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A Report on

On-site Audits of Residential Child Care Providers

August 2007
Report No. 07-044



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Overall Conclusion

The six residential child care providers (24-hour providers) audited appropriately spent federal and state funds to pay **direct costs** incurred for providing 24-hour residential child care services. These payments are intended to ensure the delivery of goods and services—such as direct care, 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).

The providers also spent federal and state funds to pay for **administrative costs**. Auditors determined that administrative costs were reasonable and appropriate at five providers:

- Circles of Care (see Chapter 2).
- The Children's Shelter (see Chapter 3).
- Canyon Lakes Residential Treatment Center (see Chapter 4).
- Lifeline Fellowship Family Church (doing business as Lifeline Children and Family Services, see Chapter 5).
- DePelchin Children's Center's Isabel Elkins Residential Treatment Center (see Chapter 6).

Because of serious financial weaknesses at the sixth provider audited—Youth in View—auditors were unable to verify that this provider's administrative costs were reasonable and appropriate (see Chapter 1). Youth in View did not always (1) maintain supporting documentation for its expenditures, (2) accurately record financial transactions in its accounting system, and (3) ensure segregation of duties within its financial processes.

Background Information

During fiscal year 2006, the Department of Family and Protective Services (Department) contracted with approximately 250 providers to provide residential child care on a 24-hour basis.

The Department paid all providers approximately \$371,210,000 for providing services to the 33,453 children in foster care during fiscal year 2006. See Appendix 2 for descriptions of the types of residential child care providers.

Approximately 62 percent of the funding for these services comes from the federal government and approximately 38 percent comes from the State.

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

Table 1 summarizes the significant issues identified at each provider audited. Auditors also identified less significant issues that were communicated separately to each provider.

Table 1

Summary of Significant Issues Identified at Six Providers Audited						
Issues Identified at Providers	Providers					
	Youth in View (Dallas, Texas)	Circles of Care (Corpus Christi, Texas)	The Children's Shelter (San Antonio, Texas)	Canyon Lakes Residential Treatment Center (Lubbock, Texas)	Lifeline Children and Family Services (Corsicana, Texas)	DePelchin Children's Center's Isabel Elkins Residential Treatment Center (Houston, Texas)
	See Chapter 1	See Chapter 2	See Chapter 3	See Chapter 4	See Chapter 5	See Chapter 6
Provider did not always comply with training or education requirements for staff, foster parents, or subcontractors.	✓		✓	✓		✓
Provider did not always comply with background check requirements on staff, foster parents, or subcontractors.	✓	✓	✓	✓		
Provider did not always pay foster care parents according to the same number of days of service or service level as it was paid by the Department.	✓		✓	Not applicable ^a		Not applicable ^a
Provider did not always maintain documentation of its subcontracts.	✓	✓	✓			
Provider did not always identify related party transactions on the cost report it submitted to the Health and Human Services Commission.	✓	✓		✓	✓	
Provider did not always maintain adequate documentation related to financial transactions.	✓	✓		✓	✓	
Provider had weaknesses in the security over its automated systems, applications, and data.	✓	✓	✓	✓	✓	✓
Note: ✓ indicates the issue was identified at this provider. ^a This provider is a residential treatment center; therefore, it provides residential care directly to children on site and does not contract with foster parents.						

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, so 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 2006, the Department paid the six providers audited approximately \$21 million to provide services to 1,823 children.

Summary of Providers' Responses

With one exception, the providers were in general agreement with the recommendations that were addressed to them, and their responses are presented in Appendices 5 through 10 beginning on page 54.

However, Youth in View did not fully agree with findings regarding (1) serious weaknesses in its financial processes, (2) the lack of documentation for background checks, (3) inaccuracies in its payments to foster parents, and (4) the lack of documentation for foster parent training. For at least two months, the audit team requested documentation from Youth in View regarding these findings. Along with its responses to this report, Youth in View submitted additional documentation that had not been made available to auditors during the audit. According to its responses, Youth in View has made progress in correcting some of those findings. Youth in View's responses outline its concerns, and its responses are presented in Appendix 5 of this report.

Summary of the Department's Response

The Department's response indicates that it will take certain actions to address the issues in this report regarding criminal background checks and training, cost reporting, and information technology. The Department also asserts that it has placed Youth in View on a "Provider Plan of Action," which subjects this provider to additional requirements, and that it will continue to closely monitor Youth in View. The Department's full response is presented in Appendix 11 on page 89.

Summary of Information Technology Review

All providers audited should correct weaknesses in their information system environments to improve the security over automated systems, applications, and data. The weaknesses 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. To minimize the risks associated with public disclosure, auditors communicated details regarding these issues directly to the providers.

Summary of Objective, Scope, and Methodology

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

The audit scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between September 2005 and December 2006. In addition, the scope included verifying whether providers ensured that their professionally licensed staff and direct care staff met the Department's requirements for qualifications and training.

The audit methodology included judgmentally selecting six 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

Audit of Youth in View

Youth In View Background Information Fiscal Year 2006	
Location	Dallas
Contract services audited	Child placing agency
Number of children served	152
Average length of a child's stay	415 days
Total payments received from the Department	\$1,508,109
Total revenue	\$1,513,109
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$16,146
Approximate number of program staff	22
Program staff turnover rate	1.4%

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

From the payments Youth in View (provider) received from the Department of Family and Protective Services (Department), it appropriately paid the foster care families with whom it placed children; however, auditors could not ensure that all administrative costs the provider incurred for operating a child placing agency were reasonable and appropriate. Payments to foster care families are intended to ensure the delivery of goods and services—such as direct care, therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the care of the provider. Administrative costs include salaries, travel, and other expenses related to the day-to-day operations of the provider.

The Department has placed this provider's contract on "provisional" status several times since 2004. A provisional contract is a short-term contract the Department enters into when it identifies significant non-compliance or performance concerns at a provider. The Department awarded the provider a three-month provisional contract for fiscal year 2007, and it has extended the provisional contract three times during fiscal year 2007.

Auditors identified the following:

- Weaknesses in financial processes. (See Chapters 1-A and 1-B.) Auditors were unable to determine whether the provider's payments related to administrative expenses for operating the child placing agency from September 2005 through December 2006 were always appropriate, reasonable, and necessary. The provider did not always (1) maintain supporting documentation of its payments, (2) accurately record financial transactions in its accounting system, and (3) ensure segregation of duties within its financial processes.
- Non-compliance with background check requirements. (See Chapter 1-C.) The provider did not consistently ensure that its foster parents, subcontracted therapists, and staff received background checks.

- Non-compliance with foster care reimbursement payment requirements. (See Chapter 1-D.) The provider did not consistently pay its foster parents based on the same level of care for which it was paid by the Department.
- Noncompliance with documentation requirements for foster parents, subcontracted services, and staff. (See Chapter 1-E.) The provider did not consistently maintain documentation of required training for its foster parents and staff, and it did not consistently document its subcontracts with foster parents and therapists.
- Non-compliance with cost report requirements. (See Chapter 1-F.) The provider did not report related party transactions in its 2006 cost report as required.
- Weaknesses in access to and the security environment surrounding automated systems, applications, and data. (See Chapter 1-G.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Please see Appendix 5 beginning on page 54 for the provider’s responses to all of the issues discussed in this chapter.

Chapter1-A

The Provider Should Strengthen Financial Processes

<p style="text-align: center;">Texas Administrative Code Requirements for Supporting Documentation</p> <p>“Providers must 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.”</p> <p>“The contractor must keep financial and supporting documents, statistical records, and any other records pertinent to the services for which a claim or cost report was submitted to the department or its agent.”</p> <p>Source: Title 1, Texas Administrative Code, Section 355.7101(15), and Title 40, Texas Administrative Code, Section 732.262 (b).</p>
<p style="text-align: center;">Cost Report Requirements for Supporting Documentation</p> <p>“Contracted providers must maintain records that are accurate and sufficiently detailed to substantiate the legal, financial, and statistical information reported on the Cost Report. These records include, but are not limited to, all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls.”</p> <p>Source: <i>Specific Instructions for the Completion of the 2006 Texas 24-Hour Residential Child Care Cost Report.</i></p>

The provider did not have financial processes that ensure the costs it pays are appropriate, reasonable, and necessary. It is important that providers have sound financial processes so that the cost reports they submit to the Health and Human Services Commission (Commission) are accurate. The Commission uses the financial information reported on the cost reports to determine future rates the Department will pay to providers for the delivery of care to children.

The provider should adequately segregate the responsibilities for processing and authorizing payments.

The provider’s chief executive officer can create, approve, and sign checks. Auditors identified \$7,000 in checks that were both paid to and signed by the chief executive officer. One of these checks for \$1,500 was not recorded in the provider’s accounting system. An additional \$1,564 check was made payable to the provider’s chief executive officer and was signed by the chief operating officer, who is the spouse of the chief

executive officer.

The provider did not maintain supporting documentation for any of these payments to ensure that they were appropriate, reasonable, and necessary. The payments that were recorded in the accounting system were classified as one type of expense, but they had check descriptions for a different type of expense.

In addition, the chief executive officer and administrative staff responsible for processing payments share the same user ID and password for the accounting system. Not using separate passwords prevents identification of who makes changes in the accounting system and, therefore, decreases accountability.

The provider should periodically reconcile information in its accounting system with supporting documentation.

The provider did not periodically reconcile information in its accounting system with (1) its payment statements to foster parents and (2) its monthly bank statements. Auditors attempted to perform these reconciliations and identified several significant discrepancies. Specifically:

- Three of 30 (10 percent) payment statements to foster parents tested did not reconcile with the provider's accounting system. There was a difference of approximately \$990 between the amounts recorded in the accounting system and the payment statements to foster parents.
- There was an unexplained net difference of \$12,921 between the provider's operating cash account balance and its bank statements for calendar year 2006. The provider did not resolve this difference because it did not reconcile its accounting system with its bank statements. Certain checks and deposits were recorded in the accounting system but were not reflected on the provider's bank statements (some of these items could have been outstanding checks or deposits at year end). In addition, certain checks, deposits, and electronic payments were reflected on the bank statements but were not recorded in the provider's accounting system. For example:
 - ♦ Cleared checks totaling \$56,147 were reported on the bank statements but were not recorded in the accounting system.
 - ♦ Deposits totaling \$30,660 were reported on the bank statements but were not recorded in the accounting system.
 - ♦ Electronic payments totaling \$26,336 were reported on the bank statements but were not recorded in the accounting system.
 - ♦ Seven payments totaling \$4,599 were recorded in the accounting system between one and two months after the checks had cleared the bank.

- Auditors identified instances in which check numbers were duplicated. Specifically:
 - ♦ In two instances, duplicate check numbers were recorded three times each in the accounting system. The six checks, totaling \$13,316, all had different amounts recorded in the accounting system. Only four of these six checks appeared on the provider's bank statements with a total of \$7,922.
 - ♦ Two checks totaling \$499.59 were recorded in the accounting system. Those two checks each appeared twice on the provider's bank statements with a total of \$3,769.20.

The provider did not consistently maintain adequate supporting documentation for its payments.

Auditors tested samples of payments for management and staff salaries, foster group home expenses, travel mileage reimbursements, and foster care payments. The provider lacked adequate supporting documentation for several of those payments. Specifically:

- The provider lacked supporting documentation for 21 of 47 (45 percent) salary payments tested. These 21 payments totaled \$111,010. Eleven payments were missing copies of the cancelled checks, six payments were missing documentation of the authorized rate of pay, and four payments for hourly employees were missing timesheets.
- The provider lacked supporting documentation for 71 of 73 (97 percent) group home expenses tested for the period from September 2005 through December 2006. These 71 payments totaled \$44,375.
- The provider lacked complete supporting documentation for all 31 travel mileage reimbursement transactions tested. These 31 payments totaled \$4,096. These transactions were either missing or had incomplete receipts, travel logs, or mileage sheets.
- The provider lacked copies of the cancelled checks for 2 of 30 (7 percent) foster care payments tested. The two checks totaled \$328.

Auditors identified other issues related to the provider's financial processes.

The provider's accounting policies and procedures are internally inconsistent because they state that the provider uses both the accrual and cash basis methods of accounting.

Auditors also identified an \$800 payment that was made to an administrative staff member for services that were not provided by that individual. The provider also did not have supporting documentation for that payment. The transaction information suggests the payment was for respite care services.

However, auditors determined that the payment was actually for respite care services provided by a subcontractor. The payment was paid to an administrative staff person who, according to the provider, then deposited the check and gave the proceeds to the subcontractor.

Recommendations

The provider should:

- Develop and implement policies and procedures to ensure that financial duties are properly segregated among and between different employees who perform those duties.
- Develop policies and procedures to ensure it (1) correctly records all transactions in its accounting system and (2) performs monthly reconciliations of its accounting system with both payment statements to foster parents and bank statements. The policies and procedures should require that discrepancies identified through reconciliations are resolved in a timely manner.
- Maintain financial records in accordance with state requirements.
- Review policies and procedures to ensure internal consistency.
- Make payments directly to the person providing services.

Chapter 1-B

The Provider Should Ensure It Properly Records Receipts in Its Accounting System

Auditors performed a reconciliation of (1) the payments the provider received from the Department in 2006 as recorded in the provider's accounting system with (2) the Department's records of payments to the provider. A total of 45 of 255 (18 percent) payments in the Department's records that auditors tested did not reconcile to the provider's accounting system. Specifically:

- 19 payments in the Department's records totaling \$16,960 were not recorded in the provider's accounting system.
- 15 payments in the Department's records totaling \$8,921 were recorded in the provider's accounting system but were based on a different number of days of service than the Department had recorded.
- 11 payments in the Department's records totaling \$19,917 were recorded in the provider's accounting system but were based on a different level of care rate than the Department had recorded.

Recommendation

The provider should develop and implement a process to ensure that it completes monthly reconciliations of its accounting system with the Department’s records of payments to the provider.

Chapter 1-C

The Provider Should Consistently Conduct and Maintain Background Checks for Staff, Subcontractors, and Foster Parents

The provider did not consistently conduct and maintain documentation of background checks as required by the Department. See Appendix 4 for information regarding criminal convictions and other findings that may prohibit an individual from being present at a residential care provider. Specifically:

Background Check Requirements

Providers must request background checks on foster care parents, staff, and other individuals that have contact with children. These requests must be resubmitted every 24 months from the time they first receive a background check.

Source: Title 40, Texas Administrative Code, Sections 745.615 and 745.625. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

- For 24 of 71 (34 percent) foster families tested, the provider’s records did not include a criminal background check.
- Forty-seven of the 71 (66 percent) foster families tested had been a foster parent or other household member for more than two years. For 25 of those 47 (53 percent) foster parents and other household members, more than 24 months had passed between the provider’s most recent criminal background check and its previous background check.
- For 17 of 26 (65 percent) subcontracted therapists tested, the provider’s records did not include a current criminal background check.
- For 19 subcontracted therapists tested who were required to have a prior criminal background check, more than 24 months had passed between the provider’s most recent criminal background check and its previous background check.
- For 8 of the 22 (36 percent) staff tested, the provider’s records did not include a criminal background check.

In addition, the provider does not ensure that background checks are performed on subcontracted therapists that are hired through other organizations.

Not conducting required background checks every 24 months as required places children at risk of being placed in the care or having contact with inappropriate individuals. Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department’s minimum standards.

Recommendations

The provider should:

- Ensure that it conducts and routinely maintains background checks on its foster parents, subcontracted therapists, and staff in accordance with the Department's requirements.
- Develop and document policies and procedures to ensure subcontracted therapists hired through other organizations have received a background check.

Chapter 1-D

The Provider Should Ensure That It Pays Foster Parents for the Same Service Levels for Which It Is Paid by the Department

Two of the 30 (7 percent) foster care maintenance payments tested were inaccurate. (Foster care maintenance payments are the payments the provider makes to the foster parents with whom it places children.) The two errors were as follows:

- One payment the provider made to foster parents was inaccurate because the provider calculated the payment amount based on the wrong level of care. The provider paid the foster parents \$638 based on the "basic" level of care, but the Department had paid the provider \$1,115 based on the "moderate" level of care rate.
- The provider classified another payment as a foster care maintenance payment; however, the payment was actually for respite care services. Respite child-care services are a planned alternative 24-hour care that has the purpose of providing relief to the child's primary caregiver. The provider erroneously paid \$108 to both the child's foster parents and the respite caregivers for the same three days of care.

Recommendations

The provider should:

- Ensure it pays foster care parents according to the same level of care for which it is paid by the Department.
- Ensure that, when it pays for respite care services, it does not pay the foster parents for the same days for which respite care services were provided to a child.

Chapter 1-E

The Provider Should Ensure It Maintains Required Documentation on Foster Parents, Subcontracted Therapists, and Staff

The provider lacked required training documentation for its foster parents, subcontracted therapists, and staff. In addition, the provider did not consistently document its subcontracts with foster parents and therapists.

Child Placing Agency Pre-service Training

The Department requires that all child placing staff, foster parents, and direct care staff receive an orientation to the child placing agency's policies and the services provided as a pre-service training requirement.

The provider must also ensure that all foster parents or child-care staff complete eight hours of pre-service training in areas appropriate to the needs of children for whom they will be providing care. Prior to being assigned child-care responsibilities, the primary caretaker (at a minimum) in a foster family unit, all agency home child-care staff, and all agency foster group home parents must successfully complete training from a certified instructor in infant/child cardiopulmonary resuscitation and first aid.

Source: Title 40, Texas Administrative Code, Section 720.39 (b). See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

The provider should ensure its foster parents and staff received required pre-service training.

The provider did not consistently ensure that it maintained documentation indicating that all new foster parents and staff received required pre-service training. Specifically:

- For 28 of 44 (64 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of pre-service training.
- For 24 of 44 (55 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of required orientation.
- For 21 of 44 (48 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of first aid training.
- For 13 of 44 (30 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of cardiopulmonary resuscitation (CPR) training.
- For 13 of 22 (60 percent) staff files tested, the provider's records did not contain documentation of verification of the completion of required employee orientation.
- For 2 of 22 (9 percent) staff files auditors attempted to test, the provider could not provide complete staff files.

The provider should ensure it consistently maintains subcontracts with foster parents and therapists.

A review of the provider's records for 26 subcontracted therapists and 33 foster parents indicated that the provider did not consistently ensure that it had maintained documentation of its subcontracts. Specifically:

- For 18 of 26 (69 percent) subcontracted therapists' records tested, the provider's records lacked documentation of a subcontract between the provider and the subcontractor.
- For 4 of 33 (12 percent) foster care families' records tested, the provider's records lacked documentation of a subcontract between the provider and the foster parents.

The Department requires providers to have written agreements with both foster care families and subcontractors that provide therapy and counseling services.

Recommendations

The provider should:

- Develop policies and procedures to ensure that new foster parents and new staff receive the required pre-service training and employee orientation prior to providing services.
- Maintain and periodically review documentation to ensure that (1) foster parents and staff have received required pre-service training and employee orientation as required and (2) the provider has executed a subcontract for each subcontracted therapist that provides therapy or counseling services.
- Develop policies and procedures for procuring subcontracted therapy and counseling services that will ensure that an executed subcontract is in place prior to providing services.

The Provider Should Ensure That It Reports Related Party Transactions on Its Cost Report

The provider did not report any related party transactions in the 2006 cost report it submitted to the Commission. However, auditors identified related party transactions that should have been reported in the 2006 cost report. Specifically:

Related Parties

A related party is “a party that can exercise control or significant influence over the management and/or operating policies of another party, to the extent that one of the parties may be prevented from fully pursuing its own separate interests.”

Examples of related parties include:

- Principal owners.
- Management.
- Members of the immediate families of principal owners of the enterprise and its management.

Source: Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, page 10, March 1982, Financial Accounting Standards Board.

- The salaries for both the provider’s executive director and the assistant executive director were not reported on the cost report. The assistant executive director is the spouse of the executive director.
- The provider made a \$2,500 loan repayment to its chief executive officer in 2006 (this loan payment was coded as office janitorial expense in the provider’s general ledger).
- The provider had a lease agreement with its chief executive officer for use of a residential property as a group home. The lease expired on April 1, 2006, and lease payments for 2006 would have totaled \$4,800. The provider did not make any lease payments in 2006; however, it paid \$4,636 in costs such as food and utilities for this property in 2006. This indicates the provider used that property in 2006.
- An immediate family member of the provider’s chief operating officer was paid approximately \$7,200 for providing respite care services to the provider’s foster families.
- One of the provider’s board members is a manager with the company that provides banking services to the provider.

The contract between the Department and providers requires that providers comply with state requirements concerning related party transactions. State requirements specify that providers must disclose related party transactions on their cost reports.

Recommendation

The provider should disclose all related party transactions in the appropriate sections of its cost report as required.

Chapter 1-G

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

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. 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. Auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures.
- Access and security controls.
- Backup and storage of data.
- Audit trails.
- Physical security controls.
- Input controls.
- Output controls.
- Segregation of duties.
- External security.

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

Recommendation

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.

Audit of Circles of Care

Circles of Care Background Information Fiscal Year 2006	
Location	Corpus Christi, Texas
Contract services audited	Child placing agency
Number of children served	734
Average length of a child's stay	251 days
Total payments received from the Department	\$5,255,375
Total revenue	\$5,264,914
Federal tax filing status	Non-profit
Ending cash balance on September 30, 2006	\$964,215.55
Approximate number of program staff	24
Program staff turnover rate	20%

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

Circles of Care (provider) used the payments it received from the Department to (1) pay the foster care families with whom it placed children and (2) pay expenses it incurred for operating a child placing agency. These payments are intended to ensure the delivery of goods and services—such as direct care, therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the care of the provider. The provider is ensuring that training is provided for staff and subcontractors and that professional licenses are maintained for staff and subcontractors. However, auditors identified the following:

- Non-compliance with background check requirements for staff, subcontractors, and foster care parents. (See Chapter 2-A.) The provider did not consistently conduct and maintain background checks as required by both the Department's licensing rules and the provider's contract with the Department.
- Non-compliance with maintaining formal subcontracts for accounting and therapy services. (See Chapter 2-B.) The provider has outsourced critical accounting processes to a vendor without executing any formal subcontract that details the services provided, ensures the confidentiality of information, and defines the costs associated with these services. In addition, the provider does not have formal subcontracts with psychiatrists as required by its contract with the Department.
- Non-compliance with cost report requirements. (See Chapter 2-C.) The provider did not identify unallowable costs on its cost report, report related party payments as required, or prepare the cost report using the required accounting method.
- Weaknesses in financial processes. (See Chapters 2-D and 2-E.) The provider should ensure it maintains documentation related to foster care family reimbursements, credit card expenses, travel reimbursements, and payroll. In addition, it should improve its cash management processes.
- Weaknesses in access to and the security environment surrounding automated systems, applications, and data. (See Chapter 2-F.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Please see Appendix 6 beginning on page 69 for the provider’s responses to all of the issues discussed in this chapter.

Chapter 2-A

The Provider Should Consistently Conduct and Maintain Background Checks for Its Staff, Contracted Therapists, and Foster Parents

The provider has conducted contractually required background checks for staff, subcontractors, and foster parents within the last two years. However, it did not consistently conduct these background checks every 24 months as required (see text box). See Appendix 4 for information regarding criminal convictions and other findings that may prohibit an individual from being present at a residential care provider. During review of the files for staff, subcontractors, and foster parents, auditors noted the following:

Background Check Requirements

Providers must request background checks on foster care parents, staff, and other individuals that have contact with children. These requests must be resubmitted every 24 months from the time they first receive a criminal background check.

Source: Title 40, Texas Administrative Code, Sections 745.615 and 745.625. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

- For seven of nine (78 percent) staff tested, there was more than a 24-month period between the provider’s most recent criminal background check and its previous background check. The amount of time that criminal background checks were late ranged from 2 days to 23 weeks.
- For eight of nine (89 percent) subcontractors tested, there was more than a 24-month period between the provider’s criminal background checks. The amount of time that criminal background checks were late ranged from 2 weeks to 42 weeks.
- For 1 parent of the 17 foster families tested, the provider obtained a criminal background check approximately one year after it was required. The foster parent’s most recent criminal background check was conducted on July 27, 2005, and the prior criminal background check was conducted on August 5, 2002. The provider should have conducted a criminal background check by August 5, 2004.

Not conducting required background checks every 24 months as required places children at risk of being placed in the care or having contact with inappropriate individuals. The most recent criminal background checks the provider had conducted for the individuals discussed above did not have any reported offenses that violated minimum standards.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its staff, subcontracted therapists and home study workers, and foster parents in accordance with the Department’s requirements.

Chapter 2-B

The Provider Should Ensure That It Formalizes All of Its Subcontracts

The provider does not have formal subcontracts with certain vendors to which it outsources services. Such subcontracts are required by the provider’s

Residential Child Care Contract Requirements

“The Contractor shall provide statements from subcontractors signed by an official duly authorized to legally obligate the subcontractor attesting to the fact that it shall provide the services as represented in this Contract, including the incorporated documents, with no disruption to service delivery. A similar statement must be signed by each subcontractor who will provide services as part of the Contract.”

Source: Section 42C of the Residential Child Care Contract between the Department and the provider.

contract with the Department (see text box). The contract between the provider and the Department also requires the provider to ensure that the clause concerning the authority to audit funds received indirectly by subcontractors is included in any subcontracts awarded by the provider.

The provider outsources key accounting services to a vendor without a formal subcontract.

The provider has outsourced critical accounting processes to a vendor without any formal subcontract or service agreement that details the services provided and the costs associated with these services. Although subcontracts that provide ancillary services (such as accounting services) do not require prior approval by the Department, these services are still considered subcontracted services.

Not formally subcontracting for services increases the opportunity for disputes related to services provided (or not provided) and the costs associated with those services. Without a formal subcontract, there is a risk that subcontractors are not aware of their roles and responsibilities related to issues such as confidentiality of personal information or the right to audit. The lack of a formal subcontract also makes it difficult to analyze the value of services provided.

The provider does not formalize service agreements with subcontracted psychiatrists.

The provider does not have service agreements (that is, subcontracts) with psychiatrists. Previously, services provided by psychiatrists were not formally subcontracted; instead the provider procured these services on an “as needed” basis in a manner similar to the way in which it procured the services of a pediatrician or other medical service provider.

The provider was in the process of securing service agreements with psychiatrists during this audit. The lack of formal subcontracts with psychiatrists prevents the provider from legally obligating the psychiatrists to deliver the services as represented in the provider’s contract with the Department with no disruption to service delivery.

Recommendations

The provider should:

- Clearly identify ancillary processes it wishes to subcontract.
- Formalize professional relationships with formal subcontracts that clearly define roles and responsibilities and include all elements required by the Department.
- Develop policies and procedures for awarding subcontracts.
- Continue, and enhance if necessary, its efforts to secure formal subcontracts with psychiatrists who provide services required by the provider's contract with the Department.

Chapter 2-C

The Provider Should Ensure That the Information on Its Cost Report Is Complete and Accurate

The provider should ensure that it does not report unallowable costs as allowable costs on its cost report.

The provider paid approximately \$7,100 in unallowable costs for a cruise for the members of its board of directors and their spouses. These costs were reported as allowable costs on the 2006 cost report the provider submitted to the Commission.

This is important because the Commission uses the financial information reported on the cost reports to determine future rates that the Department will pay to providers for the delivery of care to children. Reporting unallowable costs as allowable costs on the cost reports could result in inflated payment rates to providers.

The Commission's *Specific Instructions for the Completion of the 2006 Texas 24-Hour Residential Child Care Cost Report* states that "costs related to the board of directors are unallowable, with the exception of travel costs incurred to attend meetings of contracted provider's board of directors within limits and errors and omissions (liability) insurance for board members." Records related to reported costs must demonstrate the necessity and reasonableness of the reported costs. In addition, Office of Management and Budget Circular A-122 dictates that travel expenses be reasonable and that entertainment expenses are unallowable. Auditors determined the costs reported were neither necessary nor reasonable for the purpose of a board meeting.

The provider should ensure that it reports all related party payments on its cost report.

Related Parties

A related party is "a party that can exercise control or significant influence over the management and/or operating policies of another party, to the extent that one of the parties may be prevented from fully pursuing its own separate interests."

Examples of related parties include:

- Principal owners.
- Management.
- Members of the immediate families of principal owners of the enterprise and its management.

Source: Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, page 10, March 1982, Financial Accounting Standards Board.

The provider reported its executive director, who is also the president of the board, as a "related party" on the 2005 and 2006 cost reports it submitted to the Commission. However, it did not report the executive director's family members as related parties. Specifically:

- The parents of the executive director hold positions related to the provider's operations: one serves on the board of directors and the other is employed by the provider as an administrative assistant.
- A parent of the executive director's spouse is employed by the provider in an administrative position on a part-time basis.

The salaries paid to these related parties were determined to be reasonable.

The contract between the Department and providers requires that providers comply with state requirements concerning related party transactions. State requirements specify that providers must disclose related party transactions on their cost reports.

The provider should use the accrual method of accounting, as required, when reporting its revenue and expenses on the cost report.

Accrual Method of Accounting

"An accrual method of accounting must be used when completing this Cost Report unless the contracted provider is a governmental entity that can report on a cash basis or modified accrual basis. Under the accrual method of accounting, revenues are reported in the period when they are earned, regardless of when they are collected; and expenses are reported in the period when they are incurred, regardless of when they are paid...If your accounting books are maintained on a cash basis, you must make appropriate 'adjusting entries'...Revenues must be reported on an accrual basis. Report all revenue that was earned, based on units of service provided, regardless of whether the revenue has been received."

Source: *Specific Instructions for the Completion of 2006 Texas 24-Hour Residential Child Care Cost report.*

The provider reported its payments from the Department and its payments to foster care families on its 2006 cost report using the cash basis of accounting. However, providers are required to report revenue and expenses using the accrual method of accounting (see text box). This error resulted in the provider understating its revenue by approximately \$318,035 on its 2006 cost report.

The provider also does not record expected payments from the Department. For example, some payments related to March and April 2005 service periods were recorded when they were received in March 2006. Because the provider uses a cash basis of accounting, the revenue is not recorded until it is received.

Reporting revenues, payments to foster care families, and days of service provided using the cash basis increases the

difficulty of reconciling reported revenue and foster care payments to service activity and budgeted activity.

Recommendations

The provider should:

- Ensure that it reports allowable costs and unallowable costs accurately in the appropriate sections of the cost reports it submits to the Commission.
- Disclose all related party payments in the appropriate sections of its cost reports as required.
- Ensure that it uses the accrual method of accounting to report revenue and foster care family payments when completing its cost reports. The provider should consider the following:
 - ♦ Use its monthly days of service report to accrue expected Department revenue and foster care family payments in the actual service period during which they were earned. It also should identify and correct potential errors in days of service reporting.
 - ♦ Quantify and proactively address its collection issues with the Department's regional offices. Conducting periodic reconciliations of receivable accounts would allow the provider to track collection issues and discrepancies in Department payments.

Chapter 2-D

The Provider Should Ensure That It Maintains Supporting Documentation for Its Payments to Foster Care Families, Credit Card and Travel Expenses, and Payroll

Texas Administrative Code Requirements for Supporting Documentation

“Providers must ensure that all records pertinent to services rendered under their contracts with [the Department] are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports.”

“The contractor must keep financial and supporting documents, statistical records, and any other records pertinent to the services for which a claim or cost report was submitted to the department or its agent.”

Source: Title 1, Texas Administrative Code, Section 355.7101(15), and Title 40, Texas Administrative Code, Section 732.262 (b). See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

Cost Report Requirements for Supporting Documentation

“Contracted providers must maintain records that are accurate and sufficiently detailed to substantiate the legal, financial, and statistical information reported on the Cost Report. These records include, but are not limited to, all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls.”

Source: *Specific Instructions for the completion of the 2006 Texas 24-Hour Residential Child Care Cost Report.*

The provider does not consistently maintain supporting documentation and evidence of approval of expenses to ensure compliance with the Texas Administrative Code and requirements for cost reports (see text box).

The provider should ensure that it consistently maintains documentation to support its payments to foster care families.

Auditors did not identify any issues in testing the provider’s direct payments (based on days of service and service levels) to foster families for services provided to children. However, the provider lacked documentation to support payments for the reimbursement of mileage, training, medical tests, respite care, and other adjustments made to payments to foster families. The provider lacked certain supporting documentation for 10 of the 30 (33 percent) foster care family payments tested. Specifically:

- The provider had no supporting documentation to demonstrate its review and approval of the 10 payments’ accuracy and completeness.
- The provider had incomplete documentation for four payments for respite care, mileage, and a Christmas gift.
- For one payment, the provider had no supporting documentation indicating management’s approval of reimbursement for travel mileage within 60 miles of the foster care home (this reimbursement was granted as an exception to the provider’s internal policy).

In addition, the provider had no supporting documentation to indicate that it reviews documentation before submitting payments to its accounting subcontractor for processing. It also lacked supporting documentation to indicate that it conducts a final review to ensure that the accounting subcontractor processes payments correctly.

The provider also inaccurately calculated one payment, which resulted in a foster care family being overpaid on a reimbursement for a training class. Although the dollar amount of the error was insignificant (\$23), it is further evidence of weaknesses in the provider’s review and approval of payments.

The lack of a documented review and approval process and lack of adequate supporting documentation increases the risk of calculation errors and the payment of potentially unallowable costs.

The provider should improve its approval and documentation processes for credit card expenses and travel reimbursements.

The provider's approval and reporting of credit card expenses and travel reimbursements are insufficiently documented and subject to errors.

Specifically:

- The provider has no documentation of the purchase authorization process for credit card expenses.
- The provider did not maintain supporting documentation (such as invoices and credit card receipts) for 3 of the 20 credit card transactions tested. Three of four travel reimbursements tested had incomplete supporting documentation, such as missing information (location addresses for destinations and purposes of travel) and missing meal receipts.
- The provider's coding of expenses in its general ledger was inaccurate for 4 of the 20 credit card transactions tested and for 2 of the 4 travel reimbursements tested.
- The provider did not always adhere to its approved rates for mileage and meals.

The provider recently implemented a more formal purchase/travel request form requiring the executive director's approval. This will replace the e-mail purchase request and authorization process that was previously in use.

The subcontracted accounting firm codes transactions in the provider's general ledger, but the provider's staff does not review the transactions. (The staff does, however, review monthly financial information.) The lack of adequate supporting documentation and the lack of a documented review process increase the risk of reporting errors and non-compliance with state policies regarding allowable expenses.

The provider should ensure that it pays the correct amounts to employees and that it properly protects employee files.

The provider did not always have sufficient documentation in its payroll records to support its actual payments to employees. For nine of the 152 (6 percent) transactions tested, employees' actual pay did not match the pay rates specified in their personnel files. Three of these instances involved incorrect bonus amounts paid to employees. Although the differences in pay rates and bonuses were not significant, they demonstrate a weakness in the provider's

payroll process. Incomplete or inaccurate documentation increases the risk of paying employees the wrong amounts.

In addition, payroll records are kept in an unlocked drawer in an unlocked office at the accounting subcontractor. Payroll records contain confidential information, and only employees who process payroll should have access to those records.

Recommendations

The provider should improve its processing of foster family reimbursements by:

- Formally documenting its review and approval of reimbursements. As part of the review, the provider should ensure that all supporting documentation is maintained and that the documentation matches actual amounts reimbursed to foster families. The provider also should document approval of any policy exceptions granted by management.
- Documenting its subsequent review process of foster payments by program directors and the executive director before it sends the payments to the accounting subcontractor for processing.
- Implementing an additional review by provider staff to ensure that payments were processed correctly by the accounting subcontractor.

The provider also should:

- Retain all supporting documentation for all transactions, match the documentation to purchase/travel request forms, and ensure that it maintains documented evidence of the executive director's approval.
- Improve its review of expense coding in its general ledger.
- Document exceptions to policy that management has granted.
- Retain supporting documentation for all payroll actions and ensure that payments to employees match the pay rates in their personnel files.
- Ensure that payroll records are kept in a secure location where they can be accessed by only those employees who process payroll.

The Provider Should Strengthen Its Cash Management Processes

Auditors identified the following cash management issues at the provider:

- Fiscal year 2006 revenue that the provider received from the Department was understated by \$2,884.70 in the provider's general ledger. This occurred because five adjusting entries were erroneously coded to revenue accounts instead of expense accounts.
- The provider's cash receipt transaction dates are not always recorded accurately in its general ledger. These dates are often several days before or after bank statement receipt dates.
- The provider does not promptly deposit physical checks received from the Department. Auditors tested one deposit that included 10 Department checks totaling \$5,081.75. These checks were deposited from 29 to 120 days after they were issued. Although the majority of Department payments are deposited electronically, the Department still issues some physical checks to the provider.
- The provider's accounting subcontractor does not provide any cash flow statements or cash flow forecasts.

Because the provider reports revenue on a cash basis, cash receipts should mirror bank statement deposit dates. Timeliness and accuracy of deposits and promptness of collection are critical to (1) ensure accuracy and completeness of reported revenue and (2) facilitate the reconciliation of reported revenue to actual foster care service activity.

While physical checks that the provider deposited into the bank during fiscal year 2006 represented only \$17,031.81 (or 0.3 percent of total receipts), the provider does not have a formal process to ensure the timeliness of such deposits. Not promptly depositing physical checks increases the risk of misappropriation or loss of funds, delays the recognition of revenue, and restricts the provider's ability to optimize the management of its cash. The lack of cash flow statements and cash forecasts may restrict the provider's ability to effectively plan and optimize the use of state funds.

Recommendations

The provider should improve its cash management processes by:

- Improving its review process for making adjustments to revenue accounts to detect and correct coding errors.
- Ensuring that transaction dates recorded in its general ledger match actual cash receipt dates on bank statements.

- Depositing physical checks promptly to reduce the risk of misappropriation of funds and to record revenue on a more timely basis.
- Coordinating with the Department to receive electronic payments for all disbursements, thereby eliminating the need for physical checks.
- Incorporating cash flow statements into its monthly financial information.
- Developing cash flow forecasts based on collection patterns and projected activity to optimize the management of cash.

Chapter 2-F

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

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. The weaknesses 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. Most of the weaknesses were noted both at the provider and at the provider's accounting subcontractor. Auditors identified opportunities for improvement in the following areas:

- Physical security.
- Logical access controls.
- Backup, storage, and recovery of data.
- Input controls.
- Audit trails.

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

Recommendation

The provider should review recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Audit of the Children’s Shelter

The Children’s Shelter Background Information Fiscal Year 2006	
Location	San Antonio, Texas
Contract services audited	Child placing agency
Number of children served	500
Average length of a child’s stay	294 days
Total payments received from the Department	\$3,752,384 ^a
Total revenue	Unavailable ^a
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$2,382,674
Approximate number of program staff	49
Program staff turnover rate ^b	71%
^a As of June 30, 2007, the provider had not submitted its 2006 cost report to the Health and Human Services Commission. As a result, auditors were unable to verify the total payments the provider received from the Department or obtain information on the provider’s total revenue. ^b The turnover rate reported is for both administrative and program staff.	

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

The Children’s Shelter (provider) used the payments it received from the Department to (1) pay the foster care families with whom it placed children and (2) pay expenses it incurred for operating a child placing agency. These payments are intended to ensure the delivery of goods and services—such as direct care, therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the care of the provider. However, auditors identified the following:

- Non-compliance with background check requirements for staff, subcontractors, and foster care parents. (See Chapter 3-A.) The provider did not consistently conduct and maintain background checks as required by both the Department’s licensing rules and the provider’s contract with the Department.
- Non-compliance with foster care reimbursement payment requirements. (See Chapter 3-B.) The provider did not consistently pay its foster care parents according to the same number of days of service or service level of care for which it was paid by the Department.
- Non-compliance with foster care parent and staff training requirements. (See Chapter 3-C.) The provider did not consistently ensure its foster care parents and staff received the training required by the Department’s licensing rules prior to providing either care or services.
- Non-compliance with requirements to maintain formal subcontracts for direct care, therapy, and home study services. (See Chapter 3-D.) The provider did not consistently maintain documentation of its subcontracts with foster care parents, therapists, and home study workers.
- Weaknesses in access to and the security environment surrounding automated systems, applications, and data. (See Chapter 3-E.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Please see Appendix 7 beginning on page 75 for the provider’s responses to all of the issues discussed in this chapter.

The Provider Should Consistently Conduct and Maintain Background Checks for Staff, Subcontractors, and Foster Parents

Background Check Requirements

Providers must request background checks on foster care parents, staff, and other individuals that have contact with children. These requests must be resubmitted every 24 months from the time they first receive a criminal background check.

Source: Title 40, Texas Administrative Code, Sections 745.615 and 745.625. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

The provider did not consistently conduct required background checks for foster parents, subcontracted therapists, subcontracted home study workers, and staff every 24 months as required (see text box). See Appendix 4 for information regarding criminal convictions and other findings that may prohibit an individual from being present at a residential care provider. Specifically:

- For 2 of 69 (three percent) foster families tested, the provider's records did not include a criminal background check. One individual was a foster parent who has been providing care since October 2003; the other is over the age of 14 and living in a foster home.
- For 39 of 69 (57 percent) foster families tested, the provider was supposed to conduct updated criminal background checks for the period from September 2005 through December 2006. For 11 of those 39 (28 percent), updated criminal background checks had not been conducted every 24 months. In addition, for 4 of 28 (14 percent) foster care parents, the updated background checks were conducted between 3 and 18 months late.
- For 1 of 20 (5 percent) subcontracted therapists tested, the provider's records lacked documentation showing that a criminal background check had been conducted.
- For 2 of 16 (12 percent) subcontracted home study workers tested, provider records indicated that criminal background checks were not conducted every 24 months as required. Specifically:
 - ♦ One home study worker's records indicated that the most recent criminal background check was conducted in April 2004. The provider should have conducted another criminal background check on this individual by April 2006.
 - ♦ One home study worker who received an initial criminal background check in April 2004 did not receive an updated criminal background check until October 2006. An updated criminal background check should have been conducted by April 2006.
- For 1 of 35 (three percent) staff tested, the provider's records did not contain adequate documentation that the provider conducted a criminal background check in a timely manner. This staff member, a case manager, was hired in April 2004; however, the provider did not conduct

a criminal background check on this person until nine months later in January 2005.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its foster parents, subcontracted therapists, subcontracted home study workers, and staff in accordance with the Department's requirements.

Chapter 3-B

The Provider Should Ensure That It Pays Foster Care Parents for the Same Days of Services and Service Levels for Which It Is Paid by the Department

Four of the 30 (13 percent) foster care maintenance payments tested did not reconcile to the Department's payment records for either (1) the days of services or (2) the service level of care rate for children placed with the

provider (see textbox for additional details about the service level of care rate).

Service Level of Care		
<p>All providers are paid a fixed daily rate for each child placed in their care. The actual daily rate the Department pays a provider is based on the child's service level of care, which is determined at the time of placement by a third-party service level reviewer.</p> <p>A provider that is a child placing agency receives daily rates that are defined in its contract with the Department. In addition, child placing agencies are required to reimburse foster care parents a minimum daily amount based on the service level of care assigned to a child for whom they care. Those rates are presented below.</p>		
Service Level of Care Daily Rate		
Service Level of Care	Paid to Child Placing Agency	Rate Paid to Foster Care Parents
Basic	\$37.00	\$20.56
Moderate	\$67.32	\$35.97
Specialized	\$89.68	\$46.25
Intense	\$164.45	\$82.22

The provider pays foster care parents at the beginning of each month for the care provided to children during the prior month. The provider receives payment from the Department after it has paid the foster care parents. The four foster care maintenance payments (totaling \$3,793) that did not reconcile to either the days of service or service level of care that the Department paid the provider were for the care provided to seven children. Specifically:

- Two foster care maintenance payments (totaling \$2,331) were for five children and were calculated by the Department based on a number of days of service that differed from the number of days of service noted in the provider's payment records used to pay foster parents. Specifically:
 - ♦ Payments for four children (totaling \$1,332) were made by the Department based on a number of days of service that was one day fewer than the number of days for which the provider paid the

foster care parents.

- ♦ The payment for one child (totaling \$999) was made by the Department based on a number of days of service that was four days more than the days of service for which the provider paid its foster care parents.
- Two foster care payments, totaling \$1,462, were for two children and were made by the Department at a different service level of care rate than the rate at which the provider paid its foster care parents. Specifically:
 - ♦ One payment (totaling \$870) was paid by the Department at the rate for specialized service level of care. The provider, however, paid the foster parents at the rate for basic service level of care.
 - ♦ One payment (totaling \$592) was paid by the Department at the rate for basic service level of care. The provider, however, paid the foster care parents at the rate for moderate service level of care. The Department reduced the child's service level of care from moderate to basic for the payment period. The provider disagreed with the reduction in the service level of care and elected to continue paying the foster care parents at the higher rate for moderate service level of care.

The provider's contract with the Department requires it to reimburse foster care parents at a minimum daily rate for services provided to children according to the service level of care that the Department pays the provider.

Recommendations

The provider should immediately notify the Department of any discrepancies in the payments it receives, and ensure that any discrepancies reported to the Department are monitored and resolved in a timely manner.

Chapter 3-C

The Provider Should Ensure Its Foster Parents and Staff Meet Employee and Caregiver Orientation Training Requirements

The provider does not consistently ensure that all new foster parents and staff members receive required pre-service training. Specifically:

- For 14 of 58 (24 percent) foster parents tested, the provider's records did not contain documentation verifying the completion of either a required orientation or a pre-service training program.
- For 13 of 35 (37 percent) staff tested, the provider's records (1) did not contain documentation verifying that these staff members had received employee orientation or (2) contained documentation indicating that staff received new employee orientation after providing services. Specifically:

Child Placing Agency Pre-Service Training

The Department requires that all child-placing staff, foster parents, and direct care staff receive an orientation to the child-placing agency's policies and the services provided as a pre-service training requirement.

The provider must also ensure that all foster parents or child-care staff complete eight hours of pre-service training in areas appropriate to the needs of children for whom they will be providing care.

Source: Title 40, Texas Administrative Code, Section 720.39 (b). See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

- ♦ 11 of 35 (31 percent) training records indicated that these staff members did not receive employee orientation prior to providing services. The training occurred approximately 3 weeks to 20 weeks after their date of hire.
- ♦ 2 of 35 (6 percent) training records did not contain documentation verifying that these staff members received employee orientation. These two employees are no longer employed by the provider.
- The Department's licensing rules for both foster parents and staff members require that orientation training covering a child placing agency's policies and procedures be given prior to the parents and staff providing services (see text box). In addition, foster parents are required to complete training in areas appropriate to the needs of the children for whom they will be providing care.

Recommendations

The provider should:

- Develop policies and procedures to ensure that new foster care parents and new staff members receive the required pre-service training and employee orientation prior to providing services.
- Maintain and periodically review documentation to verify that foster care parents and staff have received pre-service training and employee orientation as required.

Chapter 3-D

The Provider Should Ensure It Maintains Required Documentation on Foster Care Parents, Subcontracted Therapists, and Subcontracted Home Study Workers

The provider lacked required documentation for some of its subcontracts with foster care parents, therapists, and home study workers. In addition, the provider did not consistently document that it verified the professional qualifications of its subcontracted therapists and subcontracted home study workers.

Foster Care Parent Contracts

The Department requires the provider to sign a written agreement with the foster parents at the time the foster home is verified. Both the provider and the foster parents must have a copy of the agreement, and a copy must be filed in the foster home record. This agreement must specify the financial agreement is between the agency and the foster home.

Source: Title 40 Texas Administrative Code, Section 720.48. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

The provider should consistently document payment rates in its subcontracts with foster care parents.

Five of 30 (17 percent) provider subcontracts with foster care parents did not specify payment rates for providing the services defined in the contract terms.

The Department requires providers to maintain written agreements with foster care families that specify the financial agreement between the provider and the foster care parents (see text box).

The provider should consistently maintain documentation of its subcontracts.

A review of 20 therapists' records and 16 home study workers' records indicated that the provider did not consistently ensure that it had (1) executed formal subcontracts with therapists and home study workers and (2) verified the professional qualifications of those individuals.

Specifically:

- Four of 20 (20 percent) therapists' records tested lacked the following documentation:
 - ♦ The records for two therapists lacked documentation showing that the provider verified that the therapist had a valid professional license. Auditors determined the therapists did have a valid professional license during the period in which services were provided. One of these two therapists' records also lacked documentation of a subcontract with the provider.
 - ♦ The subcontracts in two therapists' records lacked an effective date. The provider indicated that an effective date was omitted from these subcontracts because the therapists were providing services prior to the execution of the subcontracts.
- Four of 16 (25 percent) home study workers' records lacked documentation of a subcontract with the provider.

Residential Child Care Contract Requirements

"The Contractor shall provide statements from subcontractors signed by an official duly authorized to legally obligate the subcontractor attesting to the fact that it shall provide the services as represented in this Contract, including the incorporated documents, with no disruption to service delivery. A similar statement must be signed by each subcontractor who will provide services as part of the Contract."

Source: Section 42 (C) Department of Family and Protective Services, Residential Child Care Contract.

The provider's contract with the Department requires providers to have written agreements with subcontractors that provide therapy and counseling services (see text box). In addition, the provisions of the provider's contract agreements with therapists require they possess a professional license in social services.

Recommendations

The provider should:

- Specify payment rates in all of its subcontracts with foster care parents.

- Execute subcontracts with therapists and home study workers before they begin providing services.

- Verify that subcontracted therapists and home study workers have the necessary professional qualifications before entering into a subcontract for services.

Chapter 3-E

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

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. 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. Auditors identified opportunities for improvement in the following areas:

- External System security.
- Physical security.
- Logical access controls.
- Backup, storage, and recovery of data.
- Information system policies and procedures.

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

Recommendation

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.

Canyon Lakes Residential Treatment Center

Chapter 4

Audit of Canyon Lakes Residential Treatment Center

Canyon Lakes Residential Treatment Center Background Information Fiscal Year 2006	
Location	Lubbock, Texas
Contract services audited	Residential treatment center
Number of children served	28
Average length of a child's stay	417 days
Total payments received from the Department	\$ 1,249,733
Total revenue	\$2,222,750
Federal tax filing status	For profit
Ending cash balance on December 31, 2006	\$10,532
Approximate number of program staff	43
Program staff turnover rate	112%

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

Canyon Lakes Residential Treatment Center (provider) used the payments it received from the Department to pay costs it incurred for providing 24-hour residential child care services. These services were necessary to ensure the mental and physical well-being of the children placed in this provider's care and included items such as direct care, food, shelter, and clothing. The provider also ensures that staff and subcontractors maintain professional licenses. However, auditors identified the following:

- Non-compliance with staff training requirements. (See Chapter 4-A.) Although the provider ensured that new staff received training, it did not consistently ensure that existing staff received required annual training. In addition, the provider did not ensure that all staff received cardiopulmonary resuscitation (CPR) and first aid training.
- Non-compliance with background check requirements for staff and subcontractors. (See Chapter 4-B.) Although the provider conducted background checks, it did not consistently document the results of those checks as required.
- Non-compliance with cost report requirements for related parties. (See Chapter 4-C.) The provider did not always identify related party transactions on its cost report as required.
- Weaknesses in financial processes. (See Chapter 4-D.) The provider should improve its approval and documentation processes for travel, food, clothing, and payroll expenses. It also should develop and document policies and procedures for accounting and payment processes.

- Weaknesses in verifying education requirements. (See Chapter 4-E.) The provider does not verify education requirements for prospective employees to ensure that the minimum requirements are met.
- Weaknesses in access to and the security environment surrounding automated systems, applications, and data. (See Chapter 4-F.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Please see Appendix 8 beginning on page 78 for the provider's responses to all of the issues discussed in this chapter.

Canyon Lakes Residential Treatment Center

Chapter 4-A

The Provider Should Ensure Its Staff Meets Training Requirements

The provider does not consistently ensure that all staff received required CPR, first aid, or annual training. Specifically:

CPR and First Aid Training Requirements

Child-care staff members who are not licensed/certified health professionals must have current first-aid training. New child-care staff must meet this requirement within 90 days of employment.

Staff with current training in cardiopulmonary resuscitation (CPR) must be available and accessible to children in care during all hours of operation. CPR training must be updated at least annually. Training must be conducted by a person certified to provide CPR training.

All training and orientation must be documented. Documentation must include the date, the subject, and the name of the person who conducted the training.

Source: Title 40, Texas Administrative Code, Section 720.415. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

- For 4 of 20 (20 percent) staff members tested who were required to have CPR training, the provider did not have documentation verifying the completion of CPR training. Another 2 of the 20 (10 percent) staff members tested did not receive CPR training until several months after they were hired.
- For 4 of 20 (20 percent) staff members tested who were required to have first aid training, the provider did not have documentation verifying the current completion of that training.
- For 13 staff members who were required to receive 50 hours of annual training, 3 (23 percent) did not receive all 50 hours in calendar year 2006. Title 40, Texas Administrative Code, Sections 720.523 (b) and (c), require that “All staff [members] working with children must receive at least 50 hours annually of in-service training related to children’s services exclusive of orientation and first aid training.”¹

Recommendations

The provider should:

- Maintain documentation indicating that staff have received current first aid and CPR training.
- Train staff in CPR and first aid in a timely manner.
- Ensure that applicable staff receive the required 50 hours of annual training.

¹ See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

The Provider Should Consistently Conduct and Maintain Background Checks for Its Subcontractors and Staff

Background Check Requirements

Providers must request background checks on foster care parents, staff and other individuals that have contact with children:

- Before they hire a new person who will provide direct care or have direct access to a child in care.
- For an employee who will not provide direct care or have direct access to a child in care, the provider must submit a background check request within two business days after the new person is hired or is present in the operation.
- Every 24 months from the time they first receive a criminal background check.

Personnel records for staff must contain at least the following: any reports and notes relating to the person's employment with the facility.

Source: Title 40, Texas Administrative Code, Section 745.625 and Section 720.409. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

The provider has conducted contractually required background checks for subcontractors and staff within the last two years. However, it did not maintain documentation of the results of those criminal background checks for 15 of the 16 (94 percent) subcontractor files tested. These subcontractors were therapists and dietitians. See Appendix 4 for information regarding criminal convictions and other findings that may prohibit an individual from being present at a residential care provider.

The provider also did not always request required criminal background checks for staff in a timely manner. The provider did not request background checks either prior to hire or within two days of hire, as required, for 4 of 25 (16 percent) staff members tested. Although the provider did request background checks on these individuals, it did not do so in a timely manner. In addition, the provider did not document the results of background checks in any of the employees' files.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendation

The provider should ensure that it conducts, documents, and routinely maintains background checks on its staff and subcontracted therapists and dietitians in accordance with the Texas Administrative Code.

Canyon Lakes Residential Treatment Center

Chapter 4-C

The Provider Should Ensure That It Reports All Related Party Payments on Its Cost Report

The provider reported the salary of its chief executive officer (CEO) and co-owner in the 2006 cost report it submitted to the Health and Human Services Commission (Commission). However, it did not report other related party transactions. Specific related party transactions not reported included the following:

Related Parties

A related party is "a party that can exercise control or significant influence over the management and/or operating policies of another party, to the extent that one of the parties may be prevented from fully pursuing its own separate interests."

Examples of related parties include:

- Principal owners.
- Management.
- Members of the immediate families of principal owners of the enterprise and its management.

Source: Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, page 10, March 1982, Financial Accounting Standards Board.

- Loans to the provider from each of the four owners for \$15,000 each (for a total of \$60,000), as well as the interest paid on those loans.
- A loan to the provider from the mother of the CEO and co-owner for \$200,000, as well as the interest paid on that loan.
- Payments of \$9,412.50 to the CEO and co-owner for providing counseling services to children in the provider's care.

The loans described above were made to the provider with a set repayment schedule and interest rate. The contract between the Department and providers requires that providers comply with state requirements concerning related party transactions. State requirements specify that providers must disclose related party transactions on their cost reports.

Recommendation

The provider should disclose all related party payments in the appropriate sections of its cost reports as required.

Canyon Lakes Residential Treatment Center

Chapter 4-D

The Provider Should Improve Its Approval and Documentation Processes for Travel, Food, Clothing, and Payroll Expenses

Texas Administrative Code Requirements for Supporting Documentation

"Providers must ensure that all records pertinent to services rendered under their contracts with [the Department] are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports."

"The contractor must keep financial and supporting documents, statistical records, and any other records pertinent to the services for which a claim or cost report was submitted to the department or its agent."

Source: Title 1, Texas Administrative Code, Section 355.7101(15), and Title 40, Texas Administrative Code, Section 732.262b. See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

Cost Report Requirements for Supporting Documentation

"Contracted providers must maintain records that are accurate and sufficiently detailed to substantiate the legal, financial, and statistical information reported on the Cost Report. These records include, but are not limited to, all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls."

Source: *Specific Instructions for the Completion of the 2006 Texas 24-Hour Residential Child Care Cost Report*.

The provider does not consistently maintain supporting documentation and evidence of approval of expenses to ensure compliance with the Texas Administrative Code and requirements for cost reports (see text box).

The provider should improve its approval and documentation process for travel, food, and clothing expenses. The provider's approval and reporting of travel, food, and clothing expenses were not always documented sufficiently and were subject to errors. Specifically:

- For 15 of 16 (94 percent) travel transactions tested, proper approval by an authorized person was not documented.
- For 10 of 16 (63 percent) travel transactions tested, the provider's documentation did not indicate the purpose of the trip, the destination, and/or the dates of travel.
- For 5 of 16 (31 percent) travel transactions tested and 1 of 35 (3 percent) food transactions tested, the provider had no required receipts. The provider had no documentation of any kind for three of the travel transactions tested.
- For 9 of 16 (56 percent) travel transactions tested and 2 of 10 (20 percent) clothing transactions tested, the provider did not properly record transactions in the correct expense account.
- The provider does not have formal policies and procedures for its payment process or its accounting process.

The provider should ensure that it pays the correct amounts to employees. The provider did not always have sufficient documentation in its payroll records to support its actual payments to employees. Specifically:

- For 6 of 70 (9 percent) transactions tested, the authorized rate of pay in the employee's personnel file did not match the pay rate according to the provider's payroll register. In every instance, the employee was overpaid, in some cases by a minimal amount. The six instances resulted in employees being overpaid a total of \$145.21.
- For 2 of 59 (3 percent) transactions tested, overtime hours were miscalculated and, as a result, employees were overpaid for overtime hours but underpaid for regular hours. The two instances resulted in the employees being overpaid a total of \$86.30.

Canyon Lakes Residential Treatment Center

- For 11 of 70 (16 percent) transactions tested, the employees did not have completed timesheets or any supporting documentation for the hours they worked. The provider's timekeeping policy states that employees must complete a timesheet and submit it to the accounting department.

Recommendations

The provider should:

- Retain all supporting documentation for all transactions, match the documentation to purchase/travel request forms, and maintain documented evidence of the proper approval.
- Improve its review of expense coding in its general ledger.
- Develop and document policies and procedures for its payment and accounting processes.
- Retain supporting documentation for all payroll actions and ensure that payments to employees match the pay rates in their personnel files.
- Review its overtime calculations to ensure accuracy.
- Ensure that all employees complete timesheets for the time they have worked.

Chapter 4-E

The Provider Should Verify That Its Prospective Employees Meet Education Requirements

The provider does not verify that its prospective employees meet education requirements. For 24 of 26 (92 percent) employees tested, the provider did not verify the employee's education.

Title 40, Texas Administrative Code, Section 720.413, requires that child care workers have a high school diploma or the equivalent.²

² See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

Canyon Lakes Residential Treatment Center

Recommendation

The provider should verify and document that prospective employees meet education requirements.

Chapter 4-F

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

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. 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. Auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures.
- Backup and storage of data.
- Application authentication and audit trails.

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

Recommendation

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.

Audit of Lifeline Fellowship Family Church (doing business as Lifeline Children and Family Services)

Lifeline Fellowship Family Church (doing business as Lifeline Children and Family Services)	
Background Information	
Fiscal Year 2006	
Location	Corsicana, Texas
Contract services audited	Child placing agency
Number of children served	310
Average length of a child's stay	175 days
Total payments received from the Department	\$2,222,370
Total revenue	\$2,222,408
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$37,507
Approximate number of program staff	19
Program staff turnover rate ^a	39.6%
^a The turnover rate reported is for both administrative and program staff.	

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

Lifeline Children and Family Services (provider) used the payments it received from the Department to (1) pay the foster care families with whom it placed children and (2) pay expenses it incurred for operating a child placing agency. These payments are intended to ensure the delivery of goods and services—such as direct care, therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the care of the provider. There were no issues identified during audit testing of employees and subcontractors in the areas of criminal background checks, work history, experience, education, and professional licenses or certifications. However, auditors identified the following:

- Non-compliance with cost report requirements. (See Chapter 5-A.) This provider has not disclosed certain related party payments on its cost reports as required.
- Weaknesses in financial processes. (See Chapter 5-B.) Neither the provider nor its independent administrator ensures that staff time sheets are accurate and complete. The provider also does not ensure that staff members provide sufficient documentation to support travel reimbursements.
- Weaknesses in access to and the security environment surrounding automated systems, applications, and data. (See Chapter 5-C.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Please see Appendix 9 beginning on page 80 for the provider's responses to all of the issues discussed in this chapter.

Chapter 5-A

The Provider Should Ensure That It Reports All Related Party Payments on Its Cost Report

The provider did not report the following related party payments on the 2005 cost report it submitted to the Health and Human Services Commission (Commission). Specifically:

Related Parties

A related party is "a party that can exercise control or significant influence over the management and/or operating policies of another party, to the extent that one of the parties may be prevented from fully pursuing its own separate interests."

Examples of related parties include:

- Principal owners.
- Management.
- Members of the immediate families of principal owners of the enterprise and its management.

Source: Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, page 10, March 1982, Financial Accounting Standards Board.

- The building the provider uses for its operations is leased from an organization whose superintendent is the vice president of the provider's board of directors.
- The son and daughter of the provider's executive director are employed by the provider in case aid positions.

The provider's payments for the lease of the building and the salaries paid to the two individuals discussed above were reasonable. This provider was exempt from submitting a 2006 cost report due to changes in its organizational structure and its contract with the Department.

The contract between the Department and providers requires that providers comply with state requirements concerning related party transactions. State requirements specify that providers must disclose related party transactions on their cost reports.

Recommendation

The provider should ensure that it complies with annual cost reporting requirements and discloses its related party transactions on future cost reports.

Chapter 5-B

The Provider Should Ensure That Staff Time Sheets are Accurate and Complete and That It Maintains Documentation for Travel Vouchers

The provider should review and approve staff time sheets to ensure that reported hours are complete, accurate, and processed appropriately.

The provider allows its staff to sign and submit time sheets that report estimated hours projected to be worked for the remainder of a two-week pay period. Auditors tested 73 time sheets (for employees who were paid on an hourly basis and paid a salary) and determined that all of the time sheets included an estimate of future time worked, instead of the actual time worked. When staff who are paid on an hourly basis estimate their time, this increases the risk that they could be paid incorrect amounts.

Lifeline Children and Family Services

The time sheets for the pay period September 1-15, 2006, were signed and submitted on September 5, 2006. Employees usually signed and submitted timesheets when approximately 64 hours of an 80-hour pay period had not yet been worked. Employees are paid on the last day of each pay period.

In addition, auditors identified a number of other issues when testing the 73 payroll payments. Specifically:

- For 13 of 73 (18 percent) payments tested, the supporting timesheets contained a typed signature (rather than a handwritten signature).
- For 6 of 73 (8 percent) payments tested, the supporting timesheets were not approved.
- For 5 of 73 (7 percent) payments tested, the supporting timesheet could not be found.
- For 5 of 73 (7 percent) payments tested, the supporting timesheets were approved by the same staff members who submitted the timesheets.
- For 5 of 73 (7 percent) payments tested, the supporting timesheets were approved by a person related to the staff member who submitted the timesheet.

Texas Administrative Code Requirements for Supporting Documentation

"Providers must ensure that all records pertinent to services rendered under their contracts with [the Department] are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports."

"The contractor must keep financial and supporting documents, statistical records, and any other records pertinent to the services for which a claim or cost report was submitted to the department or its agent."

Source: Title 1, Texas Administrative Code, Section 355.7101(15), and Title 40, Texas Administrative Code, Section 732.262(b). See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

- For 5 of 73 (7 percent) payments tested, the supporting timesheets did not calculate total hours worked.
- For 2 of 73 (3 percent) payments tested, the payments were based on hourly rates that were different from the employees' approved pay rates.

The provider should improve its approval and documentation processes for travel reimbursements.

The provider and its subcontracted administrator's approval and reporting of travel reimbursements are not sufficiently documented and are subject to errors. (The provider contracts with an independent administrator to provide accounting, financial, human resource, payroll, legal, information support and other marketing functions.) Auditors tested 35 travel vouchers (totaling approximately \$9,927) and identified the following:

- Three different mileage reimbursement rates were used to calculate travel reimbursements.
- For 16 of 34 (47 percent) travel vouchers tested, the expense reports did not include direct deposit vouchers.

Lifeline Children and Family Services

- For 12 of 34 (35 percent) travel vouchers tested, the voucher did not describe the purpose or destination for travel.
- For 10 of 34 (29 percent) travel vouchers tested, the vouchers were not authorized by the appropriate supervisor.
- For 5 of 34 (15 percent) travel vouchers tested, miscalculations were identified. Documentation could not be found for an additional two travel vouchers to determine whether the calculations were accurate.
- For 4 of 16 (25 percent) travel vouchers tested that required receipts, there were no receipts to support the payments.
- A \$152 expense was erroneously paid as a travel expense. The expense was for costs related to a birthday party for foster care children.

The provider's independent administrator processed travel vouchers that contained miscalculations that led to staff being paid incorrect amounts. For 5 of the 34 (15 percent) travel voucher reimbursements tested (totaling approximately \$992), miscalculations resulted in incorrect payment amounts to staff. Specifically:

- For three payments (totaling \$562), miscalculations resulted in overpayments to staff of approximately \$58.
- For two payments (totaling \$430), miscalculations resulted in underpayments to staff of approximately \$30.

Recommendations

The provider should:

- Establish objective policies and procedures that require staff to complete and submit time sheets for actual time worked at the end of each pay period. These policies and procedures should ensure that time sheets are submitted for payroll processing only if they have been reviewed, approved, and signed by the appropriate management and staff.
- Enforce its established travel reimbursement policies and procedures. In addition, prior to submitting travel voucher reimbursements to its independent administrator, the provider should ensure that:
 - ♦ Supporting documentation for reported travel expenses matches the expense report, is filed with the expense report, and has been properly reviewed and approved by the appropriate individuals.
 - ♦ Reported expenses are accurately calculated and complete.

- ♦ The purpose and destination for travel is reported and described on the expense report.
- ♦ It consistently applies a standard mileage reimbursement rate for all travel vouchers.

Chapter 5-C

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

Both the provider and its independent administrator should correct weaknesses in their information system environments to improve the security over their automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's or its independent administrator's ability to ensure the integrity of data. Auditors identified opportunities for improvement in the following areas:

- Physical security.
- Logical access controls.

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

Recommendation

The provider should review recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Chapter 6

Audit of DePelchin Children’s Center’s Isabel Elkins Residential Treatment Center

Isabel Elkins Residential Treatment Center Background Information Fiscal Year 2006	
Location	Houston, Texas
Contract services audited	Residential treatment center
Number of children served	99
Average length of a child’s stay	228 days
Total payments received from the Department	\$1,477,910
Total revenue	\$2,506,194
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006 ^a	\$2,818,417
Approximate number of program staff	60
Program staff turnover rate ^b	38%
^a The ending cash balance on December 31, 2006 was for all DePelchin operations. ^b The turnover rate reported is for program staff at all DePelchin residential services operations.	

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

DePelchin Children’s Center’s³ Isabel Elkins Residential Treatment Center (provider) used the payments it received from the Department to pay costs it incurred for providing 24-hour residential child care services. These services were necessary to ensure the mental and physical well-being of the children placed in this provider’s care and included items such as direct care, food, shelter, and clothing. Auditors did not identify any significant issues during testing of expenses and employee criminal background checks. The provider also ensures that staff and subcontractors maintain professional licenses. However, auditors identified the following:

- Non-compliance with staff training requirements. (See Chapter 6-A.) The provider did not consistently ensure that its staff received the training required by the Department’s licensing rules prior to providing services.
- Weaknesses in access to and the security environment surrounding automated systems, applications, and data. (See Chapter 6-B.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Please see Appendix 10 beginning on page 86 for the provider’s responses to all of the issues discussed in this chapter.

³ Isabel Elkins Residential Treatment Center is one of two residential treatment centers operated by DePelchin Children’s Center (DePelchin). DePelchin has separate contracts with the Department for each of its residential treatment centers; it also has a third contract with the Department to operate a child placing agency.

Chapter 6-A

The Provider Should Ensure Its Staff Meets Training Requirements

The provider does not consistently ensure that all staff members receive required training. The following issues were noted:

Training Requirements

The Department's licensing rules state that all training must be documented, including the date, the subject, and who administered the training. Specifically:

- New staff must have training and orientation prior to assignment as the only staff member responsible for a group of children. Training must include first aid (not required for licensed/certified health professionals). Staff trained in CPR must be available during all hours of operation, and CPR training must be updated annually.
- Staff with no related experience must have 40 hours of supervised child care experience prior to being the sole person responsible for children.
- All caregivers having contact with children must complete at least four clock hours annually of behavior intervention training specific to the behavior interventions allowed by the facility's policies. The four clock hours will be considered part of the overall annual training requirements.
- All staff working with children must receive 50 hours of in-service training annually (exclusive of orientation and first aid), and training must include information on treatment methods and programs.

Source: Title 40, Texas Administrative Code, Sections 720.415, 720.523 (c), and 720.1012(c) and (d)(1). See Appendix 3 for additional information regarding Texas Administrative Code citations in this report.

- None of the 24 training files tested, which were associated with staff who were required to have four hours of behavior intervention training, contained clear documentation indicating that those staff had received that training.
- Eight of 22 (36 percent) training files tested, which were associated with staff who were required to receive first aid certification within 90 days of being hired, did not contain evidence indicating that those staff had received that training.
- Three of 23 (13 percent) training files tested, which were associated with staff who were required to receive first aid training, did not contain evidence indicating that those staff had current first aid certifications.
- Two of 23 (9 percent) training files tested, which were associated with staff who were required to receive cardiopulmonary resuscitation (CPR) training, did not contain evidence indicating that those staff had current CPR certifications.
- Two of 16 (13 percent) training files tested, which were associated with staff who were required to receive 50 hours of annual training, did not contain evidence indicating that those staff had received that training.
- One of 19 (5 percent) training files tested, which were associated with staff who were required to receive 40 hours of training, did not contain evidence indicating that the staff member had received that training.

Recommendations

The provider should:

- Develop policies and procedures to ensure that staff members receive the required training prior to providing services.

- Maintain and periodically review documentation to demonstrate that staff members have received training as required.

Chapter 6-B

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

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. 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. Auditors identified opportunities for improvement in the following areas:

- Access and security controls.
- Audit trails.
- Security controls.
- Backup and storage of data.
- Information system policies and procedures.

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

Recommendation

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.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to verify that residential child care providers (24-hour providers) are spending federal and state funds for contractually required services that promote the well-being of the foster care children placed in their care.

Scope

The audit scope included assessing the appropriateness, reasonableness, and necessity of costs paid by providers that delivered foster care services to the Department of Family and Protective Services (Department) between September 2005 and December 2006. 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.

Methodology

The audit methodology included judgmentally selecting six 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.
- 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, and subcontract therapists.

- Providers' tax filings.
- Providers' payment records for foster care parents.
- Department program monitoring reports.
- Providers' policies and procedures.
- Providers' subcontracts.

Procedures and tests conducted included the following:

- Review of criminal background checks performed on direct care and administrative staff and subcontractors.
- Test of internal controls.
- Test of food, shelter, and clothing costs related to the services provided to children.
- Test of related party costs and contracts.
- Test of payroll records.
- Test of personnel files.
- Test of payments made to foster care parents.

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 Contract, Licensing and Child Placing Agency Minimum Standards Handbooks.
- The Health and Human Services Commission's Specific Instructions for the Completion of the 2006 Texas 24-Hour Residential Child Care Cost Report

Project Information

Audit fieldwork was conducted from April 2007 through June 2007. This audit was conducted in accordance with generally accepted government auditing standards.

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

- Ann E. Paul, CPA (Project Manager)
- Willie J. Hicks, MBA (Assistant Project Manager)
- Bruce Dempsey, CIA
- Darrell Edgar
- Harriet Fortson, MAcy, CGAP
- Brian Jones
- Amadou Ngaide, MBA
- Fabienne Robin, MBA
- Sherry Sewell, CGAP
- Lisa M. Thompson
- James Timberlake, CIA
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- Jim Yerich, CPA (Ohio), CGFM
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- Ron Zinsitz, CPA, CIDA
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- Priscilla Garza (Information Systems Audit Team)
- Dorvin Handrick, CISA, CDP (Information Systems Audit Team)
- Joseph Kozak, CPA, CISA (Information Systems Audit Team)
- Gary Leach, CISA, CQA (Information Systems Audit Team)
- Leslie Ashton, CPA (Quality Control Reviewer)
- Nicole Guerrero, MBA, CGAP (Audit Manager)

Types of Residential Child Care Providers

The Department of Family and Protective Services contracts with the following types of residential child care providers (24-hour providers):

- **Foster Family Home (Independent):** An operation that provides care for six or fewer children up to the age of 18 years.
- **Foster Group Homes (Independent):** An operation that personally provides care for 7 to 12 children up to the age of 18 years.
- **Emergency Shelter:** An operation that provides short-term care (fewer than 30 days) for 13 or more children up to the age of 18 years.
- **Operation Providing Basic Child Care:** An operation that provides care for 13 or more children up to the age of 18 years. The care does not include specialized care programs.
- **Residential Treatment Center:** An operation that provides care and treatment for 13 or more emotionally disturbed children up to the age of 18 years.
- **Therapeutic Camp:** An operation that provides a camping program for 13 or more children, ages 13 up to the age of 18 years. It is designed to provide an experiential therapeutic environment for children who cannot function in their home school or community.
- **Operation Serving Children With Mental Retardation:** An operation that provides care for 13 or more children up to the age of 18 years. The children in care are significantly below average in general intellectual functioning and also have deficits in adaptive behavior.
- **Child Placing Agency (CPA):** A person, agency, or organization other than a parent that places or plans for the placement of a child in an adoptive home or other residential care setting.
- **CPA Foster Family Home:** An operation that provides care for six or fewer children, up to the age of 18 years, under the regulation of a CPA.
- **CPA Foster Group Home:** An operation that provides care for 7 to 12 children, up to the age of 18 years, under the regulation of a CPA.

Texas Administrative Code Requirements

References to the Texas Administrative Code in the Detailed Results section of this report cite the sections in the Texas Administrative Code as they existed during fiscal year 2006 (the time period audited). The Texas Administrative Code has been revised since fiscal year 2006 and, as a result, certain citations for the Texas Administrative Code sections have changed. Table 2 shows the former and new citations for the references to the Texas Administrative Code in this report for which citations were changed.

Table 2

Texas Administrative Code Requirements		
Fiscal Year 2006 Texas Administrative Code Citation	Requirement	Current Texas Administrative Code Citation
Title 40, Texas Administrative Code, Section 720.39 (b)	<p>The Department requires that all child-placing staff, foster parents, and direct care staff receive an orientation to the child-placing agency's policies and the services provided as a pre-service training requirement.</p> <p>The provider must also ensure that all foster parents or child-care staff complete eight hours of pre-service training in areas appropriate to the needs of children for whom they will be providing care.</p>	Title 40, Texas Administrative Code, Sections 748.831, 748.861, 748.863, 749.831, 749.861, and 749.863
Title 40, Texas Administrative Code, Section 720.48	The Department requires the provider to sign a written agreement with the foster parents at the time the foster home is verified. Both the agency and the foster parents must have a copy of the agreement, and a copy must be filed in the foster home record. This agreement must specify the financial agreement is between the agency and the foster home.	Title 40, Texas Administrative Code, Section 749.2487
Title 40, Texas Administrative Code, Sections 720.415, 720.523 (c), and 720.1012(c) and (d)(1)	<p>The Department's licensing rules state that all training must be documented, including the date, the subject, and who administered the training. Specifically:</p> <ul style="list-style-type: none"> ▪ New staff must have training and orientation prior to assignment as the only staff member responsible for a group of children. Training must include first aid. Staff trained in CPR must be available during hours of operation, and CPR training must be updated annually. ▪ Staff with no related experience must have 40 hours of supervised child care experience prior to being the sole person responsible for children. ▪ All caregivers having contact with children must complete at least four clock hours annually of behavior intervention training specific to the behavior interventions allowed by the facility's policies. The four clock hours will be considered part of the overall annual training requirements. ▪ All staff must receive 50 hours of in-service training annually (exclusive of orientation and first aid), and training must include information on treatment methods and programs. 	Title 40, Texas Administrative Code, Sections 748.981, 748.861, 748.931, 749.981, 749.989, and 749.863
Title 40, Texas Administrative Code, Section 720.415	<p>Child-care staff who are not licensed/certified health professionals must have current first-aid training. New child-care staff must meet this requirement within 90 days of employment.</p> <p>Staff with current training in cardiopulmonary resuscitation (CPR) must be available and accessible to children in care during all hours of operation. CPR training must be updated at least annually. Training must be conducted by a person certified to provide CPR training.</p> <p>All training and orientation must be documented. Documentation must include the date, the subject, and the name of the person who conducted the training.</p>	Title 40, Texas Administrative Code, Sections 748.981, 748.983, 748.985, 748.987, and 748.989

Texas Administrative Code Requirements

Fiscal Year 2006 Texas Administrative Code Citation	Requirement	Current Texas Administrative Code Citation
Title 40, Texas Administrative Code, Sections 745.615, 745.625, and 720.409	Providers must submit criminal background checks on foster care parents, staff, and other individuals that have contact with children: <ul style="list-style-type: none"> ▪ Before they hire a new person who will provide direct care or have direct access to a child in care. ▪ For an employee who will not provide direct care or have direct access to a child in care, providers must submit a background check request within two business days after the new person is hired or is present in their operation. ▪ Every 24 months from the time they first receive a criminal background check. ▪ Personnel records for staff must contain at least the following: any reports and notes relating to the person's employment with the facility. 	Title 40, Texas Administrative Code, Sections 745.625 and 748.363
Title 40, Texas Administrative Code, Section 720.413	Requires that child care workers have a high school diploma or the equivalent.	Title 40, Texas Administrative Code, Section 748.681

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

Title 40, Texas Administrative Code, Section 745.611, defines background checks as searches of different databases. There are three 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 Child Protective Services, Adult Protective Services, or Licensing to have abused or neglected a child.

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

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

- Title 5 (Offenses Against the Person). Examples of these offenses include criminal homicide, kidnapping and unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (Offenses Against the Family). Examples of these offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order or magistrate's order, and sale or purchase of a child.
- 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, 46.13 (Making a Firearm Accessible to a Child) or Chapter 49 (Intoxication and Alcoholic Beverage Offenses) of Title 10 of the Texas Penal Code, or any

like offense under the law of another state or federal law that the person committed within the past ten years.

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

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

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

- Any sustained finding of child abuse or neglect, including sexual abuse, physical abuse, emotional abuse, physical neglect, neglectful supervision, or medical neglect.
- Any central registry finding of child abuse or neglect (whether sustained or not), where the Department of Family and Protective Services have 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 Texas Administrative Code, Title 40, or a central registry finding in section 745.655 of 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.

Responses from Youth in View



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August 1, 2007

The State Auditor of Texas
P.O. Box 12067
Austin, Texas 78711-2067

Youth in View appreciates the state's thorough examination of its ability to provide contractually required services that promote the well-being of the foster care children placed in their care with state and federal funds. Weaknesses addressed by the SAO audit team regarding Youth in View policies and procedures have been analyzed and revised. Corrective action has already been implemented and planned for these findings.

We thank the auditing team for their professionalism and good manners while on their visit to our office. We hope to use their findings to strengthen Youth in View to improve its procedures and policies in order to meet and go above state minimum standards.

Attached with our response is a discussion of your findings with some corrections we would like seen on your final report along with supporting documents and data supporting our position. Please review our management responses within the Discussion of Findings documents. Also attached is our corrective action plan with a schedule of implementation to better improve on the findings SAO auditing team had. Should you have any questions please feel free to call us at 214-941-8439 and we will gladly help.

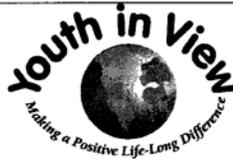
Thank you for supporting us in making a life long difference.

Sincerely

A handwritten signature in black ink, appearing to read "Douglas Umoru".

Douglas Umoru, LCPA

Chief Executive Officer



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Discussion of Findings

Youth in View welcome the opportunity to make improvements. However Youth in View also has reviewed the SAO auditor's findings and read the preliminary report and has found some inconsistencies with that report.

The following areas were discussed;

- Weakness in financial processes.
- Non compliance with background check requirements.
- Non compliance with foster care reimbursement payment requirements.
- Non compliance with documentation requirements for foster parents subcontracted services and staff.
- Non-compliance with cost report requirements
- Weaknesses in access to and the security environment surrounding automated systems, application, and data

Youth in View did find weaknesses and mistakes within its recordkeeping but not to the extent escribed by SAO especially concerning Foster Parent Training and Criminal Background checks.

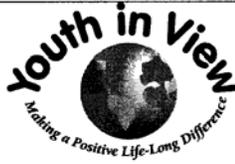
Attached are responses within the findings of the SAO report which we would to have changed in your final report. Crucial among these are, Criminal Background checks on foster parents and household members, incorrect payment to foster parents, Lack of training and orientation to new foster parents. Youth in View has researched its archives and found some of SAO audit's team findings inaccurate in those categories mentioned.

Another issue was the revenue recognition procedure for Youth in View. SAO may not have been clear on the details concerning it. This will be explained within our responses.

Weakness in financial processes

Discussion of Findings

- Deposits totaling \$30,660 were reported on the bank statements but were not recorded in the accounting system.



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The deposits in Youth in View's cash accounts have been reconciled.

- Seven payments totaling \$4,599 were recorded in the accounting system between one and two months after checks had cleared the bank.

This lag in time has been corrected and now general journal entries and bank reconciliations are done on a monthly basis.

- In two instances, duplicate check numbers were recorded three times each in the accounting system. The six checks, totaling \$13,316, all had different amounts recorded in the accounting system. Only four of these six checks appeared on the provider's bank statements with a total of \$7922.

These checks have been corrected and highlighted in the general ledger attached. Two checks one in January for 5066.29 on 1/25/06 is cleared in the bank but under a different number 10557. Check in January for 326.92 cleared the bank as check 10560.

Duplicate checks happened in 2006 because the first month of payroll was not done in-house therefore using a different number sequence of checks that duplicated few check numbers for Jan and October.

Auditors identified other issues related to the provider's financial processes.

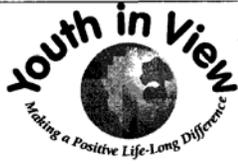
The provider's accounting policies and procedures are internally inconsistent because they state that the provider uses both the accrual and cash basis methods of accounting.

Auditors also identified an \$800 payment that was made to an administrative staff member for services that were not provided by that individual. The provider also did not have supporting documentation for that payment. The transaction information suggests the payment was for respite care services. However, auditors determined that the payment was actually for respite care services provided by a subcontractor. The payment was paid to an administrative staff person who, according to the provider, then deposited the check and gave the proceeds to the subcontractor.

The immediate family member who received this money was not reachable when lack of payment was noticed. Because of her urgent need for her bank account not to be over drafted administrative staff made a check, cashed it and deposited into her account. Copy of the deposit slip was in the financial archives.

Recommendations

The provider should:



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- Develop and implement policies and procedures to ensure that financial duties are properly segregated among and between different employees who perform those duties.
- Develop policies and procedures to ensure it (1) correctly records all transactions in its accounting system and (2) performs monthly reconciliations of its accounting system with both payment statements to foster parents and bank statements. The policies and procedures should require that discrepancies identified through reconciliations are resolved in a timely manner.
- Maintain financial records in accordance with state requirements.
- Review policies and procedures to ensure internal consistency.
- Make payments directly to the person providing services.

ManagementResponse

Youth in View has hired a billing coordinator with a degree in accounting to ensure that all accounting functions are performed properly and timely. This new position will bring a greater level of focus on financial matters and will help ensure internal consistencies. This new staff will also perform monthly bank reconciliations. Revenue will also be recorded in a more detailed and accurate manner.

Youth in View will continue to enhance its financial policies and procedures and regular oversight of a consulting CPA to ensure that all accounting transactions are recorded accurately and timely.

Youth in View will maintain its financial bookkeeping on an accrual basis which is in accordance with the state requirement.

Please see attached Corrective Action Plan for more details.

Youth in View has seriously re evaluated its resources on the accounting procedures and evaluations. In 2005 Youth in View outsourced its accounting procedures offsite with limited success and sought to bring the all the payroll and accounting procedures in house. Youth in View acknowledges the opportunities for improvement in the implementation of its accounting policies and segregation of duties and financial recordkeeping. As indicated above Youth in View has hired a sole person to handle all financial matters ranging from payroll, foster payment transactions, expense recognition, bookkeeping and bank reconciliation to a new staff with a background in accounting. Allocating these resources has already brought results in a reconciled general ledger and bank reconciliation, currently the chart of accounts and values there upon are to be revised so Youth in View can have a better understanding of its financial position.



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The Provider Should Ensure It Properly Records Receipts in Its Accounting System

Discussion of Findings

- 19 payments in the Department's records totaling \$16,960 were not recorded in the provider's accounting system.
- 15 payments in the Department's records totaling \$8,921 were recorded in the provider's accounting system but were based on a different number of days of service than the Department had recorded.
- 11 payments in the Department's records totaling \$19,917 were recorded in the provider's accounting system but were based on a different level of care rate than the Department had recorded.

Youth in View has put considerable amount of time into evaluating on how to recognize income. In 2006 income was first recognized through individual transactions per child. Throughout the year though that system was changed to use a summary sheet that detailed all the foster parent payments and all the receivables Youth in view had with the Department.

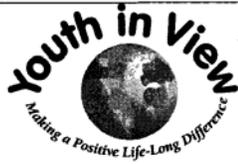
The summaries are what is used to record receivable and income from the department and is not a direct reflection of monies received from the Department. I believe there was some miscommunication, all monies received from the Department are booked in by crediting the accounts receivable and debiting the correct cash account. All other transactions that represented monies received from the Department were overturned by adjusting entries at the end of the year. Youth in View has already fixed this in its reconciliation.

Recommendation

- The provider should develop and implement a process to ensure that it completes monthly reconciliations of its accounting system with the
- Department's records of payments to the provider

Management Response:

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Youth in View's new billing coordinator will ensure that all payments received are reconciled monthly in its accounting system and Youth in Views financial information will be reviewed by a consulting CPA on a monthly basis.

However all payments received from the department have been recorded and reconciled in the accounting system. Furthermore the Level of Care paid by the department may sometimes be incorrect due to delays between YFT and the Department requiring Youth in View to make adjustments later on after payments are recognized in the accounting system. These delays may result in foster parents receiving incorrect payments but once an error is identified it is addressed immediately and foster parents are paid the correct adjustment

Youth in View is currently using a more detailed method of recognizing income by making one transaction per month per child. These transactions will recognized the child, Level of Care and days of service monthly as one invoice per child per month to the state that way adjustments and discrepancies can be better taken care of thru QuickBooks receivables tracking methods.

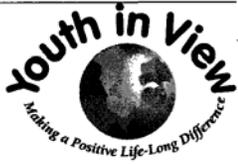
The Provider Should Consistently Conduct and Maintain Background Checks for Staff, Subcontractors, and Foster Parents

Discussion of Findings

- For 24 of 71 (34 percent) foster parents and other household members tested, the provider's records did not include a criminal background check.

Youth in View reviewed this set of data the time of the SAO review Youth in View only had 4 of 71 foster parents and household member background checks behind constituting 6 deficiency percent. Filing errors constituted for these findings and the copies of criminal background checks have been attached. The new policy consist of running every background check for foster parents, staff, subcontractors and household members yearly in the month of July instead of the every two years policy required in minimum standards

- Forty-seven of the 71 foster parents and other household members tested should have had a previous criminal background check documented because they had been a foster parent or other household member for more than two years. For 25 of those 47 (53 percent) foster parents and other household members, more than 24 months had passed between the provider's most recent criminal background check and its previous background check.



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Youth in View is currently reviewing this information and looking for any archived data that might be connected to these findings.

- For 17 of the 26 (65 percent) subcontracted therapists tested, the provider's records did not include a current criminal background check.

All subcontracted therapists, psychologists and psychiatrists are now current on their criminal background checks. Youth in View has made new policy regarding criminal background checks on every staff, foster parent, and subcontracted professionals.

- For 8 of the 22 (36 percent) staff tested, the provider's records did not include a criminal background check. In addition, the provider does not ensure that background checks are performed on subcontracted therapists that are hired through other organizations.

SAO did not take into account the termination date of the staff tested 2006 only 1 staff member had an overdue Criminal Background Check. All other staff in 2006 had their criminal background checks current.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendations

The provider should:

Ensure that it conducts and routinely maintains background checks on its foster parents, subcontracted therapists, and staff in accordance with the

Department's requirements.

Develop and document policies and procedures to ensure subcontracted therapists hired through other organizations have received a background check.

Management's Response

Most of the records audited by the SAO auditing team were inactive and had been archived. Bringing them back out and reassembling them resulted in some misfiling.



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Youth in View will update its policies to ensure that criminal background checks are completed and renewed every year for all active clients, this responsibility has been assigned to the administrative staff.

Youth in View will update its policies to ensure that subcontractors hired through other Organizations have received background checks as required by the Department.

The Provider Should Ensure That It Pays Foster Parents for the Same Service Levels for Which It is Paid by the Department

Discussion of Findings

- Two of the 30 (7 percent) foster care maintenance payments tested were inaccurate. (Foster care maintenance payments are the payments the provider makes to the foster parents with whom it places children.) The two errors were as follows:

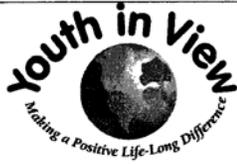
Youth in View feels strongly about the pass through payment to foster parents Youth in View has not had a discrepancies with foster payments on any of its Contracting Reviews.

- One payment the provider made to foster parents was inaccurate because the provider calculated the payment amount based on the wrong level of care. The provider paid the foster parents \$638 based on the “basic” level of care, but the Department had paid the provider \$1,115 based on the “moderate” level of care rate.
- The provider classified another payment as a foster care maintenance payment; however, the payment was actually for respite care services.
- Respite child-care services are a planned alternative 24-hour care that has the purpose of providing relief to the child’s primary caregiver. The provider erroneously paid \$108 to both the child’s foster parents and the respite caregivers for the same three days of care.

Copies of checks related these transactions have been attached.

The first payment the check was labeled incorrectly and we could not retract the memo part for correction before the check was tendered.

As for the second payment Youth in View did overpay a foster parent by 3 days respite and has sent several letters for the funds to be recovered. Youth in View notices went unanswered.



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Please make note, Youth in View has NEVER underpaid foster parents for their services provided, if errors have happened they have been usually addressed within a month of the foster payments issue date. The fact that a foster parent was overpaid 3 days respite was that the error was made on the last foster payment of that particular foster parent.

The provider should:

- Ensure it pays foster care parents according to the same level of care for which it is paid by the Department.
- Ensure that, when it pays for respite care services, it does not pay the foster parents for the same days for which respite care services were provided to a child.

Management's Response

Youth in View is confident in its foster parent payment method.

Youth in View always pays Foster Parents according to the Level o Care developed by YFT and approved by the Department and the Days of Service the child is in the home. The rate for these pass through amounts paid to the foster parent is documented in the foster parent agreement.

The Provider Should Ensure It Maintains Required Documentation on Foster Parents, Subcontracted Therapists, and Staff

- For 28 of 44 (64 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of pre-service training.

Orientation Training includes Pre Service Training, so any foster parent that did orientation training did do pre service training. Documentation missing that indicated was 20 % of the total files reviewed.

- For 24 of 44 (55 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of required orientation.

Attached are copies of Orientation training certificates that where archived in Youth in View's Training log folder. Nine of forty four foster parents did not have the orientation training revised.

- For 21 of 44 (48 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of first aid training.



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Attached are copies of CPR current certificates found in the archived training log folder the. 7 out of 44 Foster parents tested did not have certificates current of First Aid Training.

- For 13 of 44 (30 percent) foster parents tested, the provider's records did not contain documentation of verification of the completion of cardiopulmonary resuscitation (CPR) training.

Attached are copies of CPR current certificates found in the archived training log folder, the one out of 44 Foster parents tested did not have certificates of current CPR Training.

- For 4 of 33 (12 percent) foster care families records tested, the provider's records lacked documentation of a subcontract between the provider and the foster parents.

Youth in View found that 3 of 33 Agreements where not in file and agreement there was these agreements have been attached.

- The Department requires providers to have written agreements with both foster care families and subcontractors that provide therapy and counseling services.

Recommendations

The provider should:

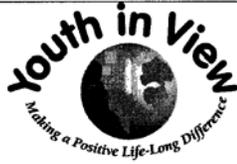
Develop policies and procedures to ensure that new foster parents and new staff receive the required pre-service training and employee orientation prior to providing services.

Maintain and periodically review documentation to ensure that (1) foster parents and staff have received required pre-service training and employee orientation as required and (2) the provider has executed a subcontract for each subcontracted therapist that provides therapy or counseling services.

Develop policies and procedures for procuring subcontracted therapy and counseling services that will ensure that an executed subcontract is in place prior to providing services.

Management's Response

Youth in View is 8 hour Pre Service Orientation and Orientation provide all other required training required by minimum standards.



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However, Youth in View will change the way these training are documented in the records to reflect consistency with the minimum standards wording.

Youth in View does utilized approved Professional Service agreement contract with subcontracting therapist. However when a child comes into care and the child is already in therapy, should the therapist choose to continue servicing the child, Youth in View may not have the choice to stop these therapeutic services. Usually the Department officials verbally approve continuance of these services.

The Provider Should Ensure That It Reports Related Party Transactions on Its Cost Report

The provider did not report any related party transactions in the 2006 cost report it submitted to the Health and Human Services Commission. However, auditors identified related party transactions that should have been reported in the 2006 cost report. Specifically:

The salaries for both the provider's executive director and the assistant executive director were not reported on the cost report. The assistant executive director is the spouse of the executive director.

The provider made a \$2,500 loan repayment to its chief executive officer in 2006 (this loan payment was coded as office janitorial expense in the provider's general ledger).

The provider had a lease agreement with its chief executive officer for use of a residential property as a group home.

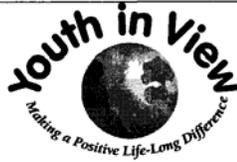
The lease expired on April 1, 2006, and lease payments for 2006 would have totaled \$4,800. The provider did not make any lease payments in 2006; however, it paid \$4,636 in costs such as food and utilities for this property in 2006.

This indicates the provider used that property in 2006.

An immediate family member of the provider's chief operating officer was paid approximately \$7,200 for providing respite care services to the provider's foster families.

One of the provider's board members is a manager with the company that provides banking services to the provider.

The contract between the Department and providers requires that providers comply with state requirements concerning related party transactions. State requirements specify that providers must disclose related party transactions on their cost reports.



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Recommendation

The provider should disclose all related party transactions in the appropriate sections of its cost report as required.

Management's Response

The salaries of the executive director and assistant executive directors were reported on Schedule C of the 2006 Cost report. There are no other expenditures on related party transactions that are involved in the executive director and the Assistant executive director that were not reported.

Youth in View will seek more assistance as to how record the Related Party Transactions from the Health and Human Services Commission.

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

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. 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. Auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures.
- Access and security controls.
- Backup and storage of data.
- Audit trails.
- Physical security controls.
- Input controls.
- Output controls.
- Separation of duties.
- External security.

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

The IT Administrator is implementing all the recommendation set forth by SAO on policy for Security Controls and Access to information. Currently Youth in View is consulting with a Computer Technology Group to review and implement these recommendations by SAO.

Youth in View Corrective Action Plan

SAO findings

SAO findings	Agreement Reason	Corrective Action Plan	Person Implementing CAP	Time Frame	Goal
Weakness in financial processes	YES	SAO found several errors in our accounting procedures reflected by accounting errors.	Ige Akpalbor, Kano Kassim CPA, Douglas Umoru	2 months	Establish a new set of policies and procedures to strengthen the accounting procedures.
Segregations of Duties	YES	Weaknesses in our accounting system can open opportunities for misuse of funds.	Douglas Umoru, Ige Akpalbor	Implemented	Segregate accounting duties so that there may not be any misuse of company funds.
Develop new policies and procedures	YES	Poor policies did not clearly state accounting procedures.	Douglas Umoru, Ige Akpalbor	2 months	Have a clear cut procedure on our accounting system.
Duplication of Checks	NO	The amount of errors on checks duplicated was very minimal only 2 check numbers where duplicated in the whole general ledger			
Perform Monthly Bank reconciliations	YES	Bank Statement does not reflect transactions correctly to Youth in View accounting system.	Ige Akpalbor	implemented	Fix any errors or discrepancies that may have done throughout the month in our accounting system.
Have Annual Audit	YES	Minimum Standard for 2007	Kassim Kano CPA	Mar-07	Evaluate the effectiveness of the Corrective Action Plan put into place
Maintain Financial Records with state requirements	YES	Minimum Standard for 2007	Ige Akpalbor	Implemented	Maintain and improve financial record keeping
Make payments directly to the person providing services	NO	Occurrence happened during extreme circumstance			
The Provider Should Ensure it properly records receipts in its accounting system	YES	SAO found discrepancies with the amount Youth in View recorded receiving in payments compared to the Departments payment information	Ige Akpalbor, Tupac Alvarez	Implemented	Improve recordkeeping to payments received by CPS
Maintain Background Checks for Staff, Subcontractors, and Foster Parents	YES	Youth in View is implementing a more detailed method for recording the Departments payments. Treating every monthly period for a child as an invoice along with its LOC rate. That way discrepancies with the Department can be known and immediately taken care of.			

Youth in View Corrective Action Plan

SAO findings

Finding	Agreement Reason	Corrective Action Plan	Person Implementing CAP	Time Frame	Goal
Foster Families and Household members found in deficiency where not as high as SAO audit team revealed. SAO found 34 percent in non compliance. Youth in View revealed only 6 percent where in non compliance	No	Criminal Background checks are now being ran initially and Yearly in the month of July for every foster parent, subcontracted therapist and Staff	Tupac Alvarez	Implemented	Keep in compliance with Minimum Standards
Foster Family Units					
Subcontracted therapists	Yes	SAO findings where correct	Tupac Alvarez	Implemented	Keep in compliance with Minimum Standards
Staff	No	Only 1 staff was out of compliance for Criminal Background Check for 2006, SAO did not take into account termination dates for employees	Tupac Alvarez	Implemented	Keep in compliance with Minimum Standards
The Provider Should Ensure That It Pays Foster Parents for the Same Service Levels for Which It is Paid by the Department	No	Youth in View has not found any errors concerning foster pay passthrough to its foster parents. Errors have been merely clerical but no foster parent has been UNDERPAID when they have been with youth in view. Please make that clear we have never short paid any foster parent for foster services provided.			
The Provider Should Ensure It Maintains Required Documentation on Foster Parents, Subcontracted Therapists, and Staff	YES	SAO found several documents missing from closed foster archived files to be deficient with missing training and agreements. Also Subcontracted therapist and Staff had incomplete files.	Tupac Alvarez	2 months	Maintain correct documentation for foster parent, subcontracted and staff files.
Verification and Pre Service Training	NO	SAO found 36 percent deficiency. Youth in View reviewed and found 20 percent deficiency			

Youth in View Corrective Action Plan

SAO Findings

SAO Findings	Agreement Reason	Corrective Action Plan	Person Implementing CAP	Time Frame	Goal
Finding					
Foster Parent Orientation	NO SAO found 45 percent in non compliance. You in View reviewed and found 20 non compliance				
CPR	NO SAO found 48 percent deficiency. Youth in View reviewed and found 15 percent deficiency				
First Aid	NO SAO found 30 percent deficiency. Youth in View reviewed and found 2 percent deficiency				
Foster Parent Agreements	YES Better filing practices will be performed				
The Provider Should Ensure That It Reports Related Party Transactions on Its Cost Report	YES SAO found transactions to related parties not reported on the Cost Report.	Any Transaction done to a related party will be filed separately and reviewed at the time of cost reporting.	Kassim Kano CPA		Jan-07 Party transaction policies.
The Provider Should Strengthen Access to and Security Surrounding its Automated Systems, Applications, and Data	YES SAO findings in security found some gaps in security	ALL RECOMMENDATIONS ARE BEING IMPLEMENTED	Tupac Alvarez	Implemented	Better security and procedures to handle sensitive data.

Responses from Circles of Care

Circles of Care
State Auditor's Responses
July 2007

Overall, Circles of Care agrees with and will be making most recommended changes by Sept. 1, 2007. Many processes and procedures were already being implemented. As Circles of Care continues to grow and expand, we look to perfect our business practices and procedures. These changes include implementing more technology as well as manpower and changing roles of different positions to provide more oversight to attempt to reduce human and computer error. This is an evolving process that sometimes involves some trial to find the most effective and efficient processes.

Background checks:

Circles of Care agrees with the recommendation regarding background checks. Circles of Care has written and developed a software program. That program was started 4 years ago. Circle of Care continues to make changes to the program to comply with changing State Licensing requirement and State Contract requirements. We continue to create areas in the program that store and track all of our documentation data. One of the newer areas of the program that was developed about 6 months ago was an area where Background checks that are completed on Foster Care providers and employees is entered and maintained into the program and then the program tracks the due dates (tickler system) The program will send an email to key personnel 30 days before a background check is due. The email is sent to the personnel responsible for running the background checks, such as the Family Home Developer. In addition, the email is sent to the Family Home Development Supervisor who can also oversee and insure the background checks are completed. There is also now a report that can be pulled from the program showing all the providers, when their last background checks were run and when the next due date would be. This eliminates spreadsheet tracking and manual tracking and reduces the likelihood of missed or late required background checks.

Formalizing Contracts:

Accounting:

Circles of Care agrees with recommendation and Circles of Care will enter into a contract with the CPA. Circles of Care did not realize this auxiliary service required a contract.

Psychiatrist:

Circles of Care has complied with this requirement as noted in the State Auditors Report and agrees with the recommendation. Although it should be noted that Foster care is a community based service. Children see different Psychiatrists in the community just as they see community Physicians, go to community medical clinics and hospitals and see community Dentists. Circles of Care does not pay for these services as these service providers bill the child's Medicaid insurance.

Circles of Care has attempted to comply with this relatively new State requirement. Circles of Care had sent out letters and contracts to all the Psychiatrist who were seeing

children in the communities in which the children reside with their foster families. This letter explained the new State requirement that Psychiatrist now fell under as a subcontracted service; which in the past they had not; just as Physicians and Dentists do not. Circles of Care had not received any of the contracts back from the Psychiatrist at the time of the State Auditors audit. After follow up letters and phone calls to inform them that children would need to be sent to another provider without a contract, one Psychiatrist even called Circles of Care and stated that they saw many children in state custody with many agencies, and had not been presented with any such contract therefore this Psychiatrist made the comment that they had contacted their attorney and informed Circles of Care that the State had the law misinterpreted in requiring child placing agencies to have such contracts with Psychiatrists and would take necessary action. Circles of Care explained that without a signed contract, Circles of Care would have to refer the children that were being seen by the Psychiatrist to another provider and the provider then stated they would take necessary legal action.

Circles of Care at this time has gotten back many of the contracts from the Psychiatrist that were seeing children in our care and is trying to find Psychiatric care for the children whose Psychiatrists refused to sign contracts. Psychiatrists are not in abundance in some areas.

Circles of Care does not limit its service providers and will contract with all child Psychiatrist, contracts are not being "awarded" to select Psychiatrists.

Cost Report Complete and Accurate:

Circles of Care will be implementing a separate chart of accounts for Board Travel so that it can be better identified when completing the cost report so as to accidentally report anything that is unallowable to report. Circles of Care did not feel this was an extreme expense; we have two board members that currently live out of the area and we cover travel, lodging and food for them anyway and the cost of this trip would not be all that much more than what we would normally pay and Circles of Care thought it would be a nice gesture and well deserved for the uncompensated board members time and effort they have given to the company over the past 7 years. Board retreats are not an uncommon practice for corporations. A large amount of board business needed to be conducted and 8 hours of meetings was completed.

A schedule C was completed for Executive Director due to the relationship to board member and two employees, but will also insure to complete a schedule C on the other employees.

Circles of Care is setting up in its' monthly financial statement an accounts receivable so it can report its expected payments from the department better on the cost report. This is being done through the monthly days of service reports and a reconciliation report generated from the software program. Circles of Care has no payables because bills are paid every week as they come in.

Supportive Documentation for payments to Foster Care Families, Credit Cards, Travel Expenses and Payroll.

Foster Care payments:

Circles of Care has a review process for Foster Parent payments, but this review process was not formally documented. Circles of Care agrees with formally documenting the review process it has for foster parent payouts, but does not see how simply documenting our review process will eliminate occasional errors. Circles of Care will implement a form to document our review process.

Circles of Care review process is: Payments to foster parents are first reviewed by the person who generates foster parent payroll from the software program. The payment sheets are then reviewed by the Program Director's for each program office and are then sent to the private CPA. Once the CPA processes the foster parent payments, the Executive Director receives back from the CPA, the payout sheets that were provided to them as well as a check stub showing the amount cut to the Foster Parent(s), check number and date.

Circles of Care will implement an approval form that each person who is involved in foster parent payment review to sign such form. Circles of Care will also have a staff member sign the form verifying all supportive documentation was present for anything being reimbursed to foster families.

Circles of Care also implemented, in the software program, a report that can be viewed to show which families were reimbursed what expenses and in what month, to avoid any duplicate reimbursements based on duplicate receipts or duplicate documentation being received by the personnel who completes foster parent payments; as these items are faxed in, mailed in or emailed and sometimes accidentally in duplicate.

Circles of Care, in addition to the daily reimbursements to foster families, provides the families reimbursement for all expenses related to the physical plant(health and fire inspections and TB testing), training requirements, non-routine mileage for transporting children to such things as court visits and family visits and provides a monthly respite stipend. In addition, Circles of Care gives each Foster Parent a training fund each year to cover the cost of any training registration fees, travel for training and child care related to foster parents attending required annual training.

Supportive documentation is needed and required to be able to know how much to reimburse the foster family for these items. Health and Fire Inspections that are reimbursed are also maintained in the family file and can be referenced there. Reimbursable mileage requires a mileage expense report and respite requires a respite payment form. Training and expenses related to training would require a registration receipt, a mileage form and some type of receipts for childcare. All these training related

expenses are taken from the Foster Parents training fund and are reimbursed under that category.

It is Circles of Care policy that no expenses are reimbursed to foster families without supportive documentation and Circles of Care feels it has sufficient documentation of reimbursed expenses. As noted above, Circles of Care will implement a form that personnel will sign to show review of all payouts and review that all supportive documentation is in place at time of the payout.

In regards to a Christmas bonus that was provided to all foster families, Circles of Care will implement and have the Executive Director provide a formal memo regarding the Christmas bonus that can be kept with all the foster parent financial records to provide supportive documentation for that type of payment being provided to foster families.

Circles of Care will document any exceptions Administration makes of mileage or reimbursements to foster families such as the mileage due to special circumstances that was reimbursed to the one family noted in State Auditors report.

Travel and Credit Care purchases:

Circles of Care agrees with the Travel recommendation and will insure that no employee or foster parent is reimbursed for mileage that does not have complete address information.

Furthermore, Employees are not routinely reimbursed for child meal expenses or any company related expenses without a receipt attached to the expense report, the few exceptions that were noted, in one instance, the Executive Director was with the employee at the time the employee incurred the expense on behalf of a child and therefore had no reason to deny reimbursement. But, Circles of Care will enforce policy of not reimbursing any employees work related expenses without some receipt or supportive documentation provided with the expense report.

Credit Cards:

Circles of Care founder and Executive Director makes all expenditures. Individual employees do not make direct expenditures (have credit cards) rather; they make requests for expenditure needs. As noted, an official form to document requests and approval of expenditures was already recently implemented. Executive Director also reviews all bills and invoices and codes each bill and invoice to the correct program office prior to submitting to the private CPA for review and processing.

Cash Management Process:

Overall, Circles of Care agrees with the recommendations, and will attempt to put in tighter reviews to attempt to lower human error.

Circles of Care has previously coordinated with the State to receive electronic payments for all disbursements, to try to eliminate the few actual checks that Circles of Care

receives as with today's technology there should be no need for actual checks to be issued. Circles of Care has been informed by State billing personnel that the fund in which some of the money comes from could not be direct deposited. Therefore, if Circles of Care has to receive some checks, the physical checks will be more promptly deposited. The Executive Director goes to the bank weekly and will insure checks are deposited timely.

Circles of Care has asked its accounting contractor to provide a cash flow statement into its monthly financial statements.

Security surrounding automated systems, Applications and Data

Circles of Care will be making most of the recommended changes to security to its automated systems, applications and Data.

Circles of Care will be working with our IT contractors to make changes to our network security. Circles of Care feels that changing passwords every 6 months rather than every 90 days is sufficient for an organization of our size.

Circles of Care will recommend to accounting contractor to make security changes to their systems for Circles of Care's account and only the users who have responsibility to our account, have access to our account.

Circles of Care is also sending an action sheet form to its information technology subcontractor when employees are terminated so that they can remove them as users. Circles of Care will also provide an employee directory every 90 days to the IT subcontractor so that they may review it and make any necessary changes.

External Access Security:

Circles of Care will have subcontracted IT department increase encryption level to protect what we send over the internet and email. Circles of Care is purchasing an SSL certificate to better secure out remote access website.

Backup and Storage of Data:

One of the backup tapes is stored on the person of the Executive Director and the other 6 are stored in a fire proof safe. So, something would have to happen to both the tape that the Ex. Director keeps and the 6 tapes kept in the fire proof safe for Circles of Care to lose all of its data. Since keeping a tape on the persons of the Ex. Dir. Circles of Care could possible result in loss of theft of the tape and therefore access to data, Circles of Care will be doing off site-backup. Circles of Care will implement off site storage through a system called NAS that mirrors the server at a remote location, therefore not needing the on-site backups and protection of tapes.

Circles of Care will make this report available to it accounting contractor and ask that they make recommended security and backup of data.

Audit Trails:

Circles of Care agrees with this recommendation and will ask accounting subcontractor to use audit trails of their software so reports can be provided to Circles of Care to monitor and review its financial data for completeness and authorization.

Physical Security Controls:

Current office space does not allow for a dedicated server room, but Circles of Care feels it is doing everything feasible at this time to protect its server. As noted, the office that the server is kept in is now routinely locked and windows have burglar bars. Circles of Care offices are also monitored with video surveillance. A dedicated room would still not totally protect the server from serious storm damage, but backup tapes are kept; one tape is kept with Ex. Dir. in case of storm damage and the others are in a fire proof safe and Circles of Care will now have off site storage.

Circles of Care did purchase a locking server cabinet, but when it came in our contract IT professionals stated that it does not allow enough ventilation of the server. They are researching something that would be sufficient.

All changes and recommendation have already been implemented or will be implemented by Sept. 1, 2007.


Lisa Edwards
Founder + President

Responses from the Children's Shelter



August 1, 2007

Ms. Ann Paul, CPA
Managing Senior Auditor
State Auditor's Office
Robert E. Johnson Building
1501 N. Congress Avenue
Austin, TX 78711-2067

Dear Ms. Paul,

The Children's Shelter is providing the following documents in response to the State Auditor's Office Report "On-Site Audits of Residential Child Care Providers", detailing the audit conducted in the spring 2007 at our offices.

- Management Representation Letter, dated July 30, 2007
- Notification List
- Response to State Auditor's Office "On-Site Audits of Residential Child Care Providers", dated July 30, 2007

In addition, both documents referenced above have been sent to you and Mr. Willie Hicks electronically as you requested in your email "Children's Shelter Audit Report Draft", dated July 18, 2007.

Please let me know if you require any further information or clarification. I can be reached at (210) 212-2539 or jdowney@chshel.org.

Sincerely,

Clyde J. Downey II
President/CEO

Enclosures

Management Representation Letter
Notification List
Response to State Auditor's Office Report



Administrative Office • 2939 W. Woodlawn • San Antonio, Texas 78228
(210) 212-2500 • Fax (210) 785-9268 • www.childrensshelter.org



RESPONSE TO STATE AUDITOR'S OFFICE
"On-site Audits of Residential Child Care Providers"

- **Non-compliance with background check requirements for staff, subcontractors, and foster care parents (See Chapter 3-A).**

Concur. Operational procedures are being re-written to assign specific responsibility for completion of initial and 24 month background checks on foster parents, subcontracted therapists, subcontracted home study workers and staff. Responsible Staff: Jack Downey, President/CEO - Estimated Completion Date: September 30, 2007.

- **Non-compliance with foster care reimbursement payment requirements (See Chapter 3-B).**

Concur. The Department of Family and Protective Services (DFPS) sets the daily payment rate for foster parents as a "floor" – a minimum amount that must be paid to the foster parent for each level of care. No contracting authority sets a "ceiling" restricting the maximum a provider agency can pay its foster parents.

The Children's Shelter pays foster parents based on the paperwork (date of intake, date of discharge and level of care) provided by DFPS. The exception to this was a child who was released from our KCI Residential Treatment Center at a moderate level and placed in our foster home. Shortly after discharge DFPS decreased the child's level of care to basic (the lowest level of care). Based on the child's demonstrated behaviors, we disagreed with the level of care change and continued to pay the foster parents the higher moderate for the sixteen days until the child's discharge.

All discrepancies in payments received are reported promptly to DFPS. It seems that the responsibility for correcting reported discrepancies in the Department's data system should rest with the Department and not with the contracted provider who has no authority to direct the correction. Responsible Staff: Donna Dalfrey, SVP/Administratio.

- **Non-compliance with foster care parent and staff training requirements (See Chapter 3-C).**

Concur. Operational procedures have been re-written to assign specific responsibility for tracking orientation, pre-service and annual training for new child placing staff.

Operational procedures are being re-written to assign specific responsibility for tracking pre-service and annual training for foster parents. Responsible Staff: Jack Downey, President/CEO - Estimated Completion Date: September 30, 2007.

- **Non-compliance with requirements to maintain formal subcontracts for direct care, therapy, and home study services (See Chapter 3-D).**

Concur. Operational procedures are being re-written to assign specific responsibility for required documentation on foster parents, subcontracted therapists, and subcontracted home study workers. The revisions will include inclusion of payment rates in all subcontracts. Responsible Staff: Jack Downey, President/CEO - Estimated Completion Date: September 30, 2007.

- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data (See Chapter 3-E).**

Concur. The Children's Shelter had previously identified the system weaknesses stated in the Audit Report through a Systems Audit performed by Computer Solutions, Inc during January – February 2007. Following approval by the Board of Trustees, C3NS was engaged to correct the cited software/hardware deficiencies. Work was completed on a \$123,400 systems update in June 2007.

Bids are being received on modifying the door to the server room to prevent access by unauthorized people while allowing air circulation. Estimated Completion Date: September 30, 2007. Responsible Staff: Jack Downey, President/CEO - Estimated Completion Date: September 30, 2007.

Responses from Canyon Lakes Residential Treatment Center



2402 Canyon Lake Drive, Lubbock, Texas 79415 • (806) 762-5782 • FAX (806) 762-0838

August 7, 2007

State Auditor's Office
P.O. Box 12067
Austin, Texas 78701

To whom it may concern:

The following is a response to the audit conducted by your department;

Chapter 4-A

The provider does not consistently ensure that all staff received required CPR, First aid, or annual training.

We agree that we have had some difficulty in existing staff maintaining their hours for annual training. The facility is currently providing training for the Nursing Assistant to become certified as a CPR and First Aid trainer. The Staff Trainer and the Program Directors will continue to expect staff to get this training in a timely manner and ensure that we as a facility offer the training frequently enough to allow staff to maintain their hours.

Chapter 4-B

The provider should consistently conduct and maintain background checks for its subcontractors and staff.

This provider fully acknowledges a breakdown in its processes and proper documentation, however, it should be noted that there has been a history of systematic problems with the TDFPS process as well. At times it has taken months to get responses on submissions and there was a time when TDFPS did not provide anything from their database that verified that a criminal history check had been submitted unless there was a "hit" on that particular individual. This facility has provided additional training to its

Administrative Secretary to ensure that verifications are printed from the Department on each submission, prior to that individual being employed by our organization.

Chapter 4-C

The provider should ensure that it reports all related party payments on its cost report.
The facility agrees and the above mentioned related party payments will be reported in the future.

Chapter 4-D

The provider should improve its approval and documentation processes for travel, food, clothing, and payroll expenses.

The facility agrees and the facility will develop a training manual to include all policy and procedure for financial processes to include documentation for all transactions, how payroll is processed, approval and processing of expenses and coding of expenses.

Chapter 4-E

The provider should verify that its prospective employees meet educational requirements

The facility agrees and will adopt procedure that requires verification of and documentation of their educational requirements.

Chapter 4-F

The provider should strengthen access to and security surrounding its automated systems, applications, and data.

The facility agrees and will enhance information management policies and procedures. The facility has password protected the entire accounting system and has begun backing up both the database system and the accounting system to a flash drive.

If any additional information is needed please feel free to contact me.

Respectfully,



Lenise Staha
Executive Director

Responses from Lifeline Fellowship Family Church (doing business as Lifeline Children and Family Services)



Ms. Ann E. Paul, CPA, Project Manager
State Auditor's Office
Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Tx. 78701

Ms. Paul,

Enclosed you will find Lifeline Children and Family Services' formal responses to the State Auditor's report. Lifeline does not disagree with any of the findings and is taking the opportunity to strengthen our systems and processes based on these findings. Each item has been analyzed and a solution either has been implemented or will be implemented in a short time to better our care delivery system.

Lifeline will continually monitor our systems and processes and strive to make them better. Our staff and our contracted independent administrator were impressed with the professionalism of the State Auditor's team assigned to this project. We appreciate not only the feedback from the project, but the tone in which it was delivered. This fostered a positive working environment that will make this agency better.

Kindest Regards,

Ricky Walter

A handwritten signature in black ink, appearing to read "Rick Walter". The signature is written in a cursive style with a long horizontal flourish at the end.

Rick Walter
Executive Director
Lifeline Children and Family Services

5301 W. Hwy 31
Corsicana, Tx. 75110
903.872.7700 phone
903.872.8358 fax

www.lifeline.com



Management's Response #1:

The provider should ensure that it reports all related party payments on its cost report.

Lifeline will disclose related party transactions on future cost reports. Currently Lifeline's independent administrator prepares the cost report for managements review and approval. Going forward the independent administrator will provide Lifeline management with a definition and examples of related parties. This information will enable Lifeline to accurately identify related parties and properly disclose on future cost reports.

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Management's Response #2:

The provider should ensure that staff timesheets are accurate and complete and that it maintains documentation for travel vouchers.

Time Sheet

Lifeline has an established policy and procedure regarding accurate and complete time sheet submission. Each department manager is responsible for tracking time for all personnel under their supervision ensuring complete and accurate records of time actually worked. The time sheet is used for payroll records, which must be maintained accurately at all times. Each employee is expected to keep a daily time sheet ensuring complete and accurate records of time actually worked. Any discrepancies between the two documents will be resolved by the department manager prior to approval. All time sheets will be approved by authorized management with handwritten signatures before transmittal to payroll for payment each pay period.

Travel Voucher

The management at Lifeline Children and Family Services has adopted the attached policy (see Attachment A) for employee expense reimbursement requests. Expense reports submitted to Lifeline's independent administrator will be reviewed for the following:

- Report is complete and includes a purpose and destination for travel
- Calculations are accurate
- Supporting documentation matches the report details
- Mileage reimbursement rate matches Lifeline's policy
- Employee signature
- Approval by appropriate individuals

Any report submitted that is incomplete or that does not follow Lifeline's policy will be returned to the employee.

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Attachment A

EMPLOYEE EXPENSE REIMBURSEMENT

To receive reimbursement for company related expenses, employees must complete a reimbursement request form.

- For travel related expenses employees must complete the dates, From Location, To Destination, Purpose, and other columns appropriate for the event.
 - For travel in a personal vehicle the employee must also record the beginning and ending odometer readings as well as the total mileage for the trip.
 - If traveling to visit a foster parent/child, the child(ren)'s name or initials they are visiting must be included in the "purpose" space.
 - Vehicle travel will be reimbursed at the rate of \$.32 (thirty cents) per mile.
- For items purchased, employees must record the item and purpose in the Purpose column and must attach a receipt showing payment for the item.
- For meals and other entertainment related expenses the employee must include the number of people, their titles, purpose of the event and the business discussed. Receipts showing payment must be attached. The receipt should be the one showing each person's order. Receipts or stubs showing totals only are not acceptable.

All reimbursement request forms must include:

- Employee's signature
- Signature of authorized person approving the request for payment or the Executive Director, who has authority to approve any and all expense reports

Expense reimbursement requests received in the Accounting Department by the 5th of the month will be paid on the 15th.

Isteiner\Procedures\Expense reimbursement request.doc



Management's Response #3:

The provider should strengthen access to and security surrounding its automated systems, applications, and data.

Lifeline Child and Family Services (LCFS) is taking the following actions to strengthen its information system environments and to improve the security of the LCFS automated systems, applications, and data.

Physical Security:

Primary Network Equipment - LCFS primary network equipment located in Austin, TX will be moved to a high security co-location facility that ensures physical security as well as redundant electrical back ups and internet access to the equipment. The target date for completion is Dec 31, 2007

Office Network Equipment – The LCFS local office Server in the LCFS office will be moved to a more secure location in a locked cabinet with better ventilation and quicker and easier access to fire extinguishers near the equipment. A smoke detector will be installed next to the new hanging cabinet. The target date for completion is Nov 30, 2007.

Periodic Scans of Network – Current Network Monitoring System:

The overall access to computers from the internet is controlled by Watchguard® Firewallunits; Watchguard ® is paid yearly fees, per device so that those firewalls are up to date and managed. The IT Department is going to perform a cost-benefit analysis to see about continuing to improve its network perimeter controls.

Logical Access Controls:

Lock Out Network Controls – Network access will be set to lock the end user out after 10 failed attempts for log on. The computer will be locked down for duration of 30 minutes.

Maximum Password Age – Group Policy is currently set for password to expire after 60 days.

Password Controls of Foster Care Information System –

1) The foster care application does not include a password change utility for end-users

The Community Techknowledge (CTK) Development Team is currently working on allowing users to change their own passwords without administrator interaction. This work is scheduled to be completed in November's release (3.9.3). Users will be able to go into their system preferences and click a "Change Password" button, which will prompt them for their old password, the new password, and a field to re-type the new password (to prevent typos).

2) The foster care application has no periodic password change requirement.

The CTK Development Team has completed the password expiration module and is scheduled to be released in August's release (3.9.2). Administrators can turn this feature on in the System's Designer and set an expiration time ranging from 30 days to 180 days from the last time they changed their password.

3) The foster care application allows a user to attempt to login any number of times.

CTK is looking at possibly releasing this feature in November 2007; however it will definitely be incorporated in the next year.

4) Additional Password features currently in our system:

All passwords are currently encrypted in our database. Also, the System's Designer, now has the ability to force passwords to be of a certain format (have a number, capital letter, special character, minimum number of characters) in order to help protect user passwords. This is being implemented in the Lifeline Information System immediately.

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Responses from DePelchin Children's Center



Serving Children & Families Since 1892

July 30, 2007

Ms. Ann E. Paul, CPA
Senior Auditor
State Auditor's Office
Robert Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

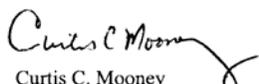
Dear Ms. Paul:

Please find attached DePelchin Children's Center management responses to the report regarding the on-site audits of 24-hour residential child care providers and the signed representation letter.

As you will see in our response, we have checked with our software vendor and the specific audit trails recommended by your staff are not available with our software. If you would like to visit with us further about that recommendation please contact me.

If you have any questions, please do not hesitate to contact us.

Yours truly,


Curtis C. Mooney
Executive Director

4950 Memorial Drive
Houston, Texas 77007
Phone: 713.730.2335
www.depelchin.org

United Way of the
Texas Gulf Coast



Member, Texas Alliance for Child and Family Services
Member, Child Welfare League of America
Member, Alliance for Children and Families



Serving Children & Families Since 1892

Chapter 6-A
The Provider Should Ensure that Staff Meet Training Requirements

DePelchin Children's Center ("DePelchin") is committed to having well-trained staff in its residential treatment program, and to meet and exceed child care licensing standards. To those ends, our corrective action plan for recommended changes in the audit report includes the following:

- All staff training certificates will clearly identify the courses attended. Additionally, a statement regarding the required training topics, i.e. behavior management and CPR will be included in the course title or training description.
- Supervisors will regularly review training files to assure staff attendance and their completion of appropriate documentation.

The Director of Child Welfare will be responsible to implement the above corrective action plan by September 1, 2007.

Chapter 6-B
The Provider Should Strengthen Access to and Security Surrounding Its Automated Systems, Applications, and Data

Access and Security Controls

The agency agrees with the recommendations for implementation of access and security controls. Information Technology met with Human Resources and has established and implemented appropriate processes for updating information regarding employee terminations and transfers. The agency will also update the network policies as stated in the internal policy in response to the auditor's recommendations. The implementation of this policy is the responsibility of the Director of Information Technology and Business Processes and will be completed by October 31, 2007.

Audit Trails

The agency disagrees with the evaluation of utilization of certain audit trails. The specific audit trails as recommended by the State Auditors are not available according to the software vendor. Consequently, this recommendation cannot be implemented. However, the audit trails that are available are actively utilized by the accounting staff.

Security Controls

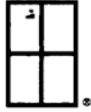
The agency agrees with the recommendation regarding security controls. The implementation of this recommendation is the responsibility of the Director of Information Technology and Business Processes and will be completed by December 31, 2007.

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Backup and Storage of Data

The agency agrees with the recommendation regarding backup and storage of data. Since the audit was conducted, a third set of backup tapes has been added to the rotation for offsite storage. Additionally, a process regarding securing and storing the rotating backup tapes in the server room will be implemented. The implementation of this recommendation is the responsibility of the Director of Information Technology and Business Processes and will be completed by October 31, 2007.

Information System Policies and Procedures

The agency agrees with the recommendation to review IT policies for internal consistency. The Director of Information Technology will oversee a process to review and revise internal inconsistencies in IT policies and procedures that will be completed by October 31, 2007.

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Responses from the Department of Family and Protective Services



TEXAS DEPARTMENT OF FAMILY AND PROTECTIVE SERVICES

COMMISSIONER
Carey D. Cockerell

August 13, 2007

Mr. John Keel, CPA
State Auditor
State Auditor's Office
Robert E. Johnson, Sr. Building
1501 N. Congress Ave.
Austin, Texas 78701

Dear Mr. Keel:

The Department of Family and Protective Services (DFPS) appreciates the opportunity to review and provide comment on the *"On-Site Audits of Residential Child Care Providers"* Report.

Criminal Background Checks and Training

All residential providers in Texas are required to comply with the minimum standards established by the DFPS Residential Child Care Licensing (RCCL) Division. These standards include provisions for the completion of background checks and staff and foster parent training. RCCL staff monitor compliance with these standards during routine visits to the providers and any violation is noted as a standard deficiency. DFPS providers for residential child care are required to meet minimum standards as a part of their contract terms and conditions. The issues noted in this report were communicated to RCCL during the course of the audit.

Cost Reporting

The residential child care contract requires providers to accurately complete cost reports and submit them as required by Title 1, Section 355.7171 of the Texas Administrative Code. The issues noted in this report, primarily dealing with the proper reporting of related party transactions, will be shared with the Health and Human Services Commission Office of Inspector General Audit Section for follow-up during their cost report examination.

Information Technology Review

DFPS Purchased Client Services (PCS) Division will work with the Internal Audit Division to develop a Best Practices guide for information technology items reviewed by the State Auditor's Office. The audit program from SAO has already been shared with DFPS Internal Audit. It will be used as a basis for developing a guide so that all providers can do a self review of their information technology controls and make any needed improvements.

701 W. 51ST ST. ♦ P.O. BOX 149030 ♦ AUSTIN, TEXAS 78714-9030 ♦ (512) 438-4800

Mr. John Keel
August 13, 2007
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Youth in View

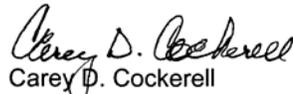
PCS conducts contract monitoring, contract assessments and ad-hoc visits to all residential child care contactors throughout the year to ensure quality services are provided to children and to assess compliance with contract terms and conditions. As noted in the audit report, DFPS entered into several provisional contracts with Youth in View during the course of fiscal year 2007. DFPS uses provisional contracts to offer the contractor an opportunity to correct non-compliance issues within the provisional period and clarify the areas of concern that the contractor must address. Contractors receive more intensive contract monitoring during the provisional contract term. In addition to the provisional contract, DFPS also limited the placement of children with Youth in View to no more than 50.

RCCL cited Youth In View for several deficiencies of minimum standards related to issues identified in the report. As a result of the continuing deficiencies, Youth in View is on a Provider Plan of Action. The plan places additional requirements on the facility to come into compliance with minimum standards.

DFPS will continue to closely monitor this contractor to ensure that children placed in their care are safe and to ensure compliance with minimum standards and contract provisions.

If you have any questions or comments, please contact Dianne Skinnell, DFPS Internal Audit Director at (512) 438-5685 or by email at dianne.skinnell@dfps.state.tx.us.

Sincerely,


Carey D. Cockerell
Commissioner

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Recent State Auditor's Office Work

Other SAO Work		
Number	Product Name	Release Date
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
04-044	A Financial Review of the Department of Family and Protective Services	July 2004

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The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Health and Human Services Commission

Mr. Albert Hawkins, Executive Commissioner

Department of Family and Protective Services

Mr. Carey Cockerell, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Canyon Lakes Residential Treatment Center
The Children’s Shelter
Circles of Care
DePelchin Children’s Center’s Isabel Elkins Residential Treatment Center
Lifeline Fellowship Family Church (doing business as Lifeline Children
and Family Services)
Youth in View



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