Home Inc., a general residential operation.
- Safe Haven Adolescent Home, a child-placing agency.
- New Pathways RTC, LLC, a general residential operation.
- Presbyterian Children's Homes and Services, a child-placing agency.

During the audit, we performed the following:

- Tested appropriateness of user access controls over the information systems used by the providers and, if applicable, their subcontractors. We tested the entire population of users for the information systems identified.
- Determined whether selected providers had adequate controls over financial processes, foster parent monitoring, and cost reporting, to ensure compliance with requirements in Texas Administrative Code, Title 1, Chapter 355, and Title 26, Chapters 748 and 749; and the Commission's *2022 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)*, by:

- Interviewing management and staff at the Commission, the Department, and the providers to identify processes for managing fiscal responsibilities, cost reporting, and monitoring foster parents, including the internal controls and information that supports those processes.
- Reviewing providers' policies and procedures.
- Testing all related-party expenditures reported on the providers' cost reports or identified throughout testing.
- Comparing providers' general ledgers to selected expenditure line items on providers' cost reports. We selected line items based on certain risk factors.
- Determining whether providers reconciled all applicable bank accounts appropriately by testing a non-representative sample of three monthly bank reconciliations.
- Selecting and testing non-statistical samples of the following:
  - Providers' expenditures, payroll records, foster parent payments (if applicable), and related internal controls.
  - Child-placing agencies' monitoring records of foster families.

  The majority of the samples were chosen through random selection. In some cases, we selected sample items based on certain risk factors. In addition, the samples described were not necessarily representative of the population and the results, as reported, do not identify which items were randomly selected or selected based on risk factors; therefore, it would not be appropriate to project the test results to the population. See the report chapters for information about the sample sizes, including the populations used and the risk factors considered to select samples.

Data Reliability and Completeness

For financial data and payroll data collected from providers, we assessed the reliability of the data collected by reconciling (1) financial data to trial balance reports and (2) payroll data to the financial data. The financial data and payroll data collected from the four providers were sufficiently reliable for the purposes of this audit.

Report Ratings

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.

Appendix 2

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 the service level for each child. Child-placing agencies are required to reimburse foster families the minimum daily rate for children receiving services under a contract with the Department of Family and Protective Services. Figure 3 lists the 24-hour child care rates effective September 1, 2019, for the selected providers audited.

Figure 3

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

Child's Service Level Classification	Minimum Daily Rate Paid to Foster Family	Daily Rate Paid to Child-Placing Agency	Daily Rate Paid to General Residential Operation
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

Source: The Department of Family and Protective Services.

Appendix 3

Related State Auditor's Office Reports

Report Number	Report Name	Release Date
23-006	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2022
22-006	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2021
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

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 Joan Huffman, 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. Stephanie Muth, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Promise Rose Residential Care Home Inc.

Safe Haven Adolescent Home

New Pathways RTC, LLC

Presbyterian Children's Homes and Services