



John Keel, CPA
State Auditor

An Report on

On-site Audits of Residential Child Care Providers

August 2011
Report No. 11-049



John Keel, CPA
State Auditor

A Report on

On-site Audits of Residential Child Care Providers

SAO Report No. 11-049
August 2011

Overall Conclusion

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

- Helping Hand Home for Children, Inc. (see Chapter 1).
- Arrow Child and Family Ministries (see Chapter 2).
- Boysville, Inc. (see Chapter 3).
- Grace Manor (see Chapter 4).

The remaining provider audited—Connecting Lifes—had serious weaknesses in its financial processes (see Chapter 5). As a result of those weaknesses, auditors determined that data necessary to perform the audit objectives was unreliable and could not determine whether Connecting Lifes appropriately spent the federal and state funds it reported on its 2010 cost report. This provider (1) did not maintain sufficient documentation for expenditures; (2) did not consistently, accurately, or appropriately record all expenditures in its general ledger; and (3) did not consistently comply with cost report requirements. The Department did not exercise the renewal option of the provider's current contract for child placing services; therefore, the contract will expire on August 31, 2011. The provider may reapply for a contract with the Department during a residential child care contract procurement.

Background Information

During fiscal year 2010, the Department of Family and Protective Services (Department) had 435 contracts with 235 providers to provide residential child care on a 24-hour basis.

The Department contracts with the following types of licensed providers:

- **Child Placing Agency:** An entity that places children in adoptive homes or other residential care settings.
- **General Residential Operation:** A residential child-care operation that provides child care for 13 or more children or young adults. The care may include treatment services.
- **Residential Treatment Center:** A general residential operation for 13 or more children or young adults that exclusively provides treatment services for children with emotional disorders.

The Department paid all providers approximately \$355,792,559 for providing services to the 25,111 children in foster care during fiscal year 2010.

Approximately 68 percent of the funding for these services comes from the federal government and approximately 32 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 audits of selected providers that provide foster care services to the Department.

Sources: Information provided by the Department and the Texas Government Code.

The direct care and administrative costs that providers incur are intended to provide for the delivery of goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the providers’ care. Providers deliver these services through contracts with the Department of Family and Protective Services (Department) and report their revenue and expenditures on annual cost reports. (See Appendix 4 for cost reporting requirements.)

All five providers audited should improve their compliance with cost reporting requirements and background check requirements. In addition, the three child placing agencies audited should improve their documentation of and compliance with foster parent monitoring requirements.

Summary of Providers’ Response

The five providers audited were in agreement with the recommendations that were addressed to them, and their responses are presented in Appendices 6 through 10 beginning on page 48.

Summary of Information Technology Review

The five providers audited had a variety of information technology controls over automated systems, applications, and data. While some providers had stronger controls than others, auditors identified opportunities for improvement at four of the five providers. The remaining provider had limited automated systems, applications, and data; therefore, auditors did not review the information technology controls within that provider’s financial system. That provider limited access to the security environment surrounding its financial system.

The information technology issues identified increase the risk of inadvertent or deliberate alteration or deletion of data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted.

To minimize the risks associated with public disclosure, auditors communicated the details of additional weaknesses in writing directly to the providers.

Summary of Objective, Scope, and Methodology

The audit objective was to perform on-site financial audits of selected providers and included verifying that the selected providers spent federal and state funds on required services that promoted the well-being of foster children placed in their care.

The scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made during the 2010 cost reporting year.

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

Contents

Detailed Results

Chapter 1	
Helping Hand Home for Children, Inc.	1
Chapter 2	
Arrow Child and Family Ministries	5
Chapter 3	
Boysville, Inc.	12
Chapter 4	
Grace Manor, Inc.	19
Chapter 5	
Connecting Lives.....	27

Appendices

Appendix 1	
Objective, Scope, and Methodology	35
Appendix 2	
Selected Requirements for Residential Child Care Providers.....	39
Appendix 3	
Criminal Convictions and Other Findings That May Prohibit an Individual from Being Present at a Residential Care Provider	42
Appendix 4	
Selected Requirements for the Residential Child Care Cost Report	45
Appendix 5	
Map of Regional Boundaries.....	47
Appendix 6	
Response from Helping Hand Home for Children, Inc.	48

Appendix 7	
Response from Arrow Child and Family Ministries	49
Appendix 8	
Response from Boysville, Inc.	51
Appendix 9	
Response from Grace Manor	55
Appendix 10	
Response from Connecting Lives	58
Appendix 11	
Related State Auditor's Office Work	61

Detailed Results

Chapter 1

Helping Hand Home for Children, Inc.

Helping Hand Home for Children, Inc. Background Information	
Location	Austin, TX
Contract services audited ^a	Residential treatment center
Number of children served ^a	66
Average length of a child's stay in days	186.5
Total revenue from the Department ^b	\$1,648,636
Total revenue for residential treatment services ^b	\$3,231,747
Federal tax filing status	Non-profit
Number of program staff at year end ^b	89
^a From January 1, 2010, through December 31, 2010.	
^b From July 1, 2009, through June 30, 2010.	

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

Helping Hand Home for Children, Inc. (provider) appropriately spent the \$1,648,636 in federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. The provider spent the Department's revenue on (1) programmatic expenditures and (2) administrative expenditures for operating a 24-hour general residential child care center. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2010 cost report, including payroll. Of the \$3,026,962 in expenditures the provider reported on its 2010 cost report, auditors tested \$47,816 (1.6 percent) to determine whether the expenditures were allowable, properly classified, and had supporting documentation. Auditors did not identify any significant issues related to the provider's financial transactions or its 2010 cost report, with the exception of \$49,741 in revenue that the provider classified as being from the Department but should have classified as other revenue on the cost report. (See Chapter 1-A.)

Auditors also determined that the provider:

- Implemented strong controls over its financial processes, including oversight measures carried out by its board members.
- Had adequate controls to protect its automated systems; however, the provider should strengthen its information technology controls by developing written policies and procedures and periodically reviewing access to its automated systems, applications, and data. (See Chapter 1-B.)
- Had current background checks as of June 2011 for 11 (84.6 percent) of 13 employees and volunteers and did not consistently comply with all employee and volunteer background check requirements. (See Chapter 1-C.)

Helping Hand Home for Children, Inc.

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

Chapter 1-A

The Provider Should Correctly Classify All Revenue on Its Cost Reports

The provider correctly reported that it received \$1,648,636 in revenue from the Department on its 2010 cost report. However, the provider misclassified \$49,741 from other sources as Department revenue on its cost report.

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

Recommendation

The provider should prepare and maintain its cost report in accordance with requirements, including correctly classifying revenue.

Chapter 1-B

The Provider Should Strengthen Controls for its Automated Systems, Applications, and Data

The provider had adequate controls to protect its automated financial systems, such as limiting access to key personnel and performing weekly data backups. It also had adequate physical security to safeguard its information resources. However, auditors identified opportunities for improvement in the following areas:

- **Policies and procedures.** The provider had business practices that were not formally documented in written information technology policies and procedures for password requirements, user access management procedures, and backup and recovery processes.
- **Network security.** The provider did not have a formal user access review process in place, and 137 (93.8 percent) of 146 network users tested were currently employed with the provider. When auditors notified the provider about the remaining 9 user accounts, 8 of which were for former interns, the provider disabled all 9 user accounts.

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. However, the provider had

Helping Hand Home for Children, Inc.

compensating controls to reduce the risk that data could be inappropriately altered or deleted.

Recommendations

The provider should:

- Develop and implement written information technology policies and procedures. These policies and procedures should include the provider's password requirements for the network and user applications, user access management, and backup and recovery processes.
- Develop and implement a process to appropriately disable user accounts upon a user's separation from the provider.

Chapter 1-C

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

The provider did not consistently comply with background check requirements for employees and volunteers. As of June 2011, the provider had current background checks for 11 (84.6 percent) of 13 employees and volunteers.

The Department requires that individuals clear a name-based background check before they provide direct care to children or have direct access to the children in a provider's care. The Department requires providers to submit individuals for a background check at least once every 24 months after the initial check. (See Appendix 2 for additional information about background check requirements).

Auditors tested a sample of 30 employees and volunteers who worked at the provider from July 1, 2009, through June 30, 2010, and determined the following.

- Background check redone within 24 months. All of the 14 employees and volunteers who were required to have a background check had a background check as required. For current employees and volunteers, auditors determined whether the provider submitted a background check within 24 months prior to the most recent check as required. For former employees and volunteers, auditors determined whether the provider submitted a background check during the 24 months prior to the employee's and volunteer's separation date.

Helping Hand Home for Children, Inc.

- Background check redone 24 months since last check. Six (66.7 percent) of the 9 employees and volunteers who were required to have a background check had a background check as required. The provider submitted the remaining 3 background checks between 6 and 63 days late. For current and former employees and volunteers, auditors determined whether the provider had submitted a second background check within 24 months from the previous 24-month background check.
- Initial background check. Twenty-three (79.3 percent) of the 29 employees and volunteers tested had cleared the initial background check within the required timeframes. The remaining 6 employees and volunteers cleared the background checks between 1 and 785 days late. For current and former employees and volunteers, auditors determined whether the employee or volunteer cleared a background check prior to having access to children as required.

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

Auditors also requested that the Department of Public Safety re-perform criminal background checks for all individuals who were current employees in June 2011. Auditors reviewed the results and determined that there were no reported offenses that may violate the Department's minimum standards.¹

Recommendation

The provider should submit employees and volunteers for background check in accordance with the Department's requirements.

¹ *An Audit Report on the Criminal Justice Information System* (State Auditors Report No. 06-022, February 2006) determined that prosecutor and court records were not always reported to the Department of Public Safety in a timely manner, which impairs the completeness of the criminal records used to conduct criminal background checks.

Arrow Child and Family Ministries

Chapter 2

Arrow Child and Family Ministries

Arrow Child and Family Ministries Background Information	
Location	Spring, TX
Contract services audited	Child placing agency
Number of children served ^a	1,533
Average length of a child's stay in days ^a	180.2
Total revenue from the Department ^b	\$14,417,920
Total revenue for child placing agency services ^b	\$15,059,057
Federal tax filing status	Non-profit
Number of program staff as of June 30, 2010 ^b	127
^a From January 1, 2010, through December 31, 2010.	
^b From July 1, 2009, through June 30, 2010	

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

Arrow Child and Family Ministries (provider) appropriately spent the \$14,417,920 federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. The costs the provider incurred included (1) programmatic expenditures and (2) administrative expenditures incurred in operating a 24-hour general residential child care center. Those expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2010 cost report, including payroll. Of the \$14,810,265 in expenditures the provider reported in its 2010 cost report, auditors tested \$72,943 (0.5 percent) to determine whether the expenditures were allowable, properly classified, and had supporting documentation. With the exception of issues with the provider's cost report discussed in Chapter 2-A below, auditors did not identify any significant issues related to the provider's financial transactions. Auditors also determined that the provider:

- Properly paid its foster parents the required amounts according to the children's level of care and days of service.
- Should improve its compliance with cost report requirements. Auditors identified errors in the provider's reporting of revenues, expenditures, and related party transactions. (See Chapter 2-A.)
- Had adequate financial and information resource processes in place, but the provider should strengthen controls over those processes. Specifically, the provider should (1) develop written policies and procedures for its key financial and information resource processes and (2) segregate financial-related duties. (See Chapter 2-B.)
- Had current background checks as of April 2011 for all 18 employees and volunteers tested and for all 25 foster parents tested; however, the provider did not consistently comply with all employee, volunteer, and foster parent background check requirements. (See Chapter 2-C.)

Arrow Child and Family Ministries

- Had not consistently conducted quarterly monitoring of active foster parents or conducted at least one unannounced visit per year for each foster parent as required. (See Chapter 2-D.)

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

Chapter 2-A

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider did not consistently comply with cost reporting requirements when it prepared its 2010 cost report. Auditors identified errors in the provider's reporting of revenues, expenditures, and related party transactions. Specifically:

- The provider misclassified revenue from other sources as Department revenue on its 2010 cost report.
- The provider did not accurately report all expenditures on its 2010 cost report.
- The provider included unallowable costs on its 2010 cost report.
- The provider did not consistently report or disclose all related party transactions on its 2010 cost report.

The Texas Administrative Code and the Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report* require providers to maintain records that are accurate and sufficiently detailed to substantiate financial information in the cost report and include only allowable expenditures incurred or accrued during the reporting period (see Appendix 4 for additional information about cost reporting requirements).

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

The provider misclassified revenues on its 2010 cost report.

The provider correctly reported that it received \$14,417,920 in revenue from the Department on its 2010 cost report. However, the provider misclassified \$523,203 from other sources as Department revenue on its cost report.

The provider did not correctly report costs on its 2010 cost report.

The provider did not accurately report all expenditures on its 2010 cost report. Auditors traced 43 (95.6 percent) of 45 expenditure line items to the

Arrow Child and Family Ministries

provider's general ledger. The remaining two expenditure line items were not supported by the general ledger and resulted in an overstatement of expenditures of \$59,914.

The provider included unallowable expenditures on its 2010 cost report.

The provider had sufficient supporting documentation for all 60 expenditures that auditors tested. Three (5.0 percent) of those 60 expenditures included unallowable expenditure for finance charges. While the total allocated amount (\$21) of those finance charges was not significant, the provider should not have included the finance charges on its 2010 cost report. U.S. Office of Management and Budget (OMB) Circular A-87 states that costs incurred for interest on borrowed capital are unallowable unless the interest is related to a fully depreciated item or to buildings, land, or equipment.

The provider did not disclose all related party transactions on its 2010 cost report.

The provider did not report \$3,934 in expenditures paid to a company owned by the chief operating officer of the provider's parent company. The Texas Administrative Code defines a related party as having either significant ownership or control of the entity. The chief operating officer of the provider's parent company has significant influence over the direction of the provider, and their business relationship should have been reported as a related party on the cost report.

Recommendation

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

Chapter 2-B

The Provider Should Improve Controls Over Its Financial Processes

The provider had financial and information technology processes in place; however, it should strengthen controls over those processes by (1) developing written policies and procedures for its key financial and information resource processes and (2) segregating financial-related duties.

The provider lacked written policies and procedures.

The provider had financial processes in place; however, it did not have written policies and procedures for accounting for revenues and expenditures, performing bank reconciliations and reconciliations of Department revenue, procurement, travel, and monitoring of foster parents. In addition, the provider should develop information resource policies related to logical access and backup and recovery. Policies and procedures are an important tool for

Arrow Child and Family Ministries

helping all employees to understand the provider's processes and hold employees accountable for following them.

The provider did not adequately segregate financial-related duties.

The provider did not adequately segregate duties for accounts payable transactions. One employee was able to perform all functions for foster care payables, including recording expenditures, posting expenditures, printing checks, and signing checks using a stamp. The stamp is the only required signature on checks from the provider's account. Additionally, the same employee reviews reports comparing the payables to the data in the provider's accounting system, and those reports are not independently reviewed by a different individual to verify that payments to vendors are for goods and services received. Segregating key financial duties helps to reduce the risk of fraud and distributes the workload related to financial processes.

The provider did not consistently reimburse the Department for overpayments.

The provider did not consistently reimburse the Department for overpayments as required by its residential child care contract. Auditors identified \$411 in unearned revenues that the provider had collected but for which it had not reimbursed the Department. The number of days since the overpayments occurred ranged from 413 to 626 days as of April 25, 2011, the date of auditors' site visit. The Department requires all providers to (1) collect payments in a proper and timely manner and (2) reimburse the Department for any amount paid in excess of the proper payment amount within 90 days of the determination that an overpayment occurred.

Recommendations

The provider should:

- Develop and implement written policies and procedures for key financial processes. The policies and procedures should include details of the provider's accounting for revenues and expenditures, performing bank reconciliations and reconciliations of Department revenue, procurement, travel, and monitoring foster parents.
- Develop and implement written policies and procedures for information resource processes. These policies and procedures should include details of the provider's logical access, backup, and recovery.
- Segregate duties for key financial processes or implement compensating controls for duties that are not segregated.
- Reimburse the Department in a timely manner for all overpayments as required.

Arrow Child and Family Ministries

Chapter 2-C

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

The provider is not consistently complying with requirements for background checks for employees, volunteers, and foster parents. As of April 2011, the provider had current background checks for all 18 employees and volunteers tested and all 25 current foster parents tested.

The Department requires that individuals clear a name-based background check before they provide direct care to children or have direct access to the children in the provider's care. The Department also requires providers to submit individuals for background checks every 24 months after the initial check. (See Appendix 2 for additional information about background check requirements.)

Auditors tested a sample of 33 employees and volunteers who worked at the provider from July 1, 2009, through June 30, 2010, and determined the following:

- Background check redone within 24 months. All 13 of the employees and volunteers who were required to have a background check had a background check as required. For current employees and volunteers, auditors determined whether the provider submitted a background check within 24 months prior to the most recent check as required. For former employees and volunteers, auditors determined whether the provider submitted a background check during the 24 months prior to the employee's and volunteer's separation date.
- Background check redone 24 months since last check. Seven (87.5 percent) of the 8 employees and volunteers who were required to have a background check had a background check as required. The provider submitted the remaining background check 19 days late. For current and former employees and volunteers, auditors determined whether the provider had submitted a second background check within 24 months from the previous 24-month background check.
- Initial background check. Seventeen (60.7 percent) of the 28 employees and volunteers tested cleared the initial background check within the required timeframes. The remaining 11 employees and volunteers cleared the background checks between 3 and 784 days late. For current and former employees and volunteers, auditors determined whether the employee or volunteer cleared a background check prior to having access to children as required.

Auditors tested a sample 65 foster parents associated with the provider from July 1, 2009, through June 30, 2010, and determined the following:

Arrow Child and Family Ministries

- Background check redone within 24 months. Twenty-seven (93.1 percent) of the 29 foster parents who were required to have a background check had a background check as required. The provider submitted the remaining 2 background checks 37 and 56 days late, respectively. For current foster parents, auditors determined whether the provider submitted a background check within 24 months prior to the most recent check as required. For former foster parents, auditors determined whether the provider submitted a background check during the 24 months prior to the foster parent's separation date.
- Background check redone 24 months since last check. Fifteen (71.4 percent) of the 21 foster parents who were required to have a background check had a background check as required. The provider submitted the remaining 6 background checks between 6 and 118 days late. For current and former foster parents, auditors determined whether the provider had submitted a second background check within 24 months from the previous 24-month background check.
- Initial background check. Fifty-three (93.0 percent) of the 57 foster parents tested cleared the initial background check within the required timeframes. The remaining 4 foster parents cleared the background checks between 5 and 359 days late. For current and former foster parents, auditors determined whether the foster parent cleared a background check prior to having access to children as required.

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

Auditors also requested that the Department of Public Safety re-perform criminal background checks for all individuals who were current employees and volunteers in May 2011. Auditors reviewed the results and determined that there were four reported offenses that may violate the Department's minimum standards. The Department has been notified of these issues.²

Recommendation

The provider should submit employees, volunteers, and foster parents for background checks in accordance with the Department's requirements.

² *An Audit Report on the Criminal Justice Information System* (State Auditors Report No. 06-022, February 2006) determined that prosecutor and court records were not always reported to the Department of Public Safety in a timely manner, which impairs the completeness of the criminal records used to conduct criminal background checks.

Arrow Child and Family Ministries

Chapter 2-D

The Provider Should Monitor Its Foster Parents in Accordance with the Department's Requirements

The provider did not perform quarterly monitoring visits of foster homes and unannounced monitoring visits of foster homes as required. The provider performed 51 (60.0 percent) of 85 required quarterly monitoring visits for active foster parents between July 1, 2009, and June 30, 2010. All 51 monitoring reports were signed by the foster parents as required. Additionally, 6 (37.5 percent) of 16 applicable foster families who were active for the entire 2010 cost reporting period had documentation of an unannounced monitoring visit during the 2010 cost reporting period.

The Department requires that providers (1) monitor foster families at least quarterly and (2) conduct at least one unannounced visit to each foster family per year.

Monitoring visits are the primary way for the provider to help ensure that foster families are complying with all Department standards. The provider may be placing children at risk by not performing the required monitoring visits as required.

Recommendations

The provider should:

- Monitor active foster parents at least once per quarter.
- Conduct and document at least one unannounced monitoring visit to each foster family at least once per year as required.

Boysville, Inc. Background Information	
Location	Converse, TX
Contract services audited ^a	General residential operation
Number of children served ^a	47
Average length of a child's stay in days ^a	186.1
Total revenue from the Department ^b	\$372,332
Total revenue for general residential operation services ^b	\$2,242,918
Federal tax filing status	Non-profit
Number of program staff ^b	48
^a From January 1, 2010, through December 31, 2010.	
^b From July 1, 2009, through June 30, 2010.	

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

Boysville, Inc. (provider) appropriately spent the majority of the \$372,332 in federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. However, the provider did not properly allocate indirect expenditures. As a result, all allocated indirect expenditures on the provider's 2010 cost report could be reported incorrectly.

Auditors tested revenues and expenditures that the provider reported on its 2010 cost report, including payroll, and did not identify any significant issues regarding those transactions. Of the \$2,239,994 in expenditures the provider reported on its 2010 cost report, auditors tested \$82,490 (3.7 percent) to determine whether the expenditures were allowable, properly classified, and had supporting documentation. Auditors determined that the provider improperly allocated indirect expenditures and included unallowable expenditures. As a result, the provider overstated its expenditures in its 2010 cost report. In addition, the provider overstated revenues by \$23,451 because it did not consistently use the accrual basis of accounting. (See Chapter 3-A.)

Auditors also determined that the provider:

- Had financial processes in place, but the provider should improve the controls over those processes. Specifically, the provider should (1) develop written policies and procedures for its key financial processes, (2) adequately segregate financial-related duties, and (3) improve access to and the security environment surrounding its automated systems, applications, and data. (See Chapter 3-B.)
- Had current background checks as of May 2011 for all 23 employees and volunteers tested; however, the provider did not consistently comply with all employee and volunteer background check requirements. (See Chapter 3-C.)

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

Chapter 3-A

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider's 2010 cost report was supported by its trial balance (a list of general ledger accounts and value balances), with the exception of

depreciation. However, the trial balance was not correct because the provider did not correctly allocate indirect expenditures among its different programs. As a result, all allocated indirect expenditures on the provider's 2010 cost report could be reported incorrectly. The provider also included unallowable expenditures, such as late fees, on its 2010 cost report. In addition, the provider overstated revenues on the 2010 cost report amounting to a net \$23,451 because it did not consistently account for revenues using the accrual³ basis of accounting.

Title 1, Texas Administrative Code, Section 355.102, and the Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report* together require providers to include only allowable expenditures and allocate the expenditures on a consistent basis (see Appendices 2 and 4 for additional information about those requirements).

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

The provider incorrectly reported expenditures on its 2010 cost report.

The provider incorrectly reported expenditures for indirect costs and for depreciation on its 2010 cost report. Specifically:

- The provider incorrectly allocated indirect expenditures in its accounting system. Of the 65 expenditures tested, 48 (73.8 percent) were for indirect expenditures and allocated incorrectly; the remaining 17 expenditures were direct care expenditures and did not require allocation to other programs. The provider allocated those 48 indirect expenditures at rates ranging from 53.9 percent to 82.4 percent. Instead, the provider should have allocated the expenditures at a 54.8 percent rate, based on auditors' calculations using the provider's methodology. The 48 indirect expenditures tested totaled \$43,740. Based on auditors' recalculated rate for the 48 indirect expenditures tested, the provider overstated the indirect expenditures by \$1,878 (4.3 percent).
- The provider understated depreciation by \$6,072 on its 2010 cost report. Specifically, the provider reported \$180,787 (53.0 percent) in depreciation; however, the provider should have reported \$186,859 in depreciation based on the 54.8 percent allocation rate that auditors calculated.

³ Under the accrual method of accounting, revenues are recognized at the time of the transaction instead of at the time the revenues are received.

The provider included unallowable expenditures on its 2010 cost report.

The provider had sufficient supporting documentation for 64 (98.5 percent) of 65 expenditures that auditors tested. The dollar amount of one missing item was \$62. Of the 64 expenditures with supporting documentation tested, 7 (10.9 percent) included unallowable expenditures for late fees. While the total allocated amount (\$249) of those late fees was not significant, the provider should not have included the late fees on its 2010 cost report. Title 1, Texas Administrative Code, Section 355.102, and Health and Human Services Commission requirements permit only expenditures that are reasonable and necessary to the provider's operations to be included on a cost report.

The provider overstated revenues on its 2010 cost report.

The provider overstated revenues on its cost report by \$23,451 because it did not consistently record revenues in the fiscal year during which the services were provided. The provider should consistently use the accrual basis of accounting to report its revenues, as required by the Texas Administrative Code and the Health and Human Services Commission.

Recommendation

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

Chapter 3-B

The Provider Should Strengthen Controls Over Its Financial Processes

The provider had financial processes in place, but it should improve the controls over those processes. This should include having written policies and procedures and adequate segregation of duties for key accounting processes. The provider should also improve its reconciliations of the payments it receives from the Department. In addition, the provider should improve access to and the security environment surrounding its automated systems, applications, and data.

The provider lacked written policies and procedures.

While the provider had financial processes in place, it lacked written policies and procedures over key financial processes. Specifically, the provider did not have adequately documented policies and procedures for travel; accounting for revenues and expenditures; bank reconciliations; reconciliations of Department revenues; payroll; and the use of procurement cards. Policies and procedures are an important tool for helping all employees to understand the provider's processes and hold employees accountable for following them.

The provider did not have an adequate segregation of duties.

The provider did not adequately segregate the duties for accounts payable, bank reconciliations, and cash receipts processes among its employees. One employee is responsible for all accounts payable processes, including adding vendors, entering invoices, and posting transactions. This employee also conducted bank reconciliations, which were not reviewed by another individual. The provider implemented a compensating control by requiring that all checks be signed by two people from a group that includes the executive director and board officers. All but 1 of the 51 payments that auditors tested had the required two signatures. The remaining check for \$16,596 was included on the bank statement, but the check image could not be located to determine whether the check contained the two signatures. Auditors found that this expenditure was allowable and reasonable.

Additionally, the provider did not sufficiently segregate the duties for its cash receipts process. The same employee who performs the duties for accounts payable and bank reconciliations is also responsible for picking up the mail, counting the cash, and logging the cash amounts in a cash receipts log before another employee enters the information into the accounting system.

Segregating key financial duties helps to reduce the risk of fraud and distributes the workload related to financial processes.

The provider's reconciliation process did not adequately identify all variances.

The provider's reconciliation process for payments it receives from the Department was not adequate to identify variances in days of service, levels of care, or payment amounts. Adequate reconciliations would help ensure that the provider receive the proper payments from the Department. Auditors identified two instances in which the provider's reconciliation process did not identify discrepancies. Specifically:

- The Department overpaid the provider's residential/basic care program by \$193 for a child who had been placed in the provider's emergency shelter.
- The computer-generated reports that the provider used to calculate its allocation percentages incorrectly excluded days of care and erroneously included discharge days from its days of service calculation.

Auditors identified weaknesses in the provider's access to and the security environment surrounding the provider's automated systems, applications, and data.

The provider had some automated controls to limit network access to appropriate individuals. However, auditors identified opportunities for improvements in the following areas:

- Policies and procedures. The provider lacked written information technology policies and procedures for password requirements, user access management procedures, and backup and recovery processes.
- Network and physical security. The provider did not have temperature controls or smoke and heat detectors in its server room.
- Application security. There was one user account that three employees could use to access accounting system.

To minimize the risks associated with public disclosure, auditors communicated the details of additional weaknesses in writing directly to the provider.

Information technology weaknesses increase the risk of inadvertent or deliberate alteration or deletion of data, which could limit the provider's ability to ensure the integrity of its data.

Recommendations

The provider should:

- Develop and implement written policies and procedures for key financial processes.
- Segregate the duties for key financial processes or implement compensating controls for duties that are not segregated.
- Reconcile payments received from the Department, including days of service, level of care, and payments received.
- Develop and implement written information technology policies and procedures. These should include password requirements for network and user applications, user access management, and backup and recovery processes.
- Strengthen network and physical security controls.
- Assign individual accounts to access the accounting system.

Chapter 3-C

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

The provider did not consistently comply with background check requirements for employees and volunteers. As of May 2011, it had current background checks for all 23 employees and volunteers tested.

The Department requires that individuals clear a name-based background check before the individuals provide direct care to children or have direct access to the children in the provider's care. The Department also requires providers to submit individuals for background checks every 24 months after the initial check. (See Appendix 2 for additional information about background check requirements).

Auditors tested a sample of 33 employees and volunteers who worked at the provider from July 1, 2009, through June 30, 2010, and determined the following:

- Background check redone within 24 months. Fifteen (78.9 percent) of the 19 employees and volunteers who were required to have a background check, had a background check as required. The provider submitted the remaining 4 background checks between 12 and 421 days late. For current employees and volunteers, auditors determined whether the provider submitted a background check within 24 months prior to the most recent check, as required. For former employees and volunteers, auditors determined whether the provider submitted a background check during the 24 months prior to the employee's or volunteer's separation date.
- Background check redone 24 months since the previous check. Nine (69.2 percent) of the 13 employees who were required to have a background check had a background check as required. The provider submitted the remaining 4 background checks between 10 and 102 days late. For current and former employees,⁴ auditors determined whether the provider had submitted a second background check within 24 months from the previous 24-month background check.
- Initial background check. Nineteen (76.0 percent) of the 25 employees and volunteers tested had cleared the initial background check within the required timeframe. The remaining 6 employees and volunteers cleared the background checks between 6 and 1,907 days late. For current and former employees and volunteers, auditors determined whether the employee or volunteer cleared a background check prior to having access to children as required.

⁴ The volunteers tested did not work at the provider during the time period that would have required a second background check within 24 months from the previous 24-month background check.

The provider may be placing the children in its care at risk by not waiting for individuals to clear the background checks prior to the individuals starting work. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry system for persons who had been found by the Department to have abused or neglected a child.

Auditors also requested that the Department of Public Safety re-perform criminal background checks for all individuals that were current employees and volunteers in May 2011. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards.⁵

Recommendation

The provider should submit employees and volunteers for background checks in accordance with the Department's requirements.

⁵ *An Audit Report on the Criminal Justice Information System* (State Auditors Report No. 06-022, February 2006) determined that prosecutor and court records were not always reported to the Department of Public Safety in a timely manner, which impairs the completeness of the criminal records used to conduct criminal background checks.

Grace Manor, Inc. Background Information ^a	
Location	Center, Texas
Contract services audited	Child placing agency
Number of children served	185
Average length of a child's stay in days	171.0
Total revenue from the Department	\$1,542,429
Total revenue for child placing agency services	\$1,627,600
Federal tax filing status	Non-profit
Number of program staff at year end	12
^a From January 1, 2010, through December 31, 2010.	

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

Grace Manor, Inc. (provider) appropriately spent the \$1,542,429 in federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. The provider incurred costs related to (1) programmatic expenditures and (2) administrative expenditures for operating a 24-hour general residential child care center. Those expenditures are intended to provide for the mental and physical well-being of the children placed in the provider's care.

Auditors tested revenues and expenditures that the provider reported on its 2010 cost report, including payroll. Of the \$1,643,824 in expenditures the provider reported in its 2010 cost report, auditors tested \$58,488 (3.6 percent) to determine whether the expenditures were allowable, properly classified, and had supporting documentation. With the exception of the reporting of revenue and related-party transactions, auditors did not identify any significant issues related to the provider's financial transactions. (See Chapter 4-A.)

Auditors also determined that the provider:

- Properly paid its foster parents the required amounts according to the children's level of care and days of service.
- Had various reconciliation processes to promote the accuracy of its financial records; however, the provider should improve its financial controls by (1) developing written policies and procedures for its key financial processes and (2) adequately segregating financial-related duties. (See Chapter 4-A.)
- Had weaknesses in its information technology controls for its automated systems, applications, and data. (See Chapter 4-B.)
- Had current background checks as of June 2011 for all 12 employees and for all 36 foster parents tested; however, the provider did not consistently comply with all employee and foster parent background check requirements. (See Chapter 4-C.)
- Consistently monitored foster parents; however, the provider did not conduct at least one unannounced visit per year for each active foster parent as required. (See Chapter 4-D.)

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

Chapter 4-A

The Provider Should Improve Its Compliance with Cost Report Requirements

The provider did not consistently comply with cost reporting requirements when it prepared its 2010 cost report. Specifically, the provider:

- Understated donation revenue and misclassified revenue it received from other sources as Department revenue.
- Did not properly disclose or retain supporting documentation for all related party transactions.

The Texas Administrative Code and the Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report* include specific requirements for the reporting of revenues and related party transactions (see Appendix 4 for additional information about those requirements).

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

The provider incorrectly reported revenue on its 2010 cost report.

The provider did not report the correct amount of total revenue in its 2010 cost report. The provider reported \$1,627,600 in total revenue; however, it understated donations by \$1,754 because it did not follow reporting requirements. The provider recorded the net amount of its donations (donation minus the allowable expenditures that were paid with the donated funds). It should have reported the entire amount of the donations. In addition, the provider misclassified approximately \$68,997 in revenue it received from other government sources as revenue received from the Department.

The provider did not disclose all related party transactions on its 2010 cost report.

The provider did not properly disclose or retain supporting documentation for all related party transactions. Specifically, on its 2010 cost report, the provider:

- Did not disclose the salary of a related party employee totaling \$61,227.

- Accurately reported \$14,253 for costs the executive director incurred as the owner of one of two buildings that are leased to the provider, but the provider did not report \$5,840 for the second leased building.
- Did not have supporting documentation for its process of determining the rent the provider paid to the executive director for the buildings he owned and leased to the provider.

Recommendation

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

Chapter 4-B

The Provider Should Strengthen Controls Over Its Financial Processes

The provider had financial processes in place, such as performing bank and revenue reconciliations, but it should improve its financial controls. Improvements needed include (1) developing and implementing written policies and procedures and (2) adequately segregating the duties for its key accounting processes. In addition, the provider should strengthen information system controls for its automated systems, applications, and data.

The provider lacked written policies and procedures.

While the provider had financial processes in place, it lacked written policies and procedures over key financial processes. Specifically, the provider did not have written policies and procedures for accounting for revenues and expenditures, bank reconciliations, reconciliations of Department revenue, and credit card use. Policies and procedures are an important tool for helping all employees understand the provider's processes and hold employees accountable for following them.

The provider did not have adequate segregation of duties.

The provider did not adequately segregate the duties for its accounting processes to reduce the risk of fraud and distribute the workload related to its financial processes. Auditors noted the following weaknesses in the provider's financial processes:

- The office manager had the ability to create all types of accounting entries, print checks, and sign checks.
- The provider did not keep blank checks in a secure location or limit access to the blank checks.

- Multiple users shared a single user account to the accounting system, which prevents the provider from being able to determine which user made specific entries and limits the provider's ability to segregate duties.
- The provider performed bank reconciliations, but it did not conduct supervisory reviews of the reconciliations.
- The provider asserted that the executive director reviewed credit card statements; however, it did not document those reviews.

Auditors identified weaknesses in the provider's access to and the security environment surrounding its automated systems, applications, and data.

The provider had some automated controls to protect its data, such as restrictions to the network and limited information resource policies and procedures related to backup and recovery. However, auditors identified opportunities for improvements in the following areas:

- **Policies and procedures:** The provider lacked written information technology policies and procedures for logical access and passwords.
- **Logical Access:** The provider did not consistently review network access to verify that only current employees had access, and one individual knows all employees' passwords because that individual creates and distributes the passwords to employees.
- **Backups and Recovery:** While the provider performed backups, it did not perform those backups as frequently as stated in its operational policy. The provider stored the backups in a fireproof safe on site, but did not perform tests of the backups to verify that data can be recovered.
- **Physical security:** The provider placed its server in a location that is susceptible to water damage.

Information technology weaknesses increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the integrity of the provider's data.

To minimize the risks associated with public disclosure, auditors communicated the details of additional weaknesses in writing directly to the provider.

Recommendations

The provider should:

- Develop and implement written policies and procedures for key financial processes.
- Segregate the duties for key financial processes or implement compensating controls for duties that are not segregated.
- Develop and implement written information technology policies and procedures. These should include logical access processes and password requirements.
- Review network access on a periodic basis and discontinue password sharing among employees.
- Complete backups on a consistent basis and store them in a secure location off site.
- Develop and implement a process to routinely test and recover data from backups performed.
- Protect its server from environmental hazards.

Chapter 4-C

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

The provider did not consistently comply with requirements for background checks for employees and foster parents.⁶ However, as of June 2011, the provider had current background checks for all 12 current employees and all 36 current foster parents tested.

The Department requires that individuals clear a name-based background check before they provide direct care to children or have direct access to the children in the provider's care. The Department requires providers to submit individuals for a background check at least once every 24 months after the initial check. (See Appendix 2 for additional information about background check requirements.) Auditors also tested all 19 employees who worked at the provider from January 1, 2010, through December 31, 2010, and determined the following:

⁶ The provider did not have volunteers during calendar year 2010.

- Background check redone within 24 months. Eight (72.7 percent) of the 11 employees who were required to have a background check had a background check as required. The provider submitted the remaining 3 background checks between 31 and 83 days late. For current employees, auditors determined whether the provider submitted a background check within 24 months prior to the most recent check as required. For former employees, auditors determined whether the provider submitted a background check during the 24 months prior to the employee's separation date.
- Background check redone 24 months since last check. One (25.0 percent) of the 4 employees who were required to have a background check had a background check as required. The provider submitted the remaining 3 background checks between 68 and 1,050 days late. For current and former employees, auditors determined whether the provider had submitted a second background check within 24 months from the previous 24-month background check.
- Initial background check. Fifteen (78.9 percent) of the 19 employees tested cleared the initial background check within the required timeframe. The remaining 4 employees cleared the background checks between 4 and 1,528 days late. For current and former employees, auditors determined whether the employee cleared a background check prior to having access to children as required.

Auditors also tested a sample of 55 foster parents at the provider from January 1, 2010, through December 31, 2010, and determined the following:

- Background check redone within 24 months. Forty (85.1 percent) of the 47 foster parents who were required to have a background check had a background check as required. The provider submitted the remaining 7 background checks between 7 and 53 days late. For current foster parents, auditors determined whether the provider submitted a background check within 24 months prior to the most recent check as required. For former foster parents, auditors determined whether the provider submitted a background check during the 24 months prior to the foster parent's separation date.
- Background check redone 24 months since last check. Thirteen (61.9 percent) of the 21 foster parents who were required to have a background check had a background check as required. The provider submitted the remaining 8 background checks between 1 and 22 days late. For current and former foster parents, auditors determined whether the provider had submitted a second background check within 24 months from the previous 24-month background check.

- Initial background check. Fifty-four (98.2 percent) of the 55 foster parents tested cleared the initial background check within the required timeframe. The remaining foster parent cleared the background check nine days late. For current and former foster parents, auditors determined whether the foster parents cleared a background check prior to having access to children as required.

The provider may be placing children in its care at risk by not waiting for individuals to clear the background checks prior to the individual starting work or becoming a foster parent. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry system for cases of abuse or neglect.

Auditors also requested that the Department of Public Safety re-perform criminal background checks for all individuals who were current employees and foster parents in June 2011. Auditors reviewed the results and determined there were no reported offenses that may violate the Department's minimum standards.⁷

Recommendation

The provider should submit employees and foster parents for background checks in accordance with the Department's requirements.

Chapter 4-D

The Provider Consistently Monitored Foster Parents But Should Conduct Unannounced Visits as Required

The provider had a documented monitoring plan for foster parents and performed 83 (98.8 percent) of 84 required quarterly monitoring visits for 30 active foster families between January 1, 2010, and December 31, 2010. Eighty-two (98.8 percent) of the 83 documented monitoring reports were signed by the foster parents as required. In addition, the provider had documentation showing it had conducted an unannounced monitoring visit for 9 (69.2 percent) of 13 applicable foster families who were active for the entire 2010 cost reporting period.

The Department requires that providers (1) monitor foster families at least quarterly and (2) conduct at least one unannounced visit to each foster family per year. Monitoring visits are the primary way for the provider to ensure that

⁷ An Audit Report on the Criminal Justice Information System (State Auditors Report No. 06-022, February 2006) determined that prosecutor and court records were not always reported to the Department of Public Safety in a timely manner, which impairs the completeness of the criminal records used to conduct criminal background checks.

foster families are complying with all Department standards. The provider may be placing children at risk by not performing the required monitoring visits as required.

Recommendations

The provider should:

- Perform all quarterly monitoring visits of active foster parents, as documented in its monitoring plan.
- Conduct and document at least one unannounced monitoring visit to each foster family at least once per year as required.

Connecting Lives

Connecting Lives Background Information ^a	
Location	Lewisville, TX
Contract services audited	Child placing agency
Number of children served	64
Average length of a child's stay in days	78.3
Total revenue from the Department	\$313,208
Total revenue for child placing agency services	\$330,806
Federal tax filing status	Non-profit
Number of program staff at year end	2
^a From January 1, 2010, through December 31, 2010.	

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

Auditors identified serious weaknesses with the financial processes used by Connecting Lives (provider). As a result of those weaknesses, auditors were unable to perform the work necessary to determine whether this provider appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay the costs incurred for providing 24-hour residential child care services. The Department did not exercise the renewal option of the provider's current contract for child placing services; therefore, the contract will expire on August 31, 2011. The provider may reapply for a contract with the Department during a residential child care contract procurement.

The provider has weaknesses in the limited financial processes it has in place, such as those for accounting for revenues and expenditures and making procurements. (See Chapter 5-A.) In addition, the provider did not have any supporting documentation for expenditures, and its general ledger was incomplete and inaccurate. As a result, auditors determined that data necessary to perform the audit objectives was unreliable and could not determine whether the expenditures the provider reported in its 2010 cost report were allowable and properly classified. (See Chapter 5-B.)

Auditors also determined that:

- The provider's board of directors did not monitor the provider's finances or verify whether the provider's services were in compliance with its policies. In addition, the majority of the board of directors is related to each other. (See Chapter 5-C.)
- The provider had current background checks as of May 2011 for all 3 employees tested and all 10 active foster parents tested; however, the provider did not consistently comply with Department requirements for conducting initial background checks on employees, volunteers, and foster parents. (See Chapter 5-D.)
- While the provider did not have a foster parent monitoring plan in 2010, it consistently monitored its foster parents. However, it did not have the foster parents sign the results of the monitoring visits or conduct at least one unannounced visit per year for each active foster parent as required. (See Chapter 5-E.)

The provider is a small, non-profit organization and had very limited automated systems, applications, and data; therefore, auditors did not review the controls within the provider's financial system but did review access to and the security environment surrounding the provider's financial system. The provider appropriately limited access to its financial system and had adequate physical security to safeguard its financial information.

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

Chapter 5-A

The Provider Should Strengthen Its Financial Processes

Auditors identified serious financial weaknesses at the provider. The provider needs to strengthen its financial processes for:

- Accounting for expenditures.
- Procuring goods and services.
- Reviewing and approving expenditures.
- Accounting for revenues.
- Reconciling its financial records to documentation from its bank and from the Department.

Because of its weaknesses in financial processes, the provider:

- Lacked supporting documentation for its expenditures, including those related to payroll.
- Did not have a complete and accurate general ledger.
- Did not consistently pay foster parents the correct amounts.

The provider did not have supporting documentation for expenditures, including those related to payroll.

The provider did not retain supporting documentation for its expenditures. Due to the lack of documentation, auditors were unable to perform tests to determine whether the provider spent federal and state funds appropriately or determine whether the provider's expenditures were allowable and properly classified. The provider was able to provide supporting documentation for only 1 (1.7 percent) of 60 expenditure items tested. In addition, the provider did not have sufficient documentation for 29 payroll expenditures for 8 employees that auditors tested. As a result, auditors could not determine whether the sampled payroll expenditures were paid in the correct amount.

The Health and Human Services Commission's *Specific Instructions for Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report* requires a provider to maintain records that are accurate and sufficiently detailed to substantiate the financial information reported on the provider's cost reports.

The provider's general ledger was not complete or accurate.

The provider correctly recorded revenue it received from the Department in a general ledger. However, the provider did not consistently, accurately, or appropriately record all expenditures in its general ledger. For example, when reviewing payments that the provider made to foster parents, auditors identified an expenditure for \$100 that was not included in the provider's general ledger. The general ledger also contained other errors, including incorrect account codes, vendor names, and check numbers.

The provider did not have any financial controls in place to help ensure the completeness and accuracy of its general ledger. The provider created its general ledger from its monthly bank statements instead of financial transaction documents such as revenue receipts, invoices, and purchase receipts. The provider also used the cash basis of accounting (through which revenues are recognized when they are received and expenditures are recognized when they are paid). The provider's contract with the Department states that financial information should be maintained using the accrual method of accounting. According to the accrual method of accounting, revenues should be recognized when they are earned and expenditures should be recognized when they are incurred.

Title 40, Texas Administrative Code, Section 749.161, requires providers to maintain complete financial records. Without a complete and accurate general ledger, the provider is unable to produce reliable financial statements and cost reports.

The provider did not consistently pay foster parents the correct amounts.

The provider underpaid foster parents for 2 (6.7 percent) of 30 payments that auditors tested. Based on the information received from the Department, one foster parent was paid at an incorrect rate and another foster parent was paid for an incorrect number of service days. The provider also overpaid foster parents for 4 (13.3 percent) of the 30 payments tested because the provider paid for more days of service than what the foster parents provided. The provider could reduce the risk of making incorrect payments if it implemented a process to reconcile the payments it receives from the Department to the services provided, which would include the number of days of service and the level of care. This would also help the provider ensure that it has received proper payments from the Department.

The provider also lacked sufficient documentation for 2 (6.7 percent) of the 30 payments to foster parents tested. As a result, auditors could not determine whether those two payments were for the correct amounts.

The provider's contract with the Department provides a minimum rate that the provider must pay a foster parent for each day of service.

Recommendations

The provider should:

- Develop and implement policies and procedures for basic financial processes, including accounting for revenues and expenditures, procuring goods and services, making disbursements, reviewing and paying expenditures related to travel and payroll, managing assets and accounts receivable, and reconciling financial records.
- Maintain supporting documentation for all expenditures
- Reconcile payments received from the Department, including days of service, level of care, and payments received.

Chapter 5-B

Data in the Provider's Cost Report Cannot Be Relied Upon to Make Decisions, and the Provider Should Improve Its Compliance with Reporting Requirements

Because the provider lacked financial processes and documentation, auditors could not perform the work necessary to determine whether the expenditures in the provider's 2010 cost report were allowable and properly classified.

The Texas Administrative Code and the Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report* include specific requirements for the reporting of revenues and related party transactions (see Appendices 2 and 4 for additional information about those requirements).

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

In addition, the provider did not consistently comply with cost reporting requirements when it prepared its 2010 cost report. Specifically, the provider's 2010 cost report:

- Misclassified the revenue that the provider received from other sources as Department revenue.
- Did not disclosure all related party employees.

The expenditures in the provider's 2010 cost report cannot be verified.

All of the expenditures, including salaries, reported in the provider's 2010 cost report could not be verified due to the provider's lack of supporting documentation and the incompleteness and inaccuracy of its general ledger, as discussed in Chapter 5-A.

The provider asserted that it created the 2010 cost report by looking up online information from various vendors to determine the amount paid within calendar year 2010. Typically, a provider would use information in its general ledger to create the cost report.

The Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24- Hour Residential Child Care Cost Report* states that only adequately documented, reasonable, necessary, and allowable program expenditures incurred or accrued during the reporting period are to be reported in the cost report.

The provider misclassified revenue on its 2010 cost report.

The provider correctly reported that it received \$313,208 in revenue from the Department on its 2010 cost report. However, the provider misclassified \$17,598 in revenue from other sources as Department revenue on its cost report.

The provider did not disclose all related party employees on its 2010 cost report.

The provider did not properly disclose one related party employee on its cost report. The provider's general ledger showed that the provider paid this employee \$2,000 in salary and \$3,567 in travel reimbursements during calendar year 2010; however, those amounts may not reflect the total amount paid to this employee because the provider's general ledger was incomplete and inaccurate, as discussed in Chapter 5-A.

Recommendation

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

Chapter 5-C

The Provider's Board of Directors Should Comply with Department Requirements

The provider's board of directors (board) is not in compliance with Department requirements. The board does not actively monitor the provider to ensure it remains financially sound or complies with policies. The board met only one time in calendar year 2010, and it did not discuss any financial matters or how the provider was complying with its policies. Having a board that is regularly informed of provider activities and financial matters increases accountability for the provider.

The Department also requires that a provider's board consist of a majority of members who are not related or otherwise have a conflict of interest. As of May 2011, 6 (85.7 percent) members of the provider's 7-member board were related to each other. The Department gives a provider two years from its license date to comply with these requirements. The provider received its license in October 2009. If it does not change the composition of its board before October 2011, the provider will be out of compliance with Department requirements.

Recommendations

The provider should:

- Regularly update its board of directors regarding its financial matters and compliance with its policies.
- Change the composition of its board of directors so that the majority of members are not related or otherwise have a conflict of interest.

Chapter 5-D

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

The provider did not consistently comply with background check requirements for employees, volunteers, and foster parents. As of May 2011, the provider had current background checks for all 3 current employees and 10 active foster parents.

The Department requires that individuals clear a name-based background check before they provide direct care to children or have direct access to children in care. The Department also requires providers to submit individuals for background checks every 24 months after the initial check.

The provider had been licensed for fewer than two years; therefore, as of May 2011, the provider was not required to submit employees, volunteers, or foster parents for a 24-month background recheck. Auditors noted that the provider did submit two employees and seven foster parents for a recheck.

- **Employees and Volunteers.** The provider received cleared background check results prior to individuals starting work or having access to children for 8 (72.7 percent) of 11 employees and volunteers who worked at the provider at any time from January 1, 2010, through December 31, 2010. The remaining 3 individuals' background checks cleared 1 day, 3 days, and 319 days after each individual's start date.
- **Foster Parents.** Auditors tested 14 foster families, which included 20 individual foster parents or household members, who contracted with the provider during calendar year 2010. Sixteen (84.2 percent) of the 19 foster parents cleared the initial background check prior to the provider deeming their homes eligible for the placement of children. Another individual, who joined a foster parent household after the initial home verification, also cleared an initial background check. The remaining three foster parents cleared the initial background check one to three days after the homes were deemed eligible for child placement.

The provider may be placing children in its care at risk by not waiting for individuals to clear the background checks prior to the individuals starting work or becoming a foster parent. When a provider submits an individual to the Department for a background check, the Department performs two checks: (1) a name-based search of the individual's criminal history at the Department of Public Safety and (2) a search of the Department's central registry system for cases of abuse or neglect.

Auditors also requested that the Department of Public Safety re-perform criminal background checks for all individuals who were current employees and volunteers in June 2011. Auditors reviewed the results and determined that there were no reported offenses that may violate the Department's minimum standards.⁸

Recommendations

The provider should:

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

⁸ *An Audit Report on the Criminal Justice Information System* (State Auditors Report No. 06-022, February 2006) determined that prosecutor and court records were not always reported to the Department of Public Safety in a timely manner, which impairs the completeness of the criminal records used to conduct criminal background checks.

- Receive notification from the Department that an individual cleared the background checks prior to allowing the individual to have access to children or approving the individual's home as eligible for the placement of children.

Chapter 5-E

The Provider Should Create and Implement a Foster Parent Monitoring Plan, Conduct Unannounced Monitoring Visits, and Have Foster Parents Sign the Monitoring Forms

The provider did not have a written plan to monitor foster homes on a quarterly basis as required by its contract with the Department. However, it consistently monitored its active foster parents at least quarterly, as required by the Title 40, Texas Administrative Code, Chapter 749 (see Appendix 2 for more information about those requirements). All 10 foster families tested received at least one quarterly monitoring visit as required during calendar year 2010. However, the provider did not comply with the following requirements:

- None of the foster parents signed the monitoring report that documented the visit results.
- The provider did not perform unannounced monitoring visits for the one foster home that was active for the entire year.

The provider asserted that, in December 2010, it created and implemented a new foster parent monitoring form in response to a Department recommendation. Auditors verified that the monitoring form, which contains a signature line for the foster parent and a place to document whether the visit was announced or unannounced, was being used in calendar year 2011.

Recommendations

The provider should:

- Develop and implement a written plan to monitor its foster homes in compliance with minimum standards.
- Continue to have the foster parents sign the results of monitoring visits.
- Conduct at least one unannounced monitoring visit to each foster home per year.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors (providers) and included verifying that the selected providers spent federal and state funds on required services that promote the well-being of foster children in their care.

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

Scope

The scope of this audit included performing work at five providers to assess the appropriateness, reasonableness, and necessity of expenditures that providers made during each provider's 2010 cost reporting time period. In addition, auditors tested payments received from the Department during each provider's 2010 cost reporting time period.

Methodology

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

Auditors assessed the reliability of each provider's financial data. For all but one provider, auditors determined that the data was sufficiently reliable for the purposes of this report. As noted in Chapter 5, the financial data for one provider was determined to be unreliable. In addition, *An Audit Report on the Criminal Justice Information System* (State Auditors Report No. 06-022, February 2006) determined that prosecutor and court records were not always reported to the Department of Public Safety in a timely manner, which impairs the completeness of the criminal records used to conduct criminal background checks.

Information collected and reviewed included the following:

- Information from interviews with the Department's foster care program management and staff.
- Department program monitoring and licensing reports for the providers.
- Contracts between the Department and the providers.
- Providers' cost reports and supporting documentation.
- Providers' financial records.
- Providers' independent audit reports.
- Providers' personnel files for direct care staff, administrative staff, and volunteers.
- Providers' files, monitoring plans, and payment records for foster parents.
- Providers' policies and procedures, including policies and procedures for information technology.

Procedures and tests conducted included the following:

- Tests of criminal history background checks performed on direct care and administrative staff, volunteers, and foster parents.
- Tests of foster parent records.
- Tests of internal and information resource controls at providers.
- Tests of expenditures related to the services provided to children.
- Tests of related party expenditures and contracts.
- Tests of payroll records.
- Tests of payments made to foster care parents.
- Comparisons of each provider's state foster care revenue with Department records.
- Comparisons of each provider's general ledger to each provider's cost report.

Criteria used included the following:

- U.S. Office of Management and Budget Circulars A-87, A-110, and A-122.
- Title 40, Texas Administrative Code, Chapter 19.
- Title 1, Texas Administrative Code, Chapter 15.
- Texas Government Code, Section 2155.1442.
- Contracts between the Department and providers.
- The Department's *Minimum Standards for General Residential Operations and Residential Treatment Centers* and *Minimum Standards for Child-Placing Agencies*.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report*.

Project Information

Audit fieldwork was conducted from March 2011 through July 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Becky Beachy, CIA, CGAP (Project Manager)
- Thomas Andrew Mahoney (Assistant Project Manager)
- Shahpar M. Ali, CPA, M/SBT
- Robert Burg, CPA
- Lauren Godfrey, CGAP
- Olivia Gutierrez
- Frances Anne Hoel, CIA, CGAP
- Barbette J. Mays, CICA
- Jennifer R. Robinson, MBA

- Jennifer R. Wiederhold, CGAP
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Sandra Vice, CIA, CGAP, CISA (Assistant State Auditor)

Selected Requirements for Residential Child Care Providers

The following is a summary of selected Health and Human Services Commission and Department of Family and Protective Services requirements in the Texas Administrative Code, as well as selected requirements in the Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report*. The requirements are related to residential child care providers' boards of directors, cost reporting, financial records, background checks, and foster parent monitoring.

Board of Directors

- Title 40, Texas Administrative Code, Section 749.131, states that a provider's board of directors must not have a majority of voting members who have a conflict of interest, including but not limited to (1) employees working at a provider, (2) family members of the owner or a member of the board of directors, (3) paid consultants, or (4) other individuals who benefit financially from the provider.
- Title 40, Texas Administrative Code, Section 749.131, states that a provider's board of directors is responsible for ensuring that the provider remains fiscally sound and that the provider's services and programs comply with the provider's policies.

Cost Reporting

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

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

- **Related Party Transactions.** Title 1, Texas Administrative Code, Section 355.102 (i) (6), states that disclosure of all related party transactions on the cost report is required for all costs reported by the provider, including related party transactions occurring at any level in the provider's organization. The provider must make available, upon request, adequate documentation to support the costs incurred by the related party.

Financial Records

- Title 1, Texas Administrative Code, Section 355.7101 (15), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports. It also requires providers to retain the records for at least three years and 90 days after the end of the contract period.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report* lists in more detail the records that should be retained, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, minutes of board of directors meetings, work papers used in the preparation of the cost report, trial balances, and cost allocation spreadsheets.

Background Checks

- Title 40, Texas Administrative Code, Section 745.615, requires providers to request background checks for any person 14 years of age or older who has unsupervised access to children in care and will regularly or frequently be staying or working at the provider's operation or prospective adoptive home while children are in care. Additionally, Title 40, Texas Administrative Code, Sections 748.363 and 749.553, require providers to include the proof of the requests for background checks in the individuals' files.
- Title 40, Texas Administrative Code, Section 745.625, requires providers to submit a request for a background check at the time the provider hires an individual; at the time when the provider contracts with someone who requires a background check; at the time a person applies to be a foster parent; and at the time the provider becomes aware of anyone requiring a background check under Title 40, Texas Administrative Code, Section 745.615. It also requires the provider to request a background check every 24 months after the initial background check.

Foster Parent Monitoring

- Title 40, Texas Administrative Code, Section 749.2815, requires providers to conduct supervisory visits in the foster home at least quarterly, and at least one supervisory visit per year must be unannounced. Each visit must be documented in the home's record and the documentation must be signed by the foster parent(s) present for the visit and the child placement staff conducting the visit.

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

Title 40, Texas Administrative Code, Section 745.613, states that the purpose of a background check⁹ is to determine whether a person has any criminal or abuse and neglect history and whether the person's presence is a risk to the health or safety of children in the person's care.

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

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

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

⁹ The Texas Administrative Code sections referenced in this appendix uses the term "criminal history check," which is referred to as a "background check" in this audit report.

- 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 committed within the past 10 years under the Texas Controlled Substances Act, Section 39.04 (Violations of the Civil Rights of Person in Custody; Improper Sexual Activity with Person in Custody), Section 42.08 (Abuse of Corpse), Section 42.09 (Cruelty to Livestock Animals), Section 42.091 (Attack on Assistance Animal), Section 42.092 (Cruelty to Nonlivestock Animals), Section 42.10 (Dog Fighting), Section 46.13 (Making a Firearm Accessible to a Child); Chapter 49 (Intoxication and Alcoholic Beverage Offenses) of Title 10 of the Texas Penal Code; Section 106.06 of the Texas Alcoholic Beverage Code (Purchase of Alcohol for a Minor; Furnishing Alcohol to a Minor); or any like offense under the law of another state or federal law that the person committed within the past 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 has determined the presence of the person in a child care operation poses an immediate threat or danger to the health and safety of children.

Title 40, Texas Administrative Code, Section 745.657, specifies that there are three possible consequences of having either a conviction listed in Section

745.651 of the Texas Administrative Code, Title 40, or a central registry finding in Section 745.655 of the Texas Administrative Code, Title 40:

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

The Department of Family and Protective Services will notify the provider regarding which of the three actions that must be taken.

Selected Requirements for the Residential Child Care Cost Report

According to Health and Human Services Commission's (Commission) *Specific Instructions for the Completion of the 2010 Texas 24-Hour Residential Child Care Cost Report*, the purpose of the cost report is to gather financial and statistical information for the Commission to use in developing reimbursement rates for foster care. The following is a summary of selected requirements in those instructions.

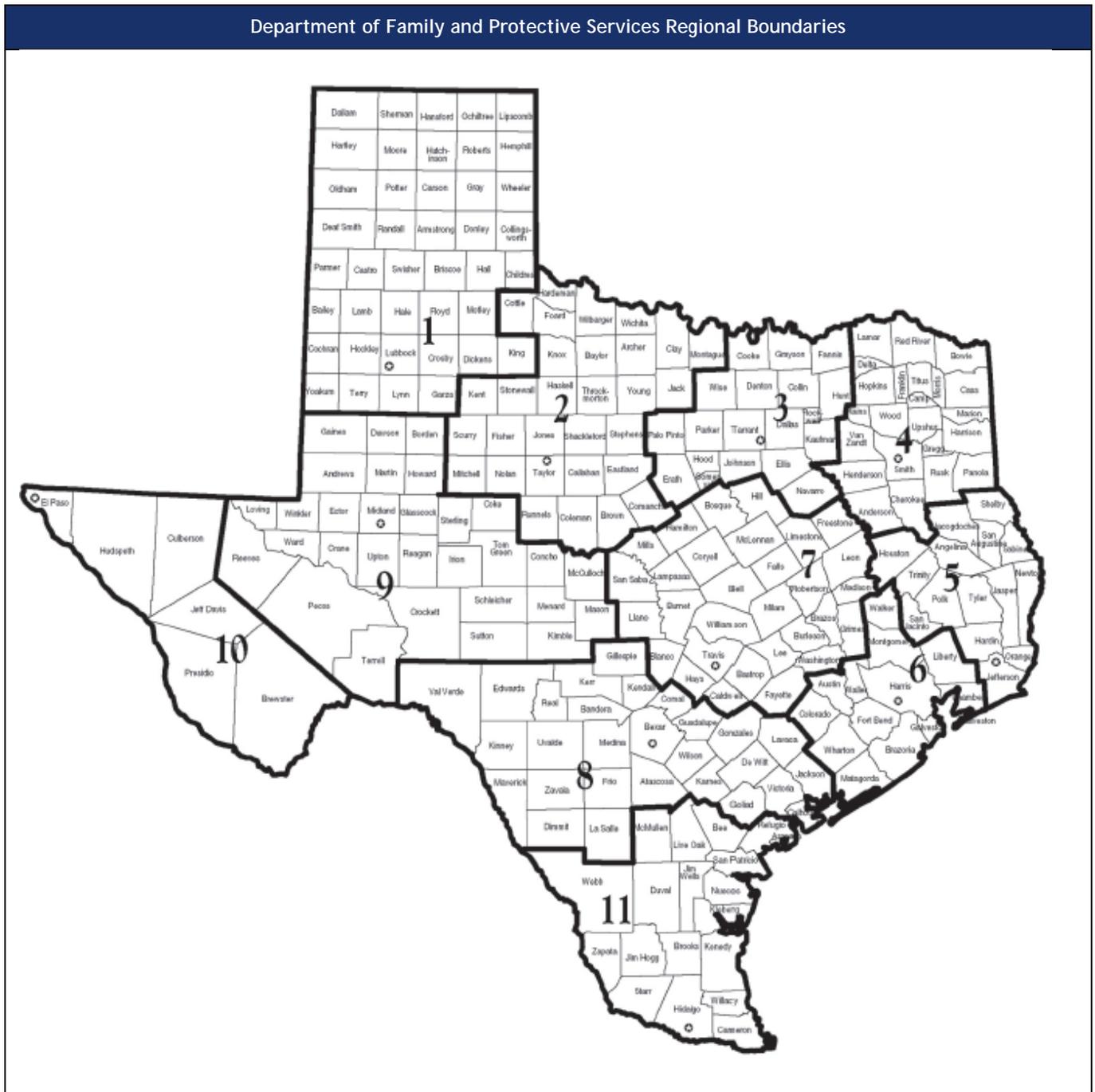
- **Cost report submission.** Each residential child care provider that has a contract with the Department of Family and Protective Services (Department) to provide residential child care services is required to submit a *2010 Texas 24-Hour Residential Child Care Cost Report* to the Commission. A separate cost report should be submitted for each separately licensed facility that the provider operates. The cost report must cover all of the provider's 24-hour residential child care activities at the licensed facility during the reporting period, including all programs that are not related to the Department.
- **Accounting method.** All revenues, expenditures, and statistical information submitted on the cost reports must be based upon an accrual method of accounting.
- **Recordkeeping.** Providers must maintain records that are accurate and sufficiently detailed to support the legal, financial, and statistical information reported on the cost report. Cost report work papers must be maintained for a minimum period of 3 years and 90 days following the end of each reporting period.
- **Direct costing.** Direct costing must be used whenever reasonably possible. Direct costing means that costs incurred for the benefit of, or directly attributable to, a specific business component must be charged directly to that particular business component.
- **Cost allocation methods.** Whenever direct costing of shared costs is not reasonable, it is necessary to allocate these costs either individually or as a pool of costs across those business components sharing the benefits. The allocation method must be a reasonable reflection of the actual business operations. Any allocation method used for cost-reporting purposes must be consistently applied across all contracted programs and business entities. Any change in allocation methods for the current year from the previous year must be fully disclosed on the cost report. The provider must obtain prior written approval from the Commission to use an unapproved allocation method.

- Reporting revenue. Providers must report the following revenue types separately: (1) Department revenue; (2) Medicare revenue; (3) Medicaid revenue; (4) private payments; (5) gifts, grants, donations, endowments, and trusts; (6) appropriations from other state or local government sources; (7) gain on sales of assets; (8) interest, and (9) other.
- Reporting expenditures. Only adequately documented, reasonable, necessary, and allowable program expenditures incurred or accrued during the reporting period are to be reported in the cost report. The costs covering all of the providers' activities must be reported in accordance with the published cost-finding methodology, as well as with state and federal laws, rules, and regulations regarding allowable and unallowable costs.

Appendix 5
Map of Regional Boundaries

Figure 1 presents the boundaries of the Department of Family and Protective Services' 11 service regions.

Figure 1



Source: Department of Family and Protective Services Web site at <http://www.dfps.state.tx.us/documents/about/pdf/regboundcounty.pdf>.

Response from Helping Hand Home for Children, Inc.



Helping Hand Home for Children

3804 Avenue B
Austin, TX 78751
ph. (512) 459-3353
fax (512) 459-1658
www.helpinghandhome.org

Executive Director
Ted Keyser

Board of Directors
Cynthia Shaw, President
Laura McBride, President Elect
Kay Enoch, Past President
Lisa Zodin, Treasurer
Mary Fellows, Recording Secretary
Debbie Alsop
Suzy Balagia
Dinah Barksdale
Carol Bardette
Jana Howden
Francie Little
Jeanne Little
Marsha Lockett
Cathy Present
Janis Smith
Jodie Thompson

Community Advisory Board

Paul Bury
Doug Dodds
Bob Fellows
Manny Flores
Ron Franklin
Colleen Gardner
Robert Howden
Robin Ingari
Melissa Jackson
Ava Late
Ron Lewis
David Lockett
Al Matthews
Rep. Elliott Naishtat
John Pate
Joe Petet
C. Lane Prickett
Jim Rado
Pat H. Robertson
David Roche
Beau Ross
Kathryn Ross
Paul Smith
R. Clint Smith
Wallace M. Smith
Jim Spencer
Jim Susman
Mark Thannisch
Jeffrey Trigger
Susan Vincent
Neel White
Sam A. Wilson
Zeynep Young

August 17, 2011

Ms. Becky Beachy
Project Manager
State Auditor's Office
P.O. Box 12067
Austin, Texas 78711-2067

Re: Response to the State's On-Site Audit of Residential Child Care Providers

Dear Ms. Beachy,

Following are Management's responses in regard to the recent State Auditor's On-Site audit of Helping Hand Home for Children. Management agrees with the three recommendations from the State Auditor's Office.

Recommendation #1:

Management (Accountant/Office Manager) has already implemented a procedure to correctly identify other sources of revenue and will report them in accordance with requirements on all future cost reports.

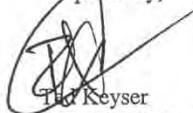
Recommendation #2:

Management (IT Consultant) will develop and implement a written information technology policy and procedure manual. This will include the provider's password requirements to the network and user applications, user access management and backup and recovery processes. In addition, management has already implemented a process to disable user accounts upon a user's separation from the provider. The written manual of these policies and procedures will be completed by December 1, 2011.

Recommendation #3:

Management (HR Director) has already implemented procedures to insure that all employee and volunteer background checks are completed in accordance with the Department's requirements.

Respectfully,



Ted Keyser
Executive Director

Hope Happens Here
Since 1893

Response from Arrow Child and Family Ministries



August 19, 2011

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

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

Dear Ms. Beachy,

Below, you will find Arrow Child & Family Ministries responses to the Report on On-Site Audits of Residential Child Care Providers which was issued in April, 2011. Arrow Child & Family Ministries agrees with the findings and has provided the below to detail ways of corrective action and implementation deadlines.

Chapter 2-A: The Provider should improve its compliance with cost report requirements.

Response: Arrow Child & Family Ministries agrees with this finding. We agree that there was an error in carrying a number to the report and that there was \$21 of finance charges inadvertently included in the report. However, due to the complexity of Arrow's reporting structure, we feel the issues with the cost report were minor and immaterial to the cost report taken as a whole. The related party transaction was with a former employee and Arrow no longer contracts with that former employee. The revenue miscoding was the result of a misunderstanding of the revenue source reported from the state and as all revenue was reported the fact that an amount was on the incorrect revenue line does not infer a lack of compliance with reporting requirements.

Chapter 2-B: The Provider should improve Controls over its Financial Processes

Response: Arrow Child & Family Ministries agrees with this finding. Effective February 1, 2011, Arrow began the process of formulating written policies and procedures for key financial processes and information resource processes. This included the formulation of process maps as well as the development of a comprehensive accounting policy and procedures manual. The Chief Financial Officer and MIS Director will be responsible for implementing this and should be complete by December, 2011.

Because Arrow does not have access to unlimited financial, as well as operational resources, segregation of duties is not always possible. Thus Management has implemented other controls to counterbalance this. Arrow relies on direct oversight by management, comparisons of budgets and forecast to actual financial performance, and a batch posting system to identify irregularities and compensate for the lack of segregation of duties. All transactions entered by the employee have to be reviewed and released (posted) by a supervisor. This has proven to be an effective method for monitoring all transactions and, in Management's opinion, has accomplished accurate and timely reporting.

National Headquarters

2929 FM 2920 Rd. • Spring, Texas 77388 • 281/210.1500 • 877/922.7769 • 281/210.1564 fax • www.arrow.org



Chapter 2-C: The Provider Should Submit Foster Parents, Employees, and Volunteers for Background Checks in Accordance with the Department's Requirements

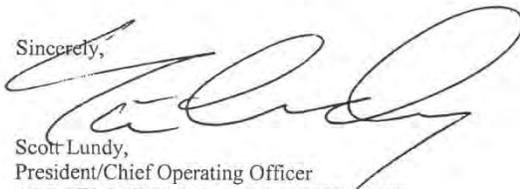
Response: Arrow Child & Family Ministries agrees with this finding. *Background checks for Foster Families:* Arrow has been addressing the issue of tracking the completion of criminal background checks through our database system diligently over the past two years. We began to realize our tracking system was not meeting our needs therefore we began developing and implementing new reports and procedures within our system to be able to monitor these more efficiently. We have been steadily improving our system of ensuring that initial and subsequent 24-month checks are completed timely in each branch office statewide and have significantly improved our initial background screening to nearly 100% compliance statewide.

Employee and Volunteer Background Checks: As of April 2011, Arrow is documented to have provided current background checks for all 18 of the selected employees. Of the sampled employees/volunteers from July 1, 2009 through June 30, 2010, there were some employees/volunteers whose backgrounds were not run in a timely manner as required by the Department, specifically initial background checks, but improvement measures have been put in place since this time period to deter this type of delay as a standard of employee/volunteer background screenings.

Chapter 2-D: The Provider Should Monitor Its Foster Parents in Accordance with the Department's Requirements

Response: Arrow Child & Family Ministries agrees with this finding. Arrow's system of monitoring homes has also been dramatically improved and under evaluation internally over the past two years. The sample pulled for the State Auditors audit reflects the time we began to address the issue; therefore the results of the audit were anticipated. However, since that time there has been dramatic improvement in compliance with the monitoring expectations outlined in the Minimum Standards both quarterly and one unannounced per year.

Arrow Child & Family Ministries greatly appreciates the professionalism and assistance given during this on-site audit. We appreciate your ongoing diligence and commitment to providing support for those who services children and families. Please let us know of any questions or concerns.

Sincerely,

Scott Lundy,
President/Chief Operating Officer
ARROW CHILD & FAMILY MINISTRIES

National Headquarters

2929 FM 2920 Rd. • Spring, Texas 77388 • 281/210.1500 • 877/922.7769 • 281/210.1564 fax • www.arrow.org

BOARD OF DIRECTORS

John Anglin
 Amy S. Austin
 Ryan E. Ferguson IV
 Amanda Hines
 Suzanne Jaffe
 Corey Laramore
 Martin Pringle
 Ronald J. Ward
 Jean Winters
 Sara Tipton Hoffmann
 David J. Hoffmann
 Jay Kell
 Johnny A. Kuhn
 Scott Lambson
 Gene Goodwin
 Brent Leachon
 Bryan McMillan
 Tony P. McMillan
 Richard H. Childs III
 David P. Brown
 Eddie Paul Blair
 Douglas Taylor
 Amy Smith
 Tyra Smith
 Sage Smith
 Billy Van Looney
 Greg Van Hart
 David L. Van Kirk
 Steve Simola Moran
 John Whetzel

BOARD OF TRUSTEES

John P. Butler
 David L. DeWitt, Jr.
 James M. James
 J. G. Giamberini, Jr.
 Robert Clemens
 Samuel C. Cole
 Douglas Cunningham
 Brian E. Davis
 George L. Donaghy
 Brent Hamilton
 Douglas H. Hatcher
 Douglas Hamilton
 Tom Hoffmann
 Robert Houston
 Colbert Hume
 Stephen L. Jankin
 J. James Jones
 Donny Jones
 Charles W. Linder, Jr.
 Tom Mastromarino
 Brent McIlroy
 Paul A. Parker
 Donald Patterson, Jr.
 John W. Rade
 George S. Searcy
 Stephen S. Schultz
 John H. Shields
 Cindy S. Smith
 James H. Thomsen

HONORARY DIRECTORS

Bill Banker
 William H. Bayne
 Clarence P. Bell
 Dale Brainerd
 Ed B. Coleman
 Douglas H. Coleman
 Tom Farnsworth
 John V. Fisher
 Gary L. Goyette
 William H. Hamilton, Jr.
 George Hill-Isard
 Gene A. Houston
 George J. Jones, Jr.
 Bill Jones
 Curtis Kinsinger, M.D.
 George M. Latham, M.D.
 Bill Latham
 George D. Marshall
 George R. Moore, M.D.
 Ronald Brinkman
 Al Simonson
 Cynthia Jeff Whetzel
 John Whetzel
 John Wilson, M.D.

OFFICERS

President
 Michael H. Patterson
 Vice President
 Mark Mosler
 Secretary
 Ashley M. Smith
 Treasurer
 Justin Solley
 Assistant Secretary/Treasurer
 Mark D. Weaver
 Child Executive Officer
 Tim David McElroy

Boysville will also ensure that no user have the ability to access another user account in any software applications. In addition, all accounts are password based.

Chapter 3-C

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

Boysville will strive to consistently comply with background check requirements for its employees and volunteers.

Background check redone within 24 months.

2 of the 4 were the same volunteers noted in the Initial background check sub-heading below. No records exist in HR for verification. They were noted as 418 and 421 days late.

1 of the remaining 2 was completed within the same month (26 days late) due to the error listed above regarding maintenance of pending submission dates kept by month & year only.

The final 1 was completed 12 days late in the following month.

Background check redone 24 months since the previous check.

3 of the 4 were submitted between 10 and 12 days late. These errors were simply due to an error in how the agency maintained pending submission dates. The agency kept a pending file based on month and year of submission only not actual date submitted, which led to these errors. This error has been corrected for all future submissions by updating the pending submission dates with actual dates previously submitted on an excel spreadsheet, which is reviewed each month for the following month's submissions and updated, as needed.

The remaining 1 was listed as 102 days late. This individual's previous background check was submitted on 11/10/2006 and should have been submitted on or before 11/10/08. Due to the error listed above regarding maintenance of pending submission dates by month & year only, it was not completed. The error was further compounded when this individual took a leave of absence and was inactive during the period from 11/13/2008 through 12/29/2008. The error was found and corrected on 02/19/2009 when the recurring background check was submitted.



Our mission is to provide a safe family environment for children in need so they may become responsible adults.

Response from Grace Manor



"IMPROVING THE LIVES OF CHILDREN"

August 19, 2011

Dear Ms. Beachy:

Below are responses to recommendations after the on-site audit.

Chapter 4A

While all related party transactions were disclosed to the accounting firm however the accountant firm employed to complete the cost report made errors in reporting. This was brought to the specific accountant assigned to our office while auditors were still on site and an amended return was filed. An amended Cost report was filed 06/30/2011 and received for signature and returned on July 13, 2011.

Grace Manor agrees that the report was filed incorrectly and the Executive Director was responsible for ensuring this recommendation was met.

Chapter 4B

Grace Manor agrees that the organization could benefit from segregation of duties and explicit Policy and Procedures regarding company financial processes. Written policy and procedures have been developed to delineated financial processes followed.

The office manager has been removed from the signature card for the bank account.

Each staff member with Quick Books Access has his or her own password and limited access to according to job description and Financial Policy and Procedures.

Blank checks are now stored in a locked cabinet in the Office Manger's office.

Executive Director signs the monthly reviews of bank reconciliation and credit card statements.

Regarding Security of Data systems:

Grace Manor agrees that the organization could benefit from improvements regarding 2010 and prior network/data systems. Grace Manor implemented improvements at the beginning of 2011 by contracting with a national company for network/data systems. The policy and procedures for this new system were shared with the auditors during the on site review. The current system utilized by Grace Manor monitors activity on the network and provides reports regarding log in to the system. In addition, the company monitors unsuccessful log in attempts to alert the company to hacking. The company has agreed to implement a process into the program to allow for printable reports regarding log in activities to verify appropriate access. In addition, the company agreed to enhance

325 Tenaha Street - Center, Texas 75935
(936) 598-3611



"IMPROVING THE LIVES OF CHILDREN"

the program capabilities to allow employees to change passwords at their initial log in with the password provided by the Program Director. Past employees remain in the system but are made inactive and pass words removed to offer two levels of ensuring no access to company files. In addition, the 2011 system's monitoring of log in activity will ensure these past employees are not having on-going access while allowing tracking of past events connected to past users. Program Director is the system administrator for the network program and is responsible for printing reports verifying activity monitoring, making past employee accounts inactive, and facilitating pass word changes as needed.

A local server will continue to be utilized for document retention and check lists for parents and children. Passwords will be issued by the Office Manager and will be disabled by the Office Manager. Grace Manor will add verification of monitoring log in attempts to the local server. When an employee is terminated the office manager will disable the password immediately and ensure all needed information from the terminated user's account is stored in the appropriate accessible files. Any access to past employee accounts after termination will be pre-approved, documented and signed off on by Program Director or Executive Director.

Grace Manor agrees that verification of completion of system back up including verification of the ability to restore is needed. Verification of backup will be printed each Friday for each of the two back up devices. A device will be stored in each of 2 main building in a fire proof lock box. Verification of restore will occur the last Friday of each month with a verification document signed by the office manager and reviewed and signed by the Program Director. In addition to local back up, child information is backed up daily with the contractor now utilized by Grace Manor.

Grace Manor agrees that the server could be housed in a more secure location. Arrangements have been made to re route the server to the office manager's private office. This will reduce risk of tampering or water damage. Program Director is responsible to see this project is completed.

Chapter 4C

Grace Manor agrees that initial background checks should be completed prior to any employee or volunteer having unsupervised access to children in care. Regarding Background Checks, of the 4 employees without the background check prior to start date, none had unsupervised access to children.

Grace Manor agrees that criminal checks should be completed on or prior to the 24 month anniversary or the previous background check. Grace Manor has changed the due

325 Tenaha Street - Center, Texas 75935
(936) 598-3611



"IMPROVING THE LIVES OF CHILDREN"

date process and separated the responsibility to submit these among 2 employees. The due date has been adjusted to 23 months and training completed to give the employee clear understanding of the need to submit prior to the anniversary date. This was completed by the Program Director. The Receptionist and Family Assistant, will complete the initial and 24-month updates while the office manager, will complete employee and subcontractor background checks.

Policy has been revised to reflect a requirement of Program Director review to verify receipt of results prior to an employee beginning work.

The 1 parent with a background check results received 9 days late was already an active foster parent with Buckner Children's Services and was transferring to Grace Manor. She had 2 children placed in her home as a Buckner Family and came to Grace Manor with indications from Buckner that the initial submissions had been completed and returned clear.

Chapter 4D

Grace Manor agrees that all families should have regular monitoring visits. All homes have a minimum of monthly monitoring visits and each home can be verified as having home visits during all months a child was placed in the home. In addition, Grace Manor conducts quarterly reviews to review specific standard requirements and due dates.

Grace Manor has adjusted Quarterly Reviews to include indication of Unannounced Visits having occurred during the calendar year. In addition, Case managers are required to make an unannounced visit by August 10 of each year. This has been added as a due date in the Foster Parent Licensing Requirement to ensure changes in staff assignments to not allow an annual unannounced review to be missed. The Program Director was responsible to update forms and this has been completed. The Director of Social Services will monitor the Case Manager's completion of this requirement. As of August 10, 2011, all Grace Manor families had an unannounced visit.

Respectfully Submitted,

Noel Wilkins, LMSW
Grace Manor Program Director
325 Tenaha Street
Center, Texas 75935

325 Tenaha Street - Center, Texas 75935
(936) 598-3611

Response from Connecting Lives



**Connecting Lives
Child Placing Agency**

250 N. Mill Street, Suite 5
Lewisville, Texas 75057

August 19, 2011

Connecting Lives has reviewed the Draft of A Report on On-site Audits of Residential Child Care Providers and agrees with each of the SAO Audit findings. Following are Connecting Lives' responses along with attached documents supporting our corrections.

Chapter 5-A

The Provider Should Strengthen its Financial Processes

Connecting Lives has implemented a new system of checks and balances regarding its financial processes. Receipts for all business revenues and expenditures must be retained and amounts recorded for monthly reconciliation. The Executive Director and Associate Director will ensure the appropriate information is routinely recorded in business software such as Quickbooks, so the general ledger can be completed accurately. This change is effective immediately.

Connecting Lives has a bookkeeper to enter all financial transactions and will maintain a file for the supporting documentation of each transaction. Effective immediately, the bookkeeper will conduct monthly reconciliations of revenue and expenditures including foster parent payments by days of service and levels of care.

The Associate Director will continue to be the person responsible for foster parent reimbursements, employee payroll, and office operating costs.

Chapter 5-B

The Data in the Provider's Cost Report Cannot be Relied Upon to Make Decisions and the Provider Should also improve its Compliance with Reporting Requirements

Connecting Lives has plans to implement a more robust financial accounting system. This system is scheduled to be launched by October 1, 2011. When the new system is brought up to date, the cost report preparation process will be able to be in compliance with the Reporting requirements.

Phone: (972) 219-0900 Fax: (972) 219-0994 Email: administrator@connectinglives.org Web: www.connectinglives.org

Chapter 5-C

The Provider's Board of Directors Should Comply with Department Requirements

The Board of Directors will be provided with monthly financial statements and the status on operational issues as soon as the financial accounting system is in place which as stated earlier is anticipated to be by October, 2011.

Connecting Lifes will begin actively recruiting members for the Board of Directors. See the attached recruitment letter and list of prospective members. Connecting Lifes will do our best to recruit additional members with whom no familial conflict of interest exists. The composition of the Board of Directors will be changed and updated by October, 2011.

Chapter 5-D

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

Connecting Lifes will strive to ensure compliance with minimum standards regarding background checks. All employees, foster parents, children above the age of 14, volunteers, and respite workers will submit to a background check prior to having any contact with children within Connecting Lifes. Background Checks will be repeated for the same every two years thereafter. The Executive Director will implement the plan to make sure it is monitored and documented.

Chapter 5-E

The Provider Should Create and Implement a Foster Parent Monitoring Plan, Conduct Unannounced Monitoring Visits, and Have Foster Parents Sign the Monitoring Forms

Connecting Lifes will ensure that in order to be in compliance with minimum standards according to the rules of Chapter 749, all contract requirements and Connecting Lifes Policies and Procedures. Supervisory visits will be conducted in the home at least quarterly; with both foster parents, if applicable, at least once every six months; and with all household members at least once every year. Connecting Lifes will also conduct at least one unannounced visit per year. The individual responsible for the announced and unannounced visits is the LCPA and

**Connecting Lives
Child Placing Agency**

Director. Beginning in July 25, 2011, Connecting Lives will implement the newly developed form that captures all the requirements of minimum standard 749-2813 and 749-2815. In order to ensure that this standard is adequately covered, Connecting Lives will require not only a monthly review of certain minimum standards during a monthly contract but also a quarterly review of standards to ensure complete compliance for both the six months and one year requirements. The administrator is responsible for implementation of the plan and monthly visit and a completed form will be placed in the foster parents records.

Phone: (972) 219-0900 Fax: (972) 219-0994 Email: administrator@connectinglives.org Web: www.connectinglives.org

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
10-043	A Report on On-site Audits of Residential Child Care Providers	August 2010
10-007	A Report on On-site Audits of Residential Child Care Providers	September 2009
08-046	A Report on On-site Audits of Residential Child Care Providers	August 2008
07-044	A Report on On-site Audits of Residential Child Care Providers	August 2007
07-030	An Audit Report on Residential Child Care Contract Management at the Department of Family and Protective Services	April 2007
07-002	A Report on On-site Audits of Residential Child Care Providers	October 2006
06-022	An Audit Report on the Criminal Justice Information System	February 2006

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Health and Human Services Commission

Mr. Thomas Suehs, Executive Commissioner

Department of Family and Protective Services

Ms. Anne Heiligenstein, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Arrow Child and Family Ministries
Boysville, Inc.
Connecting Lives
Grace Manor, Inc.
Helping Hand Home for Children, Inc.



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.