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A Report on

On-site Audits of Residential Child Care Providers

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On-site Audits of Residential Child Care Providers

Overall Conclusion

Two of the five residential child care providers (providers) audited appropriately spent federal and state funds to pay the costs they incurred for providing 24-hour residential child care services. Those providers were:

- Harmony Family Services, Inc. (see Chapter 1).
- Seton Home (see Chapter 2).

Two of the five providers audited appropriately spent federal and state funds for the majority of the expenditures that they reported on their 2009 cost reports and that auditors tested. However, those providers did not have adequate supporting documentation for a portion of the expenditures that auditors attempted to test. Those providers were:

- Behavioral Healthcare Services, Inc. (doing business as LoneStar Solutions, see Chapter 3).
- Houston Serenity Place, Inc. (see Chapter 4).

The remaining provider audited—Beacon of Hope Foster Care Agency, Inc.—had substantial weaknesses in its financial processes, and auditors were unable to determine whether it appropriately spent the federal and state funds it reported on its 2009 cost report. This provider (1) did not create or maintain documentation for the preparation of its 2009 cost report; (2) did not maintain sufficient documentation for expenditures auditors selected for testing; and (3) did not consistently, accurately, or appropriately record all revenue and expenditures in its general ledger and on its 2009 cost report (see Chapter 5).

The direct care and administrative costs that providers incur help to ensure the delivery of goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the providers' care. Providers deliver these services through contracts with the Department of Family and Protective Services (Department) and report their revenue and expenditures on annual cost reports.

Background Information

During fiscal year 2009, the Department of Family and Protective Services (Department) had 411 contracts with 232 providers to provide residential child care on a 24-hour basis.

The Department paid all providers approximately \$329,407,504 for providing services to the 23,605 children in foster care during fiscal year 2009.

Approximately 68 percent of the funding for these services came from the federal government and approximately 32 percent came from the State.

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

Source: The Department of Family and Protective Services.

While some of the providers had weaknesses in maintaining adequate supporting documentation for their cost reports and/or financial processes, all five providers substantially complied with the Department’s requirements related to background checks, training, certifications, screenings, and payments to foster parents (when applicable).

Table 1 summarizes the five providers’ compliance with the requirements audited. Auditors also communicated less significant issues separately in writing to each provider.

Table 1

Summary of the Five Providers’ Compliance with the Requirements Audited					
Requirement	Providers				
	Harmony Family Services, Inc. (Abilene, TX) See Chapter 1	Seton Home (San Antonio, TX) See Chapter 2	Behavioral Healthcare Services, Inc. (doing business as LoneStar Solutions) (Arlington, TX) See Chapter 3	Houston Serenity Place, Inc. (Houston, TX) See Chapter 4	Beacon of Hope Foster Care Agency, Inc. (Corpus Christi, TX and Harlingen, TX) See Chapter 5
Maintain all required documentation of training, certifications, and screenings for <u>foster parents</u> .	FC	N/A	FC	N/A	SC
Maintain all required documentation of training, certifications, and screenings for <u>employees</u> .	SC	SC	SC	SC	FC
Submit all background checks for <u>foster parents</u> as required.	SC	N/A	SC	N/A	SC
Submit all background checks for <u>employees</u> as required.	SC	SC	SC	SC	SC
Pay all foster parents accurately and appropriately.	FC	N/A	SC	N/A	FC
Comply with cost report requirements.	FC	SC	FC	SC	NC
Maintain supporting documentation for all expenditures that auditors tested.	FC	FC	SC	SC	NC
FC= Full compliance (provider met all Department requirements). SC= Substantial compliance (provider met the majority of Department requirements). NC= Non-compliance (provider did not comply). N/A = Not applicable because provider is not a child placing agency.					

Under their unit rate contracts with the Department, providers are paid an amount per child per day for delivering services. The Department does not control how providers spend the payments, as long as the providers (1) spend these funds legally and (2) account for their expenditures accurately in cost reports they submit to the Health and Human Services Commission for rate-setting purposes. Expenditures reported as unallowable costs are not included in the cost data used to set unit rates. During calendar year 2009, the Department paid the five providers audited approximately \$4,983,425 to provide services to 562 children.

Summary of Providers' Responses

The five providers audited were in general agreement with the recommendations that were addressed to them, and their responses are presented in Appendices 5 through 9 beginning on page 48.

Summary of Information Technology Review

The five residential child care providers audited had a variety of information technology controls over automated systems, applications, and data. While some providers had stronger controls than others, auditors identified opportunities for improvement at all five providers. The information technology issues identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the providers' ability to ensure the integrity of their data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted. To minimize the risks associated with public disclosure, auditors communicated details regarding these issues in writing directly to the providers.

Auditors did not travel to the parent company of Behavioral Healthcare Services, Inc. (doing business as LoneStar Solutions) in Kentucky to verify the environment surrounding the physical access and physical security of the provider's automated systems, applications, and data.

Summary of Objective, Scope, and Methodology

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

The audit scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between January 2009 and December 2009. In addition, the scope included verifying whether providers ensured that professionally licensed staff and direct care staff met the Department's requirements for qualifications and training.

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

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Detailed Results

Chapter 1

Harmony Family Services, Inc.

Harmony Family Services, Inc. Background Information Calendar Year 2009	
Location	Abilene, TX
Contract services audited	Child placing agency
Number of children served	16
Average length of a child's stay in days	293
Total revenue requested from the Department	\$183,154
Total revenue for child placing agency services	\$226,145
Federal tax filing status	Non-profit
Bank balance as of December 31, 2009 ^a	\$71,016
Number of program staff at year end	2
Staff turnover rate (program staff)	0 percent

^a The bank balance is for the provider's entire organization, including its child placing agency and its emergency shelter.

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

Harmony Family Services, Inc. (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. The direct care and administrative costs the provider incurred included (1) payments to foster parents with whom the provider placed children and (2) payments for expenses for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of children placed in the provider's care.

The provider's external accounting firm performed all of the provider's financial activities, including preparing the provider's cost report and processing its payroll. Auditors tested revenue and expenditures reported on the provider's 2009 cost report, including payroll, and did not identify any significant issues regarding the preparation of the cost report or related transactions.

Auditors also determined that the provider:

- Submitted all foster parents tested for initial background checks and maintained documentation of those checks in accordance with Department requirements. The provider submitted the majority of employees and volunteers tested for initial and subsequent background checks in accordance with the Department's requirements. It did not submit the majority of foster care parents tested for subsequent background checks in accordance with the Department's requirements. (See Chapter 1-A.)

- Correctly calculated and appropriately made all payments to foster parents tested.
- Maintained documentation of all required training, certifications, and screenings for all foster parents tested. It maintained that documentation for all but one of the employees and volunteers tested. (See Chapter 1-B.)

Auditors tested information technology controls at the provider and at the external accounting firm that performed all of the provider's financial activities, including preparing its cost report and processing its payroll. While

the provider and the external accounting firm had firewalls to protect their automated systems, auditors identified opportunities for improvement in access to and the security environment surrounding the provider's and external accounting firm's automated systems, applications, and data. (See Chapter 1-C.)

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

Chapter 1-A

The Provider Should Submit Employees, Volunteers, and Foster Parents for Background Checks in Accordance with the Department's Requirements

The provider submitted the majority of employees, volunteers, and foster parents for background checks to the Department in accordance with the Department's requirements. The Department requires that those individuals clear initial background checks before they start work (for employees or volunteers) or before the provider deems their homes eligible for the placement of children (for foster parents). The Department also requires providers to submit employees, volunteers, and foster parents for subsequent background checks every 24 months thereafter.

Auditors tested all five employees and volunteers who worked at the provider during calendar year 2009 and determined the following:

- **Initial background checks.** One (20 percent) of 5 employees and volunteers cleared the initial background checks prior to the date the individual started working at the provider. Two (40 percent) cleared the initial background checks 2 to 4 days after the individuals started working at the provider. Auditors did not test the remaining 2 individuals (40 percent) for initial background checks because those individuals began working at the provider before the Department began requiring background checks.
- **First subsequent background checks.** The provider was required to submit 4 employees and volunteers for the first subsequent background checks, and it did so for all 4 individuals within 24 months of the previous background checks, as required.
- **Second subsequent background checks.** The provider was required to submit four employees and volunteers for the second subsequent background checks. It submitted 1 (25 percent) of those 4 for the second subsequent background check within 24 months of the previous background check, as required; it submitted the remaining 3 (75 percent) for the second subsequent background checks 59 to 173 days late.

Harmony Family Services, Inc.

Auditors tested all 11 foster parents who contracted with the provider during calendar year 2009 and determined the following:

- Initial background checks. All 11 foster parents tested cleared the initial background checks prior to the provider deeming their homes eligible for the placement of children.
- First subsequent background checks. The provider was required to submit nine foster parents for the first subsequent background checks. It submitted 6 (67 percent) of those 9 for the first subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 3 (33 percent) for the first subsequent background checks 12 to 15 days late.
- Second subsequent background checks. The provider was required to submit six foster parents for the second subsequent background checks. It submitted 1 (17 percent) of those 6 for the second subsequent background check within 24 months of the previous background check, as required; it submitted the remaining 5 (83 percent) for the second subsequent background checks 85 to 181 days late.

The provider may be placing children at risk by not waiting for individuals to clear the background checks prior to their starting work. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry system for cases of abuse or neglect. All of the provider's employees, volunteers, and foster parents cleared the background checks, and the provider had current background checks in its files as of auditors' site visit in June 2010.

Auditors also independently performed criminal background checks for all employees, volunteers, and foster parents (including foster home household members age 14 or older) affiliated with the provider as of auditors' site visit and determined that there were no reported offenses that violated the Department's minimum standards.

Recommendations

The provider should:

- Submit employees, volunteers, and foster parents for initial and subsequent background checks in accordance with the Department's requirements.
- Receive notification from the Department that an individual cleared the background check prior to having the individual start work.

Chapter 1-B

The Provider Should Maintain Documentation of All Required Screenings for Employees

The provider maintained documentation of training, certifications, and screenings for all 11 foster parents tested, as required. It maintained this documentation for 5 (83 percent) of the 6 employees and volunteers tested. (See Appendix 4 for specific requirements.) The personnel file for 1 (17 percent) of the 6 employees did not contain a copy of the required tuberculosis screening; that employee was an administrative assistant, and the provider was not aware that the employee was required to have a tuberculosis screening.

The provider may be placing children at risk by not ensuring that all employees obtain the required tuberculosis screenings. While the administrative assistant may not work directly with foster children, this individual has contact with other staff who do have contact with foster children. After auditors brought this to the provider's attention, the employee obtained the required screening.

Recommendation

The provider should ensure that all employees obtain tuberculosis screenings and maintain the required documentation.

Chapter 1-C

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

The provider's use of automated systems was limited because an external accounting firm performed all of the provider's financial activities, including processing payroll, preparing cost reports, and maintaining financial data. Auditors tested information technology controls at the provider and the external accounting firm and determined that each entity had a firewall to protect its automated systems. However, auditors identified opportunities for improvement at the provider and the external accounting firm in the following areas:

- Information system policies and procedures.
- Network and application security, including access controls.
- Physical security.

Harmony Family Services, Inc.

- Data back-up and recovery.

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

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. The provider had an audit trail and compensating controls to prevent and detect instances in which data was inappropriately altered or deleted.

Recommendations

The provider should:

- Review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data at both the provider and the external accounting firm.
- Implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.
- Consider requesting that its external accounting firm implement the recommendations determined to be appropriate for improving the security of that firm's automated systems, applications, and data.

Seton Home Background Information Calendar Year 2009	
Location	San Antonio, TX
Contract services audited	General residential operation
Number of children served	92
Average length of a child's stay in days	154
Total revenue requested from the Department	\$748,713
Total revenue for general residential operation services	\$2,787,137
Federal tax filing status	Non-profit
Bank balance as of December 31, 2009	\$154,724
Number of program staff at year end	59
Staff turnover rate (program staff)	63 percent

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

Seton Home (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. The costs the provider incurred included (1) programmatic expenses and (2) administrative expenses incurred in operating a 24-hour general residential child care center. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures the provider reported on its 2009 cost report, including payroll, and the provider's process for tracking funds due from and received from the Department. With the exception of cost report issues discussed in Chapter 2-C, auditors did not identify any significant issues related to the provider's financial transactions.

Auditors also determined that the provider:

- Submitted the majority of employees and volunteers tested for initial and subsequent background checks in accordance with the Department's requirements. (See Chapter 2-A.)
- Maintained documentation of required training, certifications, and screenings for the majority of employees and volunteers tested. (See Chapter 2-B.)
- Reported the correct amounts of total revenue and expenditures on its 2009 cost report. However, the provider did not consistently report revenue and expenditures in the appropriate line items on its cost report. (See Chapter 2-C.)
- Implemented strong information technology controls in May 2010. Those controls included detailed information technology policies and procedures, a network firewall, and backup and recovery policies and procedures. However, there are opportunities for improvement in access to and the security environment surrounding the provider's automated systems, applications, and data. (See Chapter 2-D.)

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

Chapter 2-A

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

The provider submitted the majority of employees and volunteers tested for background checks to the Department in accordance with the Department's requirements. The Department requires that employees and volunteers clear the initial background checks before they start work. The Department also requires providers to submit employees and volunteers for subsequent background checks every 24 months thereafter.

Auditors tested a sample of 30 employees and volunteers who worked at the provider during calendar year 2009 and determined the following:

- **Initial background checks.** Twenty-six (87 percent) of 30 employees and volunteers tested cleared the initial background checks prior to the date the individuals started working at the provider. The four remaining employees cleared the initial background checks after starting work at the provider. In 2006, the Department cited the provider for allowing 3 (75 percent) of those 4 employees to start work before they cleared the initial background checks, and the provider changed its process for submitting individuals for background checks. However, in 2008, the remaining 1 (25 percent) of those 4 employees started working at the provider two days before the employee cleared the initial background check.
- **First subsequent background checks.** The provider was required to submit 10 employees and volunteers for the first subsequent background checks, and it did so for all 10 individuals within 24 months of the previous background checks, as required.
- **Second subsequent background checks.** The provider was required to submit 6 employees and volunteers for the second subsequent background checks, and it did so for all 6 individuals within 24 months of the previous background checks, as required.

The provider may be placing children at risk by not waiting for individuals to clear the background checks prior to their starting work. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry system for cases of abuse or neglect. All of the provider's employees and volunteers tested cleared the background checks, and the provider had current background checks in its files as of auditors' site visit in May 2010.

Auditors independently performed criminal background checks for all employees and volunteers affiliated with the provider as of auditors' site visit and determined that there were no reported offenses that violated the Department's minimum standards.

Recommendations

The provider should:

- Submit employees and volunteers for initial background checks in accordance with the Department's requirements.
- Receive notification from the Department that an individual cleared the background check prior to having the individual start work.

Chapter 2-B

The Provider Should Maintain Documentation of All Required Screenings, Training, and Certifications for Employees and Volunteers

The provider maintained documentation of all required screenings, training, and certifications for 24 (80 percent) of 30 employees and volunteers tested, as required. (See Appendix 4 for specific requirements.) The provider did not maintain documentation for six employees and volunteers tested. Specifically, the provider did not have documentation of:

- Tuberculosis screenings for 4 volunteers (13 percent) of the 30 employees and volunteers tested. The provider did not follow up with the volunteers to ensure that they obtained these screenings.
- Pre-service and orientation training for 1 employee (3 percent) of the 30 employees and volunteers tested.
- Current first aid certification for calendar year 2009 for 1 employee (7 percent) of 14 employees required to have this certification.

The provider may be placing children at risk by not ensuring that volunteers obtain the required tuberculosis screenings. In addition, without documentation, auditors could not verify that employees met the Department's minimum standards regarding training and certifications.

Recommendation

The provider should maintain all required documentation of screenings, training, and certifications for employees and volunteers.

Chapter 2-C

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider reported the correct amounts of total revenue and expenditures on its 2009 cost report. However, the provider did not consistently report revenue and expenditures in the appropriate line items. The provider misclassified \$94,374 in revenue it received from counties as revenue received from the Department. The provider also misclassified \$36,758 in administrative and direct care expenses on its cost report. Specifically, the provider:

- Misclassified direct care expenses totaling \$2,560 as administrative expenses.
- Reported administrative expenses totaling \$6,752 on the incorrect administrative expense line items.
- Reported direct care expenses totaling \$27,446 on the incorrect direct care expense line items.

The Health and Human Services Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. Not reporting accurate financial data on a cost report could cause the daily rates to be set at an inappropriate amount.

Recommendation

The provider should prepare and maintain its cost report in accordance with requirements.

Chapter 2-D

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

The provider had weaknesses in access to and the security environment surrounding automated systems, applications, and data for the time period that auditors tested (January 2009 to December 2009). However, in May 2010, the provider implemented strong controls, including detailed information technology policies and procedures, a network firewall, and backup and recovery policies and procedures.

Auditors identified opportunities for improvement in the following areas:

- Physical security.
- Passwords.

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

Recommendations

The provider should:

- Review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.
- Implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.

Behavioral Healthcare Services, Inc. (dba LoneStar Solutions)

Chapter 3

Behavioral Healthcare Services, Inc. (doing business as LoneStar Solutions)

LoneStar Solutions Background Information Calendar Year 2009	
Location	Arlington, TX
Contract services audited	Child placing agency
Number of children served	78
Average length of a child's stay in days	193
Total revenue requested from the Department	\$1,069,914
Total revenue for child placing agency services	\$1,069,914
Federal tax filing status	Non-profit
Bank balance as of December 31, 2009	\$9,897
Number of program staff at year end	10
Staff turnover rate (program staff)	20 percent

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

Behavioral Healthcare Services, Inc., which does business as LoneStar Solutions (provider), appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay for the majority of the direct and administrative costs incurred for providing 24-hour residential child care services. However, the provider was unable to provide adequate supporting documentation for \$68,552 (8 percent) of the \$903,790 in expenditures that auditors attempted to test (the provider also included a portion of those expenditures on its 2009 cost report). Therefore, auditors were unable to determine whether the provider appropriately spent those funds or accurately reported them on its cost report. (See Chapter 3-A.)

The direct and administrative costs the provider incurred included (1) payments to foster parents with whom the provider placed children and (2) payments for expenses for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

The provider's parent company performs the majority of the provider's financial activities, including processing payroll and preparing the cost report. The provider's involvement with these processes is limited, but the provider is responsible for calculating foster parent payments and maintaining the supporting documentation for training and background checks. Auditors tested revenue and expenditures on the provider's 2009 cost report and identified certain issues that were not considered to be significant (those issues related to the parent company's recording of information for its other subsidiaries in the provider's general ledger and including them on the provider's cost report).

Auditors also determined that the provider:

- Correctly calculated and paid all but 1 (3 percent) of 30 foster parent payments tested. (See Chapter 3-A.)
- Did not ensure that its employees consistently complied with its parent company's policies and procedures regarding accurately recording time worked. (See Chapter 3-A.)
- Did not comply with background check requirements for initial background checks because it used a third-party contractor to conduct

Behavioral Healthcare Services, Inc. (dba LoneStar Solutions)

these checks prior to submitting the potential employees and foster parents to the Department to conduct the initial background checks. However, the majority of the employees and foster parents tested cleared the initial background checks the Department conducted prior to the individuals starting work (for employees) and prior to their homes being deemed eligible for the placement of children (for foster parents). The provider submitted the majority of employees and foster parents tested for subsequent background checks in accordance with the Department's requirements. (See Chapter 3-B.)

- Maintained documentation of all required training, certifications, and screenings for all foster parents tested. It maintained that documentation for all but three employees tested. (See Chapter 3-C.)

The provider's parent company, which is located in Kentucky, creates, monitors, and maintains the provider's automated systems, applications, and data. Auditors did not travel to Kentucky to audit the environment surrounding the physical access and physical security of the provider's automated systems, applications, and data. However, auditors tested information technology controls at the provider. The provider had a firewall to protect its automated systems and limited information technology policies and procedures, but auditors identified areas for improvement in access to and the security environment surrounding its automated systems, applications, and data. (See Chapter 3-D.)

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

Chapter 3-A

The Provider Should Improve Its Documentation of Financial Information

The provider did not consistently maintain adequate documentation to support the financial information it reported on its 2009 cost report. The provider was unable to provide supporting documentation for \$68,552 (8 percent) of the \$903,790 in expenditures that auditors attempted to test. The provider also included a portion of those expenditures on its 2009 cost report. Therefore, auditors were unable to determine whether the provider appropriately spent these funds or reported them accurately on its cost report.

The Texas Administrative Code and the Health and Human Services Commission's *Specific Instructions for the Completion of the 2009 Texas 24-Hour Residential Child Care Cost Report Instructions* include requirements for maintaining records that are accurate and sufficiently detailed to support financial information reported in cost reports. (See Appendix 4 for these requirements.)

Behavioral Healthcare Services, Inc. (dba LoneStar Solutions)

The provider's parent company performs the majority of the provider's financial activities, including processing payroll and preparing the cost report. The provider's involvement with these processes is limited, but the provider is responsible for calculating foster parent payments and maintaining the supporting documentation for training and background checks.

Auditors tested revenue and expenditures reported on the provider's 2009 cost report and identified certain issues that were not considered to be significant (those issues related to the parent company's recording of information for its other subsidiaries in the provider's general ledger and including them on the provider's cost report).

In addition, auditors determined that the provider correctly calculated and paid all but 1 (3 percent) of 30 foster parent payments tested. The provider calculated one payment incorrectly because it did not reconcile the foster parent payments paid by the parent company to the provider's records of days of service and service level. Without reconciling this information, the provider and the parent company cannot ensure that payments to foster parents are accurate.

Auditors also tested payroll transactions and determined that two employees did not "clock in" and "clock out" to record their actual hours worked, as required by the parent company's policies. Instead, in the payroll system, the provider recorded that the employees worked 8 hours each day. As a result, the provider did not have documentation supporting actual hours worked for 5 (17 percent) of 30 employee timesheets tested. The parent company was unaware that the two employees did not follow its timekeeping policies.

Recommendations

The provider should:

- Record and maintain complete and accurate financial data, including supporting documentation for expenditures.
- Reconcile foster parent days of service and service levels to foster parent payments paid by its parent company to ensure that payments to foster parents are correct.
- Follow policies and procedures for recording time worked.

Behavioral Healthcare Services, Inc. (dba LoneStar Solutions)

Chapter 3-B

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

The provider used a third-party contractor to conduct the initial background checks for potential employees and foster parents and then subsequently submitted those individuals' names to the Department. As a result, the potential employees and foster parents were not consistently checked against the Department's central registry database of child abuse and neglect investigations prior to their starting work (for employees) or before the provider deemed their homes eligible for the placement of children (for foster parents).

The Department requires that individuals clear initial background checks before they start work (for employees) or before the provider deems their homes eligible for the placement of children (for foster parents). The Department also requires providers to submit employees and foster parents for subsequent background checks every 24 months thereafter.

Auditors tested all 12 employees who worked at the provider's child placing agency during calendar year 2009 and determined the following:

- **Initial background checks.** Eight (67 percent) of 12 employees cleared the initial background checks the provider submitted to the Department prior to the date the individuals started working at the provider. The remaining 4 (33 percent) cleared the initial background checks 22 to 71 days after the individuals started working at the provider.
- **First subsequent background checks.** The provider was required to submit nine employees for the first subsequent background checks. It submitted 5 (56 percent) of those 9 for the first subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 4 (44 percent) for the first subsequent background checks 13 to 160 days late.
- **Second subsequent background checks.** The provider was required to submit six employees for the second subsequent background checks. It submitted 4 (67 percent) of those 6 for the second subsequent background checks within 24 hours of the previous background checks, as required; it submitted the remaining 2 (33 percent) for the second subsequent background checks 154 to 232 days late.

Auditors tested all 30 foster parents who contracted with the provider during calendar year 2009 and determined the following:

- **Initial background checks.** Twenty-eight (93 percent) of 30 foster parents tested cleared the initial background checks the provider submitted to the

Behavioral Healthcare Services, Inc. (dba LoneStar Solutions)

Department prior to the provider deeming their homes eligible for the placement of children. The remaining 2 (7 percent) cleared the initial background checks 37 to 755 days after their homes were approved.

- First subsequent background checks. The provider was required to submit 27 foster parents for the first subsequent background checks. It submitted 23 (85 percent) of those 27 for the first subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 4 (15 percent) for the first subsequent background checks 4 to 289 days late.
- Second subsequent background checks. The provider was required to submit 14 foster parents for the second subsequent background checks. It submitted 5 (36 percent) of those 14 for the second subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 9 (64 percent) for the second subsequent background checks 1 to 263 days late.

The provider may be placing children at risk by not waiting for individuals to clear the background checks prior to their starting work or prior to approving their homes for the placement of children. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry system for cases of abuse or neglect. All of the provider's employees and foster parents cleared the background checks, and the provider had current background checks in its file as of auditors' site visit in June 2010.

Auditors also independently performed criminal background checks for all employees and foster parents (including foster home household members age 14 or older) affiliated with the provider as of auditors' site visit and determined that there was one reported offense for an employee that may violate the Department's minimum standards, but the Department had no record of that offense and cleared the individual. The Department is following up on the issue with the provider and the Department of Public Safety.

Recommendations

The provider should:

- Submit employees and foster parents for initial and subsequent background checks in accordance with the Department's requirements.

Behavioral Healthcare Services, Inc. (dba LoneStar Solutions)

- Receive notification from the Department that an individual cleared the background check prior to having the individual start work or approving the individual's home as eligible for the placement of children.

Chapter 3-C

The Provider Should Maintain Documentation of All Required Screenings and Certifications for Employees

The provider maintained documentation of training, certifications, and screenings for all 31 foster parents tested, as required. (See Appendix 4 for specific requirements.) It did not maintain this documentation for three employees tested. Specifically, the provider did not have documentation of:

- Tuberculosis screenings for 2 (17 percent) of 12 employees tested because the provider did not know the administrative employees were required to have these screenings.
- Current first aid certification for calendar year 2009 for 1 (11 percent) of 9 employees required to have this certification.

The provider may be placing children at risk by not ensuring that employees obtain the required tuberculosis screenings. Also, without documentation, auditors could not verify that the employees met the Department's minimum standards for certifications.

Recommendation

The provider should maintain documentation of all required screenings and certifications for employees.

Chapter 3-D

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

The provider's parent company in Kentucky is responsible for creating, monitoring, and maintaining access to and the security environment surrounding the provider's automated systems, applications, and data. Auditors did not travel to Kentucky to audit the environment surrounding the physical access to and the physical security of the provider's automated systems, applications, and data.

Auditors tested information technology controls at the provider level. The provider had a firewall to protect its automated systems and limited

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information technology policies and procedures. However, auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures.
- Network and application security, including access controls.
- Data back-up and recovery.

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

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. It is important to note that auditors did not identify any instances in which data was inappropriately altered or deleted.

Recommendations

The provider should:

- Review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.
- Implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.

Houston Serenity Place, Inc.

Houston Serenity Place, Inc. Background Information Calendar Year 2009	
Location	Houston, TX
Contract services audited	Residential treatment center
Number of children served	158
Average length of a child's stay in days	142
Total revenue requested from the Department	\$3,126,312
Total revenue for residential treatment center services	\$3,128,658
Federal tax filing status	Non-profit
Bank balance as of December 31, 2009	\$1,127,281
Number of program staff at year end	37
Staff turnover rate (program staff)	143 percent

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

Houston Serenity Place, Inc. (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay for the majority of direct and administrative costs incurred for providing 24-hour residential child care services. However, the provider was unable to provide adequate supporting documentation for \$20,807 (29 percent) of the \$72,442 in expenditures that auditors attempted to test (the provider also included those expenditures on its 2009 cost report). Therefore, auditors were unable to determine whether the provider appropriately spent those funds or accurately reported them on its cost report. (See Chapter 4-A.)

The direct and administrative costs the provider incurred included (1) programmatic expenses and (2) administrative expenses incurred in operating a residential treatment center. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

Auditors also determined that the provider:

- Should improve its compliance with cost report requirements. Auditors identified errors in revenue and expenditures (including payroll and related party transactions) on the cost report line items and transactions tested. (See Chapter 4-A.)
- Should ensure that it continues to comply with Department requirements regarding the composition of its board of directors. (See Chapter 4-B.)

While the provider had weaknesses in its financial processes, it substantially complied with the Department's requirements for background checks, training, certifications, and screenings. Specifically, the provider:

- Submitted the majority of employees tested for background checks in accordance with the Department's requirements. However, it did not submit the majority of its subcontractors for background checks in accordance with the Department's requirements. (See Chapter 4-C.)
- Maintained documentation of all required training, certifications, and screenings for all but one of the employees tested. (See Chapter 4-D.)

The provider's external accounting firm performed the majority of the provider's financial activities, including preparing the cost report and financial statements. Auditors tested information technology controls at the provider and at the external accounting firm. While the provider and the external

accounting firm had firewalls to protect their automated systems, auditors identified areas for improvement in access to and the security environment surrounding the provider's and external accounting firm's automated systems, applications, and data. (See Chapter 4-E.)

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

Chapter 4-A

The Provider Should Improve Its Documentation of Financial Information and Its Compliance with Cost Report Requirements

The provider did not consistently maintain adequate documentation to support the financial information it reported on its 2009 cost report. The provider was unable to provide adequate supporting documentation for \$20,807 (29 percent) of the \$72,442 in expenditures that auditors attempted to test. The provider also included those expenditures on its 2009 cost report. Therefore, auditors were unable to determine whether the provider appropriately spent these funds or reported them accurately on its cost report.

The Texas Administrative Code and the Health and Human Services Commission's *The Specific Instructions for the Completion of the 2009 Texas 24-Hour Residential Child Care Cost Report Instructions* include requirements for maintaining records that are accurate and sufficiently detailed to support financial information reported on cost reports. (See Appendix 4 for those requirements.)

The provider also should improve its compliance with cost report requirements. Auditors identified errors in revenue and expenditures (including payroll and related party transactions) for the cost report line items and transactions tested. The Health and Human Services Commission requires providers to ensure that cost reports are accurate, include all allowable revenue and expenditures, and disclose all related party transactions. Appendix 4 includes details about those requirements.

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

Revenue

The provider overstated Department revenue on its 2009 cost report, but auditors were unable to verify the amount. The provider received funds from the Department and from counties. The provider's external accounting firm

used bank statements to record deposits in the provider's general ledger. However, the bank statements did not identify the sources of the deposits, and some deposits included funds the provider received from the Department and from counties. In the provider's general ledger, the external accounting firm recorded all deposits as funds received from the Department when some of the funds were actually from counties. As a result, the provider reported county revenue of an estimated \$17,769 as Department revenue on its 2009 cost report.

Expenditures

Auditors tested \$51,635 in direct care non-labor and administrative expenditures included on the provider's 2009 cost report and determined the following:

- The provider reported \$3,131 in expenditures (6 percent of expenditures tested) that were unallowable according to the 2009 cost report instructions and should not have been included on the cost report. Only expenditures that are reasonable and necessary to the provider's operations should be included on the cost report. The provider included expenditures for tips, traffic fines, gifts for employees that exceeded \$50 per employee per year, and two personal purchases.
- The provider reported \$7,155 in administrative expenditures (14 percent of expenditures tested) for office supplies, fees, and travel on the incorrect line item on the cost report. It also reported \$2,530 (5 percent of expenditures tested) in direct care non-labor expenditures on the incorrect line item on the cost report.
- The provider understated direct care non-labor expenditures by \$500 on the cost report. This occurred because of a data entry error.

Payroll

Auditors tested \$745,971 in payroll expenditures included on the provider's 2009 cost report and determined the following:

- The provider did not properly accrue its payroll expenditures for the beginning and ending of the provider's 2009 fiscal year. As a result, it overstated payroll expenditures by \$19,016 on its cost report.
- The provider incorrectly reported the payroll expenditures for an employee in 1 (5 percent) of 19 payroll periods that auditors tested. The provider incorrectly recorded payroll expenditures for this employee as administrative salaries instead of direct care salaries. Therefore, it understated direct care salaries by \$1,500 and overstated administrative salaries by \$1,500 on its cost report.

Related Party Transactions

The provider did not consistently report or disclose all related party transactions on its 2009 cost report. Specifically:

- The provider understated a related party lease by \$49,176 on one section of its cost report. The provider correctly reported the \$135,576 cost of the lease as facilities and operations costs. However, on schedule B (related party transactions) of the cost report, the provider reported that the cost of the lease was \$86,400.
- The provider understated related party compensation by \$31,307 on schedule C (related party compensation) of its cost report. This occurred because the provider did not include the salary of one employee who was related to the provider's owners.

In addition, the provider was engaged in a less-than-arms-length lease for its facilities with a company owned by the provider's owners. The provider was unable to provide supporting documentation for (1) its determination of the appropriate lease amount, (2) a cost analysis to determine whether it would be more cost-effective to buy the property rather than lease it, or (3) the owner's purchase price or cost of the building.

According to the Harris County Appraisal District, the appraised value of the property was \$213,990 for calendar year 2009. The total amount of lease payments the provider made from January 2007 through December 2009 was \$375,552, which was \$161,562 more than the appraised value of the property.

Title 1, Texas Administrative Code, Section 355.7101 (18), states that less-than-arms-length transactions are allowed on the cost report only up to the cost to the related party.

The Health and Human Services Commission uses provider cost reports to determine the daily rates that the providers are paid for taking care of foster children. Not reporting accurate financial data on a cost report could cause the daily rates to be set at an inappropriate amount.

Recommendations

The provider should:

- Record and maintain complete and accurate financial data, including supporting documentation, for expenditures.
- Maintain accounting records that clearly distinguish revenue sources and provide those records to its external accounting firm.
- Prepare and maintain its cost report in accordance with requirements.

Houston Serenity Place, Inc.

- Accrue payroll expenditures correctly and report direct care and administrative salaries correctly on its cost report.
- Report related party transactions on its cost report in accordance with requirements.
- Ensure that less-than-arms-length lease transactions comply with requirements.
- Maintain documentation for its determination of lease amounts and the cost-effectiveness of leasing property.

Chapter 4-B

The Provider Should Continue to Comply with Department Requirements for the Composition of Its Board of Directors

The composition of the provider's board of directors did not comply with Department requirements during calendar year 2009. Four (80 percent) of the 5 members of the provider's board of directors were related parties or had conflicts of interest. Two board members own the provider and held executive management positions at the provider, one board member was previously married to an employee of the provider and was related to two of the board members, and one board member received a loan from the provider.

The Department requires that a provider's board of directors must not have a majority of voting members who are related parties or who have conflicts of interest with the provider. (See Appendix 4 for specific requirements.) The provider's board of directors is responsible for ensuring that the provider remains fiscally sound and the provider's services and programs comply with the provider's policies.

If a majority of the provider's board of directors includes related parties or individuals with conflicts of interest, the board of directors may be perceived as being unable to objectively evaluate information obtained from the provider.

After auditors brought this issue to the provider's attention, the board member who was previously married to an employee of the provider resigned and was replaced with an individual who had no related party transactions or conflicts of interest with the provider. In addition, the board member who received the loan from the provider no longer had a conflict of interest with the provider because it repaid the loan in 2009. Therefore, as of June 2010, the composition of the provider's board of directors complied with Department requirements.

Recommendation

The provider should ensure that the composition of its board of directors continues to comply with Department requirements.

Chapter 4-C

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

Employees

The provider submitted the majority of employees tested for background checks in accordance with the Department's requirements. The Department requires that those individuals clear initial background checks before they start work. The Department also requires providers to submit employees for subsequent background checks every 24 months thereafter.

Auditors tested 30 employees who worked at the provider during calendar year 2009 and determined the following:

- Initial background checks. Twenty-five (83 percent) of 30 employees tested cleared the initial background checks prior to the date the individuals started working at the provider. The remaining 5 (17 percent) cleared the initial background checks 1 to 13 days after the individuals started working at the provider.
- First subsequent background checks. The provider was required to submit 10 employees for the first subsequent background checks. It submitted 8 (80 percent) of those 10 for the first subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 2 (20 percent) for the first subsequent background checks 18 to 58 days late.
- Second subsequent background checks. The provider was required to submit three employees for the second subsequent background checks. It submitted 2 (67 percent) of those 3 for the second subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining employee (33 percent) for the second subsequent background check 23 days late.

The provider may be placing children at risk by not waiting for individuals to clear the background checks prior to their starting work. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the

Department's central registry system for cases of abuse or neglect. All of the provider's employees cleared the background checks, and the provider had current background checks in its files as of auditors' site visit in June 2010.

Auditors also independently performed criminal background checks for all individuals employed by the provider as of auditors' site visit and determined that there were two reported offenses that may violate the Department's minimum standards, but the Department had no record of these offenses and cleared the individuals. The Department is following up on the issues with the provider and the Department of Public Safety.

Subcontractors

The provider was required to submit three subcontractors for initial and subsequent background checks. (See Appendix 4 for specific requirements related to background checks for subcontractors.) The provider submitted the initial and subsequent background checks for 1 (33 percent) of those 3 subcontractors as required. The provider did not provide documentation that it submitted initial or subsequent background checks for the 2 (67 percent) remaining subcontractors; both of those subcontractors stopped providing services for the provider in July 2009.

The provider may be placing children at risk by not performing initial and subsequent background checks on subcontractors who have contact with its children.

Recommendations

The provider should:

- Submit employees and subcontractors for initial and subsequent background checks in accordance with the Department's requirements.
- Receive notification from the Department that an individual cleared the background check prior to having the individual start work.
- Maintain documentation of background checks for all subcontractors.

Chapter 4-D

The Provider Should Maintain Documentation of All Required Training for Employees

The provider maintained documentation of training, certifications, and screenings for 29 (97 percent) of 30 employees tested, as required. (See Appendix 4 for specific requirements). It did not have documentation of orientation and pre-service training for 1 (3 percent) of the 30 employees

tested. Without documentation, auditors could not verify that this employee met the Department's minimum standards for training.

Recommendation

The provider should maintain all required documentation of training for employees.

Chapter 4-E

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

The provider's use of automated systems was limited because an external accounting firm performed the majority of the provider's financial activities, including preparing the cost report and financial statements. Auditors tested information technology controls at the provider and the external accounting firm and determined that each entity had a firewall to protect its automated systems. However, auditors identified opportunities for improvement at the provider and the external accounting firm in the following areas:

- Information system policies and procedures regarding user access to applications.
- Network and application security, including access controls.
- Passwords.
- Data back-up and recovery.

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

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. It is important to note that auditors did not identify any instances in which data was inappropriately altered or deleted.

Recommendations

The provider should:

- Review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data at both the provider and the external accounting firm.
- Implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.
- Consider requesting that its external accounting firm implement the recommendations determined to be appropriate for improving the security of that firm's automated systems, applications, and data.

Beacon of Hope Foster Care Agency, Inc.

Chapter 5

Beacon of Hope Foster Care Agency, Inc.

Beacon of Hope Foster Care Agency, Inc. Background Information Calendar Year 2009	
Location	Corpus Christi, TX and Harlingen, TX
Contract services audited	Child placing agency
Number of children served	218
Average length of a child's stay in days	141
Total revenue requested from the Department	\$1,508,758
Total revenue for child placing agency services	\$1,508,758
Federal tax filing status	Non-profit
Bank balance as of December 31, 2009	\$13,947
Number of program staff at year end	5
Staff turnover rate (program staff)	50 percent

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

Beacon of Hope Foster Care Agency, Inc. (provider) had substantial weaknesses in its financial processes. The provider did not create or maintain documentation for the preparation of its 2009 cost report. In addition, the provider did not maintain sufficient documentation for expenditures that auditors selected for testing, understated certain line items on its 2009 cost report, and included unallowable expenditures on its 2009 cost report. The provider also did not consistently, accurately, or appropriately record all revenue and expenditures in its general ledger. The substantial weaknesses in the provider's financial processes contributed to the cost report issues auditors identified. (See Chapter 5-A.)

As a result of the issues identified at this provider, auditors were unable to determine whether the provider appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay for the direct and administrative costs incurred for providing 24-hour residential child care services.

While the provider had substantial weaknesses in its financial processes, all payments it made to foster parents that auditors tested exceeded the Department's minimum payment rates. The provider also accurately recorded payroll expenditures on its cost report. In addition, it substantially complied with the Department's requirements for background checks, training, certifications, and screenings. Specifically, the provider:

- Submitted the majority of employees and foster parents for initial and subsequent background checks in accordance with the Department's requirements. (See Chapter 5-B.)
- Maintained documentation of all required training, certifications, and screenings for all employees. It maintained the majority of this documentation for its foster parents. (See Chapter 5-C.)

The provider is a small business and had very limited automated systems, applications, and data. The provider did not use its general ledger to prepare its cost report. Auditors did not review the controls within the provider's financial system but did review access to and the security environment surrounding the provider's financial system and identified areas for improvement. (See Chapter 5-D.)

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Chapter 5-A

The Provider Should Comply with Cost Report Requirements and Improve Its Financial Processes

The provider did not create or maintain documentation for the preparation of its 2009 cost report. In addition, after auditors selected cost report expenditure line items for testing, the provider adjusted the total amount of the expenditure line items on its 2009 cost report. The provider was unable to provide adequate supporting documentation for those adjustments.

The Texas Administrative Code and the Health and Human Services Commission's *Specific Instructions for the Completion of the 2009 Texas 24-Hour Residential Child Care Cost Report Instructions* include requirements for maintaining records that are accurate and sufficiently detailed to support financial information reported in cost reports. (See Appendix 4 for these requirements.)

In addition, the provider did not maintain sufficient documentation for expenditures that auditors selected for testing, understated certain line items on its cost report, and included unallowable expenditures on its cost report. The substantial weaknesses in the provider's financial processes contributed to the cost report issues that auditors identified.

Lack of Documentation for Expenditure Line Items on the 2009 Cost Report

The provider did not maintain original receipts, purchase vouchers, or logs for purchases it made in 2009. Therefore, it was unable to provide adequate supporting documentation for \$47,412 (49 percent) of the \$96,360 in expenditures that auditors attempted to test, and auditors were unable to determine whether the provider appropriately spent those funds. (The provider included those expenditures on its 2009 cost report.) The provider used bank statements to record the majority of the expenditures on its cost report. While the provider can use bank statements to verify that it disbursed funds, bank statements do not provide detailed information regarding the item purchased; the individual who made the purchase; whether the purchase was a business expense; and in some cases, from which vendor the provider purchased the item.

Understatements on the 2009 Cost Report

The provider understated revenue and expenditures on its 2009 cost report. Specifically, the provider:

- Understated revenue from the Department by \$274,822. This occurred because of a data entry error. (The provider submitted an amended cost report to correct this error.)

Beacon of Hope Foster Care Agency, Inc.

- Understated payroll taxes by \$8,355. This occurred because the provider did not report all of the appropriate taxes as required by the Health and Human Services Commission's cost report instructions.
- Understated related party compensation by \$21,065 on schedule C (related party compensation) of its cost report. This occurred because the provider did not include the salary of one employee who was related to one of the provider's owners.

Unallowable Expenditures on the 2009 Cost Report

The provider had adequate supporting documentation for \$48,948 (51 percent) of \$96,360 in expenditures that auditors attempted to test. However, of the \$48,948 in expenditures, \$4,155 (8 percent) were unallowable according to the 2009 cost report instructions, and the provider should not have reported them on its cost report. Only expenditures that are reasonable and necessary to the provider's operations should be included in the cost report. The \$4,155 in expenditures were not allowable because the provider:

- Included one expenditure for a purchase it made in a prior year.
- Included two expenditures twice.
- Included one expenditure for flowers.
- Included two expenditures for charitable contributions.

In addition, the provider did not prepare its cost report on an accrual basis as required by Title 1, Texas Administrative Code, Section 355.7101 (6).

The Health and Human Services Commission uses provider cost reports to determine the daily rates the providers are paid for taking care of foster children. Not reporting accurate financial data on a cost report could cause the daily rates to be set at an inappropriate amount.

Other Substantial Financial Process Weaknesses

The issues discussed above can be attributed to substantial weaknesses in the provider's financial processes. For example, the provider (1) did not consistently, accurately, or appropriately record all revenue and expenditures in its general ledger; (2) did not have policies and procedures for key financial processes; and (3) did not segregate duties for or conduct reviews of key financial processes.

Weaknesses in the Provider's General Ledger

The provider did not use its general ledger to prepare its 2009 cost report. Auditors identified transactions that the provider did not record in its general ledger. Specifically, the provider did not record:

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- Two deposits from the Department totaling \$6,578.
- One payroll period expenditure of \$18,498.

According to the provider, it did not enter transactions into its general ledger until the middle of the calendar year and, as discussed above, it used bank statements to enter some transactions into its general ledger.

Title 1, Texas Administrative Code, Section 749.161, requires providers to maintain complete financial records. Without a complete and accurate general ledger, the provider would be unable to produce reliable financial statements from its accounting system and would be unable to use the data from that system to prepare its cost report or other reports, such as a corporate tax return.

Weaknesses in Policies and Procedures and Segregation of Duties

The provider required foster parents and employees to submit mileage logs and respite care forms to receive reimbursement. However, it did not have policies and procedures for key financial processes such as making deposits, writing checks, entering transactions into the general ledger, processing payroll, or reconciling bank statements to the general ledger. The provider also did not have policies and procedures requiring it to retain original receipts for purchases or documentation for purchase vouchers, and it did not require purchase logs to be completed.

In addition, one employee was responsible for all of the provider's financial processes, including making deposits, writing and signing checks, entering all transactions into the general ledger, processing payroll, billing the Department, and reviewing bank statements. The provider did not reconcile its bank statements to its general ledger because it used the bank statements to record transactions in the general ledger. According to the provider, one employee reviewed bank statements and invoices after another employee paid invoices, but the employee who conducted that review did not compare information to the check register or the general ledger.

Having policies and procedures for key financial processes and segregating financial duties are good accounting practices. Policies and procedures help to enable all employees to understand the provider's processes and help to hold employees accountable for following them. Segregating key financial duties helps to reduce the risk of fraud and distributes the workload related to financial processes.

The provider is small and may not be able to segregate all key financial duties. However, it should incorporate compensating controls, such as using source documents to record transactions into its general ledger and reconciling its general ledger to its bank statements. After one employee conducts the

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reconciliations of the general ledger and bank statement, another employee should review that reconciliation.

Documentation for Other Financial Processes

The provider did not consistently maintain documentation for payroll and its payments to foster parents.

The provider did not have documentation of employees' annual salaries in its personnel files. The provider stated that salary amounts are verbally discussed and agreed upon by the employees and provider. However, the provider's personnel files contained no documentation of employees' initial salaries or any changes to those salaries. Therefore, auditors were unable to determine whether the provider paid employees at the appropriate rate.

The provider also did not consistently document changes to foster parents' daily payment rates in its files. For 11 (37 percent) of the 30 payments to foster parents tested, the daily rate the provider paid did not correspond to the daily rate documented in the foster parents' files. Without this documentation, auditors were unable to determine whether the provider paid the foster parents at the appropriate rate. However, all daily rates the provider paid to the foster parents tested exceeded the Department's minimum payment rates.

Failure to Obtain an Annual Financial Audit

The provider did not obtain a financial audit for calendar year 2009 and has not obtained a financial audit since its inception. Title 1, Texas Administrative Code, Section 749.165, requires providers to obtain annual financial audits.

Recommendations

The provider should:

- Record and maintain complete and accurate financial data, including supporting documentation for expenditures.
- Prepare its cost report in accordance with requirements, and maintain documentation to support the preparation of its cost report.
- Develop and implement policies and procedures for key financial processes.
- Segregate duties for key financial processes or implement compensating controls for duties that are not segregated.

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- Document employees' salaries in their personnel files and update that documentation when it changes those salaries.
- Consistently document changes in foster parents' daily payment rates in its files.
- Obtain annual financial audits.

Chapter 5-B

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

The provider submitted the majority of its employees and foster parents for background checks in accordance with the Department's requirements. The Department requires that those individuals clear initial background checks before they start work (for employees) or before the provider deems their homes eligible for the placement of children (for foster parents). The Department also requires providers to submit employees and foster parents for subsequent background checks every 24 months thereafter.

Auditors tested all 12 employees who worked at the provider during calendar year 2009 and determined the following:

- **Initial background checks.** Eight (67 percent) of 12 employees cleared the initial background checks prior to the date the individuals started working at the provider. The remaining 4 (33 percent) cleared the initial background checks 10 to 114 days after the individuals started working at the provider.
- **First Subsequent background checks.** The provider was required to submit five employees for the first subsequent background checks. It submitted 2 (40 percent) of those 5 for the first subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 3 (60 percent) for the first subsequent background checks 2 to 335 days late.
- **Second subsequent background checks.** The provider was required to submit 2 employees for the second subsequent background checks, and it did so for both individuals within 24 months of the previous background checks, as required.

Auditors tested all 67 foster parents who contracted with the provider during calendar year 2009 and determined that:

- **Initial background checks.** Fifty-nine (88 percent) of 67 foster parents cleared the initial background checks prior to the provider deeming their homes

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eligible for the placement of children. Six (9 percent) of the 67 foster parents cleared the initial background checks 4 to 382 days after their homes were approved. The provider did not have documentation for the remaining 2 (3 percent) foster parents, and auditors were unable to determine when these individuals cleared the initial background checks.

- First subsequent background checks. The provider was required to submit 31 foster parents for the first subsequent background checks. It submitted 22 (71 percent) of those 31 for the first subsequent background checks within 24 months of the previous background checks, as required; it submitted the remaining 9 (29 percent) for the first subsequent background checks 5 to 205 days late.
- Second subsequent background checks. The provider was not required to submit any foster parents for second subsequent background checks.

The provider may be placing children at risk by not waiting for the individuals to clear the background checks prior to their starting work or prior to approving their homes for the placement of children. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry for cases of abuse or neglect. All of the provider's employees and foster parents cleared the background checks, and the provider had current background checks in its files as of auditors' site visit in May 2010.

Auditors also independently performed criminal background checks for all employees and foster parents (including foster home household members age 14 or older and the two foster parents for which the provider did not have documentation of an initial background check) affiliated with the provider as of auditors' site visit and determined that there were no offenses that violated the Department's minimum standards.

Recommendations

The provider should:

- Submit employees and foster parents for initial and subsequent background checks in accordance with the Department's requirements.
- Maintain documentation of all required background checks.
- Receive notification from the Department that an individual cleared the background check prior to having the individual start work or approving the individual's home as eligible for the placement of children.

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Chapter 5-C

The Provider Should Maintain Documentation of All Required Certifications for Foster Parents

The provider maintained documentation of training, certifications, and screenings for all 12 employees tested, as required. (See Appendix 4 for specific requirements.) It maintained this documentation for 66 (99 percent) of the 67 foster parents tested. The provider did not have documentation of current CPR certification for calendar year 2009 for one (1 percent) of the 67 foster parents tested. Without documentation, auditors could not verify that the foster parents met the Department's minimum standards for certifications.

Recommendation

The provider should maintain all required documentation for certifications for foster parents.

Chapter 5-D

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

The provider is a small business and had very limited automated systems, applications, and data. As discussed in Chapter 5-A, the provider did not use its general ledger to prepare its 2009 cost report. Auditors did not review controls within the provider's financial system but did review access to and the security environment surrounding the provider's financial system. Auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures.
- Financial system security.
- Physical security.
- Passwords.
- Financial system data-backup and recovery.

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

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

Recommendations

The provider should:

- Review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.
- Implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

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

Scope

The scope of this audit covered assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between January 2009 and December 2009. In addition, the scope included verifying whether providers ensured that professionally licensed staff and direct care staff met the Department of Family and Protective Services' (Department) requirements for qualifications and training.

Methodology

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

Information collected and reviewed included the following:

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

- Providers' files and payment records for foster parents.
- Providers' policies and procedures, including policies and procedures for information technology.
- Providers' subcontracts.

Procedures and tests conducted included the following:

- Reviews of criminal background checks performed on direct care and administrative staff, subcontractors, volunteers, and foster parents.
- Tests of internal controls at providers.
- Tests of food, shelter, clothing, medical and dental, recreational, educational, and transportation expenditures related to the services provided to children.
- Tests of related party expenditures and contracts.
- Tests of payroll records.
- Tests of personnel files.
- Tests of payments made to foster care parents.
- Comparisons of each provider's state foster care revenue with Department records.
- Comparisons of each provider's general ledger to each provider's cost report.

Criteria used included the following:

- U.S. Office of Management and Budget circulars.
- Texas statutes and the Texas Administrative Code.
- Contracts between the Department and providers.
- The Department's *Minimum Standards for General Residential Operations and Residential Treatment Centers and Minimum Standards for Child-Placing Agencies*.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2009 Texas 24-Hour Residential Child Care Cost Report*.

Project Information

Audit fieldwork was conducted from May 2010 through July 2010. Generally accepted government auditing 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 conducted this performance audit in accordance with those standards, except as detailed below.

Auditors did not travel to the parent company of Behavioral Healthcare Services, Inc. (doing business as LoneStar Solutions) in Kentucky to audit the environment surrounding the physical access and physical security of the provider's automated systems, applications, and data.

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:

- Brianna Lehman (Project Manager)
- Jennifer Logston, MBA (Assistant Project Manager)
- Ishani H. Baxi
- W. Chris Ferguson, MBA
- Michael Gieringer, MS, CFE
- Thomas Andrew Mahoney
- Jaime J. Navarro, CIDA
- Robert Pagenkopf
- Kendra Shelton, MAC
- Alyassia Taylor, MBA, CGAP
- Lisa R. Collier, CPA (Assistant State Auditor)
- Michael C. Apperley, CPA (Assistant State Auditor)

Types of Residential Child Care Providers

The Department of Family and Protective Services (Department) contracts with the following types of residential child care providers (24-hour providers) (the following information is from the Department's *Applicant's Guide to Listed, Registered, and Licensed Child Care*, November 2008):

- Foster Family Home (Independent): A single independent home that is the primary residence of the foster parents and licensed to provide care for 6 or fewer children up to the age of 18 years.
- Foster Group Homes (Independent): A single independent home that is the primary residence of the foster parents and licensed to provide care for 7 to 12 children up to the age of 18 years.
- General Residential Operation: An operation that is licensed to provide child care for 13 or more children up to the age of 18 years. The care may include treatment and other programmatic services.
- Residential Treatment Center: An operation that is licensed to exclusively provide care and treatment services for emotional disorders for 13 or more children up to the age of 18 years.
- Maternity Homes: An operation that is licensed to provide care for 4 or more minor and/or adult women and their children during pregnancy and/or during the 6-week postpartum period, within a period of 12 months.
- Child Placing Agency (CPA): A person, agency, or organization, other than a child's parents, who is licensed to place or plan for the placement of the child in an adoptive home or other residential care setting.
- CPA Foster Family Home: A home under the regulation of a child placing agency that is the primary residence of the foster parent(s) and provides care for 6 or fewer children up to the age of 18 years. This home is not licensed or issued a residential permit by the Department but is issued a verification by the child placing agency.
- CPA Foster Group Home: An operation under the regulation of a child placing agency that is the primary residence of the foster parent(s) and provides care for 7 to 12 children up to the age of 18 years. This home is not licensed or issued a residential permit by the Department but is issued a verification by the child placing agency.

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

Title 40, Texas Administrative Code, Section 745.613, requires that background checks be completed to determine whether a person has any criminal or abuse and neglect history and whether the person's presence is a risk to the health or safety of children in the person's care.

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

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

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

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

- Title 5 (Offenses Against the Person). Examples of these offenses include criminal homicide, kidnapping and unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (Offenses Against the Family). Examples of these offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order or magistrate's order, and sale or purchase of a child.
- Title 7, Chapter 29 (Robbery).
- Title 9, Chapter 43 (Public Indecency), or Title 9, Section 42.072 (Stalking).

- Title 4, Section 15.031 (Criminal Solicitation of a Minor).
- Title 8, Section 38.17 (Failure to Stop or Report Aggravated Sexual Assault of a Child).
- Any like offense under the law of another state or federal law.

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

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

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

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

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

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

- A person is permanently barred and must not be present at an operation while children are in care.

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

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

Selected Requirements for Residential Child Care Providers

The following is a summary of selected Health and Human Services Commission and Department of Family and Protective Services requirements in the Texas Administrative Code, as well as selected requirements in the Health and Human Services Commission's *Specific Instructions for the Completion of the 2009 Texas 24-Hour Residential Child Care Cost Report Instructions*. These requirements cover topics such as residential child care providers' boards of directors, cost reporting, financial records, certifications, employee personnel files, screenings, training, and subcontractor background checks.

Board of Directors

- Title 40, Texas Administrative Code, Section 748.131, states that a provider's board of directors must not have a majority of voting members who are employed by or working at a provider, any family members of the owner or governing body members, paid consultants, or others who benefit financially from the provider.
- Title 40, Texas Administrative Code, Section 748.131, states that a provider's board of directors is responsible for ensuring that the provider remains fiscally sound and that the provider's services and programs comply with the provider's policies.

Cost Reporting

- **Accurate Cost Reporting.** Title 1, Texas Administrative Code, Section 355.102 (c), states that the provider is responsible for accurate cost reporting and for including in the cost report all costs incurred, based on an accrual method of accounting, which are reasonable and necessary.
- **Allowable and Unallowable Costs.** Title 1, Texas Administrative Code, Section 355.102 (a), states that allowable and unallowable costs are defined to identify expenses that are reasonable and necessary to provide contracted client care and are consistent with federal and state laws and regulations. When a particular type of expense is classified as unallowable, the classification means only that the expense will not be included in the database for reimbursement determination purposes because the expense is not considered reasonable and/or necessary. The classification does not mean that individual contracted providers may not make the expenditure.
- **Allowable Costs.** Title 1, Texas Administrative Code, Section 355.102 (f), states that allowable costs are reasonable and necessary. Costs are "reasonable" if the amount spent is what a prudent and cost-conscious buyer would have spent. "Necessary" costs are related to and appropriate

for the provider's business and are not for personal or other activities not directly or indirectly related to the provision of contracted services.

- **Direct Costing.** Title 1, Texas Administrative Code, Section 355.7101 (7), states that if direct costing is not possible, a provider must use reasonable methods of cost allocation. Costs a provider reports must be representative of the actual circumstances of the provider's operations, whether directly charged or allocated.
- **Related Party Transactions.** Title 1, Texas Administrative Code, Section 355.102 (i) (6), states that disclosure of all related party transactions on the cost report is required for all costs reported by the provider, including related party transactions occurring at any level in the provider's organization. The provider must make available, upon request, adequate documentation to support the costs incurred by the related party.
- **Revenue.** Title 1, Texas Administrative Code, Section 355.104, states that a provider must report only revenues in the cost report that are directly related to 24-hour residential child care contracted services.

Financial Records

- Title 1, Texas Administrative Code, Section 355.7101 (15), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports. It also requires providers to retain the records for at least 3 years and 90 days after the end of the contract period.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2009 Texas 24-Hour Residential Child Care Cost Report Instructions* lists in more detail the records that should be retained, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, minutes of meetings of board of directors, work-papers used in the preparation of the cost report, trial balances, and cost allocation spreadsheets.

Certifications

- Title 40, Texas Administrative Code, Sections 748.981 and 749.981, require each caregiver (including foster parents) to have a current certification in first-aid and CPR.
- Title 40, Texas Administrative Code, Sections 748.989 and 749.989, require providers to maintain documentation of the completion of the first-aid and CPR certification in the personnel records.

Employee Personnel Files

- Title 40, Texas Administrative Code, Sections 748.363 and 749.553, require providers to include the following information for each employee in their personnel record: proof of request of background checks, evidence of any valid professional licensures or certifications to meet the job qualifications, a copy of the tuberculosis screening conducted prior to the person having contact with children in care, and a record of training and training hours.

Screenings

- Title 40, Texas Administrative Code, Sections 748.509 and 749.609, require that before having contact with children in care, all caregivers (including foster parents), employees, contract staff, volunteers, foster home household members, and employees in foster homes must be screened for tuberculosis as required by Title 40, Texas Administrative Code, Sections 748.1583 and 749.1417.
- Title 40, Texas Administrative Code, Sections 748.1583 and 749.1417, require all persons over the age of one year who live, work, or volunteer at a provider's agency or in one of its foster homes to be screened for tuberculosis. This includes contract service providers. A copy of medical documentation of results of the tuberculosis screening must be maintained in the person's file at the site where the person lives, works, or volunteers.

Training

- Annual Training - Child Placing Agencies. Title 40, Texas Administrative Code, Section 749.931, requires caregivers (including foster parents) and employees to complete the following annual training hours:

Who Must Receive the Annual Training?	Number of Hours per Person
Caregivers caring for children receiving services for primary medical need.	20 hours, of which 4 hours must be specific to emergency behavior interventions.
Caregivers in homes with two foster parents caring for children receiving services for emotional disorders, mental retardation, or pervasive developmental disorders.	50 hours, of which 8 hours must be specific to emergency behavior interventions.
Caregivers in homes with one foster parent or all other caregivers caring for children receiving services for emotional disorders, mental retardation, or pervasive developmental disorders.	30 hours, of which 8 hours must be specific to emergency behavior interventions.
Child placement staff with less than one year of child-placing experience.	30 hours for the initial year. 20 hours after the initial year.

Who Must Receive the Annual Training?	Number of Hours per Person
1. Child placement staff with at least one year of child-placing experience. 2. Child placement management staff. 3. Child placing agency administrators, executive directors, treatment directors, and full-time professional service providers who <u>do not</u> hold a relevant professional license.	20 hours.
Child placing agency administrators, executive directors, treatment directors, and full-time professional service providers who hold a relevant professional license.	15 hours.

- Annual Training - General Residential Operations or Residential Treatment Center. Title 40, Texas Administrative Code, Section 748.931, requires caregivers (including employees) to complete the following annual training hours:

Who Must Receive the Annual Training?	Number of Hours per Person
Caregivers whose operations have fewer than 25 children in care who are receiving treatment services and for which less than 30 percent of their total population of children in care are receiving treatment services.	20 hours, of which every 6 months at least 4 hours must be specific to emergency behavior interventions.
Caregivers whose operations have 25 or more children in care who are receiving treatment services or for which 30 percent or more of their total population of children in care are receiving treatment services	50 hours, of which every 6 months at least 4 hours must be specific to emergency behavior interventions.
Child care administrators, professional level service providers, treatment directors, and case managers who <u>do not</u> hold a relevant professional license.	20 hours.
Child care administrators, professional level service providers, treatment directors, and case managers who hold a relevant professional license.	15 hours.

- Orientation. Title 40, Texas Administrative Code, Sections 748.831 and 749.831, require that all caregivers (including foster parents) and employees receive orientation training prior to beginning job duties or having contact with children in care, and the provider must document the completion of orientation in the personnel records.
- Pre-Service Training - Child Placing Agencies. Title 40, Texas Administrative Code, Section 749.863, requires all caregivers (including foster parents) to complete 8 hours of general pre-service training before they can care for children and requires certain employees based on their job position to complete 8 hours of pre-service training regarding emergency behavior intervention before they begin their job duties. These sections also require

providers to document the completion of the training in the personnel records.

- Pre-Service Training - General Residential Operations and Residential Treatment Centers. Title 40, Texas Administrative Code, Section 748.863, requires all caregivers to complete 8 hours of general pre-service training and 16 hours of pre-service training regarding emergency behavior intervention before they can care for children. This section requires certain employees based on their job position to complete 8 hours of pre-service training regarding emergency behavior intervention before they begin their job duties. This section also requires providers to document the completion of the training in the personnel records.

Subcontractor Background Checks

- Title 1, Texas Administrative Code, Section 745.615, requires providers to request background checks for any person who has unsupervised access with children in care, and any person 14 years of age or older who will regularly or frequently be present at the provider's operation while children are in care.
- Title 1, Texas Administrative Code, Section 745.625, requires providers to submit a request for a background check at the time the provider contracts with someone who requires a background check; at the time the provider becomes aware of anyone requiring a background check under Texas Administrative Code, Section 745.615; and every 24 months after they requested each person's previous background check.

Response from Harmony Family Services, Inc.



305 Grape St.
Abilene, Texas 79601
325/672-7200
Fax 325/672-7201

August 18, 2010

State Auditor's Office
ATTN: Brianna Lehman
P.O. Box 12607
Austin, Texas 78711-2067

Re: Management Responses to *On-Site Audits of Residential Child Care Providers 2010*

Dear Ms. Lehman:

Below you will find Harmony Family Services' management responses to the identified areas of deficiency.

Chapter 1-A Recommendations:

- Submit employees, volunteers, and foster parents for initial and subsequent background checks in accordance with the Department's requirements.
We agree with this finding. Effective immediately, the Administrative Assistant will ensure that all employees and volunteers are submitted for initial and subsequent background checks in accordance with the Department's requirements. Effective immediately, the Child Placing Agency Supervisor will ensure that all foster parents have subsequent background checks in accordance with the Department's requirements.
- Receive notification from the Department that an individual cleared the background check prior to having the individual start work.
We agree with this finding. Effective immediately, the Executive Director will ensure that all employees and volunteer' background checks have been cleared by the Department prior to their starting work.

Chapter 1-B Recommendation

- The provider should ensure that all employees obtain tuberculosis screenings and maintain the required documentation.
We agree with this finding. Effective immediately, the Executive Director will ensure that all employees, including office personnel, obtain tuberculosis screenings.

Chapter 1-C Recommendations

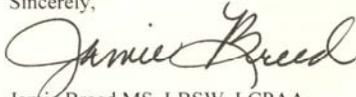
- Review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data at both the provider and the external accounting firm.
- Implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.

- Consider requesting that its external accounting firm implement the recommendations determined to be appropriate for improving the security of that firm's automated systems, applications, and data.

We agree with these findings. On August 16, 2010, the agency's board of directors, executive director and external accountant reviewed the auditor's recommendations and determined those most appropriate to improve the security of both the agency's and external accounting firm's automated systems, applications and data. The executive director and external accountant will immediately implement those recommendations determined to be appropriate for our agency.

We appreciate the courtesy of the SAO employees during this audit process. Please let us know if you have any questions or concerns.

Sincerely,



Jamie Breed MS, LBSW, LCPAA
Executive Director
Harmony Family Services, Inc.

Response from Seton Home

"A hope and a future for teen moms and their babies"



www.setonhomesa.org

Chief Executive Officer
Margret Starkey

Board of Governors

Connie Lock
Chair
Debbie Hevner
Vice Chair
James Seals
Treasurer
Christine Reinhard
Secretary

Members

Sylvia Aguliar
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Mark Travis
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Rosemary DeHaven
Margaret Pellek
Dr. Carl F. Raba
Mark Wittig

August 13, 2010

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

Re: Management Responses to *On-Site Audits of Residential Child Care Providers*

Dear Ms. Lehman:

Following are Seton Home's responses to the *Report on On-Site Audits of Selected Residential Foster Care Contractors* issued in August, 2010. Our responses refer to Chapter 2 – Seton Home.

Chapter 2-A: The provider should submit employees and volunteers for initial background checks in accordance with the Department's requirements and should receive notification from the Department that an individual cleared the background check prior to having the individual start work.

Response: Seton Home agrees with this finding. Although Seton Home implemented a new hire process in 2006 designed to ensure licensing compliance, since then one employee inadvertently started work 2 days before the initial background check clearance was received. Seton Home has revised its new hire process again to include a final file review and sign-off by the VP-Development and Administration before any new employee will be allowed to start work.

Chapter 2-B: The provider should maintain all required documentation of screenings, training, and certifications for employees and volunteers.

Response: Seton Home agrees with this finding. The volunteer coordinator has been instructed to ensure receipt of tuberculosis screenings as part of the volunteer intake process. New employee training and ongoing employee training files will be audited regularly to ensure compliance.

Chapter 2-C: The provider should improve its compliance with Cost Report Requirements.

Response: Seton Home agrees with this finding. The VP-Finance was new to Seton Home when she prepared this cost report. She has



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subsequently attended additional cost report training and will review cost report preparation guidelines and instructions in the future to ensure compliance with cost report requirements.

Chapter 2-D: The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data and should implement the recommendations determined to be appropriate for improving the security of its automated systems, applications, and data.

Response: **Seton Home agrees with this finding.** Seton Home will ensure strict adherence to its recently implemented strong controls and backup and recovery policies and procedures, including daily offsite data backup. In addition, Seton Home will ensure the physical security of the server by keeping that room free of clutter. Seton Home will also establish additional password controls for the financial and donor software systems beyond the strong password requirements implemented for all users.

Please feel free to contact me at 210-533-3504 x222 if you have any questions or would like to discuss these responses.

Sincerely,

Margret Starkey
Chief Executive Officer
Seton Home

Response from Behavioral Healthcare Services, Inc. (doing business as LoneStar Solutions)

Behavioral HealthCare Services, Inc.
LoneStar Solutions
P.O.Box 13517
Arlington, Texas 76094-0157
817-265-2344

TO: Brianna Lehman, Project Manager
FROM: J. Michael Mountain, CFO
Kathleen Lively, Program Manager
DATE: August 18, 2010
RE: CPS audit of the fiscal year ending June 30, 2009 cost report

Behavioral Healthcare Services, Inc., dba: LoneStar Solutions (Provider # 023258202) submits the following comments to the On-Site Audit of Residential Childcare Providers report. We appreciate the opportunity to submit comments that will be included in the final report.

Management's response to Section 3A –

Since the end of the audit the agency has taken corrective action to ensure that supporting documentation for expenditures are maintained, that hours worked are properly recorded in employees timecards and foster care payments are reconciled to payments.

However the agency would like to clarify a few of the items listed in the report.

The 2009 cost report for Behavioral Healthcare Services was for the time period of July 1, 2008 through June 30, 2009. The financial statements reviewed by the audit team covered the period July 1, 2008 through December 31, 2009. Therefore some of these audited transactions were not included in the 2009 cost report submitted by the agency.

In addition it should be noted that only \$3,667 of the \$68,512 in undocumented expenses was included in the 2009 cost report. Most of the expenses were home office costs where only a small portion of the cost was included in the cost report after using approved allocation methods.

Management's response to Section 3B –

Since the end of the audit the agency has taken corrective action to ensure that all employee and foster parent background checks are completed on a timely basis.

However, the agency would like to clarify an item listed in the report.

The report makes mention that the auditors completed a background check on the employees and foster parents and found one employee with a reported offense that may violate the Department's minimum standards. It should be noted that this employee has had regular background checks submitted and reviewed by the Department since 2007. Each time the Department cleared the employee. Since the time of this review the employee has submitted court information to the Department. On August 11, 2011 the Department determined the information submitted was satisfactory, did not actually require a risk assessment and the employee continues with a clear record.

Management's response to Section 3C-

Since the end of the audit the agency has taken corrective action to ensure that all employee and foster parent certifications and screenings are completed on a timely basis.

The agency has no response to the findings by the audit team.

Management's response to Section 3D-

Since the end of the audit the agency has reviewed the findings of the audit team and has implemented the recommendations it feels are appropriate.

We would like to thank you for the opportunity to provide comments to be included in the final report.

Response from Houston Serenity Place, Inc.

SERENITY PLACE RESIDENTIAL TREATMENT CENTER

6509 MORROW ST HOUSTON, TX 77091 713-691-5453

#1

-Houston Serenity Place has requested bids for a survey of the property and grounds in which it leases.

This will ensure that allowable notes are used in the lease agreement. The results of the survey will be used for the lease agreement beginning January 1, 2011.

-Houston Serenity Staff have met with Fred Allen CPA's staff to verify all related party transactions and ensure that the proper guidelines are being followed.

-Houston Serenity Executive Director and Program Director has scheduled monthly meeting with Fred Allen CPA's staff to review the prior monthly financial data.

- Houston Serenity Executive Director has inherited new procedures which will ensure that all revenue sources are clearly defined separated, and designated.

#3

-The issues identified by the auditors had already been noted and handled during an audit review by TDFPS licensing staff in 2009. The agency had been cited previously for the issues. A new policy was instituted in which the Program Director and Human Resources Director must both sign off before any staff person is allowed to begin work. This will ensure that all requirements have been fulfilled.

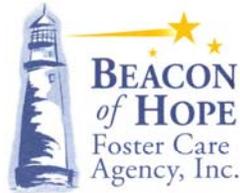
#4

-Houston Serenity Place will ensure that proper procedures are followed and verified by both the Human Resources Director and Administrator.

#5

-Houston Serenity Executive Director is working closely with a Board member with specialties in technology to ensure compliance and security of information.

Response from Beacon of Hope Foster Care Agency, Inc.



August 18, 2010

State Auditor's Office
Attention Brianna Lehman
P.O. Box 12067
Austin, Texas 78711-2067

Subject: Representation of Letter for On-Site Financial Audits of Selected Residential Child Care Contractors

Dear Ms. Lehman,

This letter will provide you with the responses you are requesting for the On-Site Financial Audits of Selected Residential Child Care Contractors.

Chapter 5-A: The Provider Should Comply with Cost Report Requirements and Improve Its Financial Processes.

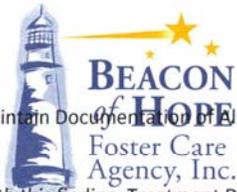
Response: Beacon of Hope agrees with this finding but does not agree with the label of Serious Financial Weakness. Executive and Treatment Director have and will consult with Cost Report Personnel to ensure that the appropriate and necessary information is recorded when completing the cost report. Beacon of Hope will no longer allow bank and credit card statements as tools for supporting documentation of expenditures. A policy has been written that requires original supporting documentation when recording and maintaining accurate financial data. Executive and Treatment Director will immediately work together to provide a checks and balances approach to help review the reconciliation of bank statements and general ledger. Executive Director will continue to be the individual responsible for key financial processes, i.e., employee payroll and foster parent reimbursements. It should be noted that Beacon of Hope immediately, upon notification, documented employee's salaries in their personnel files and will document any changes in salaries. Beacon of Hope immediately, upon notification, documented changes in foster parents' daily payment rates in their files. Beacon of Hope will continue to make every effort in obtaining an annual financial audit.

Chapter 5-B: The Provider Should Submit Employees and Foster Parents for Background Checks in Accordance with the Department's Requirements

Response: While Beacon of Hope agrees with this finding, it should be noted that Beacon of Hope had already corrected and addressed these non-compliances regarding employee background checks prior to the On-Site Audit visit. This has no longer been a problem with our agency. Beacon of Hope agrees with the finding regarding foster parent background checks. Beacon of Hope only had one (1) foster parent that did not have the required first subsequent background check. All foster parent background checks have been completed and required documentation is on file.

"Leading The Way in Quality Foster Care"

400 So. Padre Island Dr., Suite 202 • Corpus Christi, Texas 78405 • Office 361-299-6810 • Fax 361-299-6809
2323 N. Ed Carey Dr., Suite 3A • Harlingen, Texas 78550 • Office 956-423-6500 • Fax 956-423-6502



Chapter 5-C: The Provider Should Maintain Documentation for All Required Certifications for Foster Parents

Response: Beacon of Hope agrees with this finding. Treatment Director will read all training documents (CPR/1st Aid cards) thoroughly to ensure full completion of training requirements. It should be noted that foster parent has completed the training.

Chapter 5-D: the Provider Should Improve Access to and the Security Environment Surrounding Its Automated Systems, Applications, and Data

Response: Beacon of Hope agrees with these findings. The recommendations concerning identified weaknesses in our automated systems have been given full consideration. Executive Director is changing the password every three months, has obtained and is using the software for financial system data-backup and recovery, and locking the door when she leaves her office.

We appreciate the feedback provided for this review.


Adriana Orozco
Executive Director

"Leading The Way in Quality Foster Care"

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Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
10-007	A Report on On-site Audits of Residential Child Care Providers	September 2009
08-046	A Report on On-site Audits of Residential Child Care Providers	August 2008
07-044	A Report on On-site Audits of Residential Child Care Providers	August 2007
07-030	An Audit Report on Residential Child Care Contract Management at the Department of Family and Protective Services	April 2007
07-002	A Report on On-site Audits of Residential Child Care Providers	October 2006

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Ms. Anne Heiligenstein, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Beacon of Hope Foster Care Agency, Inc.
Behavioral Healthcare Services Inc. (dba LoneStar Solutions)
Harmony Family Services, Inc.
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