



An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

October 2017

Report No. 18-004



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Overall Conclusion

Four of the five residential child care contractors (providers) audited generally complied with cost reporting requirements. Those four providers—Benchmark Family Services, Inc., The Bair Foundation of Texas, Angel Wings Family Services, Inc., and The Settlement Club—accurately reported all or most of the expenditures tested on their cost reports for fiscal year 2016. However, two of those providers (Benchmark Family Services, Inc. and The Bair Foundation of Texas) did not disclose related party transactions as required. The fifth provider audited (Azleway, Inc.) accurately reported its payroll expenses, but it did not consistently ensure that its non-payroll expenditures were allowable and sufficiently supported.

In addition, four providers audited (Benchmark Family Services, Inc.; Azleway, Inc.; The Bair Foundation of Texas; and The Settlement Club, Inc.) should improve controls over the information technology systems they used to track financial and case management information.

One of the four child placing agencies audited (Benchmark Family Services, Inc.) had significant weaknesses in its processes for monitoring foster homes and did not conduct all quarterly monitoring visits as required. In addition, two child placing agencies audited (Azleway, Inc. and Angel Wings Family Services, Inc.) conducted all quarterly visits as required, but they should improve their documentation of those visits. The remaining child placing agency audited (The Bair Foundation of Texas) generally complied with monitoring requirements. One of the providers audited (The Settlement Club, Inc.) was a general residential operation and, therefore, did not have foster homes to monitor.

In addition, two of the providers audited (Benchmark Family Services, Inc. and Azleway Inc.) had significant weaknesses in their processes for obtaining required

Background Information

Providers receive funds from the Department of Family and Protective Services (Department) for delivering goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in their care.

Providers deliver those goods and services through contracts with the Department, and they are required to report their expenditures on annual cost reports.

This audit included two types of providers with which the Department contracts:

- Child placing agencies, which place or plan for the placement of the child in an adoptive home or other residential care setting.
- General residential operations, which provide child care for 13 or more children up to the age of 18 years. The care may include treatment and other programmatic services.

During fiscal year 2016, the Department had 255 active contracts with 187 child placing agencies or general residential operations to provide residential child care on a 24-hour basis.

The Department received approximately \$428,579,741 for providing services to 31,943 children in foster care during fiscal year 2016.

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

Sources: The Department's residential child-care contract for 2016, the Department's *Annual Report and Data Book 2016*, the Health and Human Services Commission's *Specific Instructions for Completion of the 2016 24-RCC Cost Report*, and the Department.

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

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

background checks of foster parents, employees, household members, caregivers, and/or frequent visitors. Overall, those providers did not have adequate processes to ensure that they (1) obtained Federal Bureau of Investigation fingerprint background checks as required; (2) consistently requested all background checks within the required time frames; and (3) tracked household members, caregivers, and frequent visitors to ensure that the providers conducted background checks in a timely manner.

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

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
1-A	Benchmark Family Services, Inc. Accurately Reported All Expenditures Tested on Its Cost Report for 2016; However, It Did Not Disclose Related Party Transactions as Required	Medium
1-B	Benchmark Family Services, Inc. Did Not Comply with the Department's Requirements for Monitoring Foster Homes	High
1-C	Benchmark Family Services, Inc. Did Not Comply with the Department's Requirements for Conducting Background Checks	High
2-A	Azleway, Inc. Accurately Reported Its Payroll Expenditures in Its Cost Report for Fiscal Year 2016; However, It Did Not Consistently Ensure That Its Non-payroll Expenditures Were Allowable and Sufficiently Supported	Low
2-B	Azleway, Inc. Did Not Consistently Comply with Foster Home Monitoring Requirements	Medium
2-C	Azleway, Inc. Had Significant Weaknesses in Its Compliance with Background Check Requirements	High
3-A	The Bair Foundation of Texas Accurately Reported Most Expenditures Tested on Its Cost Report for 2016; However, It Did Not Disclose Related Party Transactions as Required	Medium
3-B	The Bair Foundation of Texas Generally Complied with the Department's Requirements for Monitoring Foster Homes	Low
3-C	Bair Foundation of Texas Generally Complied with Background Check Requirements; However, It Should Ensure That It Consistently Obtains Fingerprint Background Checks	Medium
4-A	Angel Wings Family Services, Inc. Complied with Cost Reporting Requirements; However, It Should Improve Its Controls to Ensure That It Maintains Sufficient Documentation	Low
4-B	Angel Wings Family Services, Inc. Did Not Consistently Comply with the Department's Requirements for Monitoring Foster Homes	Medium
4-C	Angel Wings Family Services, Inc. Did Not Consistently Conduct Background Checks Within the Required Time Frames	Medium
5-A	The Settlement Club, Inc. Generally Complied with Cost Reporting Requirements; However, It Should Strengthen Its Controls Over Its Case Management Data	Low

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
5-B	The Settlement Club, Inc. Did Not Consistently Comply with the Department’s Requirements for Conducting Background Checks	Medium
<p>^a A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A subchapter is rated Low if the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.</p>		

Summary of Management’s Response

At the end of each chapter in this report, auditors made recommendations to the providers to address the issues identified during this audit. Three providers—Azleway, Inc.; The Bair Foundation of Texas; and The Settlement Club, Inc.—did not agree with all findings related to compliance with criminal background checks. In addition, The Bair Foundation of Texas did not agree with all findings related to its reporting of related-party transactions and compliance with foster home monitoring requirements. After review and consideration of **the providers’ responses, the State Auditor’s Office stands by its conclusions based on the evidence presented and compiled during this audit.**

Audit Objective and Scope

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors and verify whether the selected contractors are spending federal and state funds on required services that promote the well-being of foster children in their care.

The scope of this audit included the fiscal year 2016 cost reporting period for the five residential foster care contractors (providers) that provided 24-hour residential child care services for the Department of Family and Protective Services. Auditors also conducted Department of Public Safety name-based **criminal background checks on all of the providers’ current employees and foster families¹** as of March 31, 2017.

¹ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

Contents

Detailed Results

Chapter 1	
Benchmark Family Services, Inc.	1
Chapter 2	
Azleway, Inc.	10
Chapter 3	
The Bair Foundation of Texas	20
Chapter 4	
Angel Wings Family Services, Inc.	30
Chapter 5	
The Settlement Club, Inc.	37

Appendices

Appendix 1	
Objective, Scope, and Methodology	42
Appendix 2	
Issue Rating Classifications and Descriptions	47
Appendix 3	
Selected Requirements for Residential Child Care Providers	48
Appendix 4	
Criminal Convictions and Other Findings That May Prohibit an Individual from Being Present at a Residential Child Care Provider	51
Appendix 5	
Payment Rates for 24-hour Residential Child Care Providers	54
Appendix 6	
Map of Providers' Locations	55
Appendix 7	
Related State Auditor's Office Work	56

Benchmark Family Services, Inc.

Detailed Results

Chapter 1

Benchmark Family Services, Inc.

Benchmark Family Services, Inc. (provider), which operates nine child placing agencies in Texas, complied with many cost reporting requirements, and it accurately reported on its cost report the funds it expended for providing 24-hour residential child care services for fiscal year 2016. However, the provider did not disclose its related party transactions on its cost report as the Department of Family and Protective Services (Department) required.

In addition, it should strengthen controls over its financial accounting system to comply with the Department's requirements.

The provider could not provide documentation to show that it consistently monitored foster homes in accordance with the Department's requirements, including conducting the minimum number of foster home visits per year (see Appendix 6 for a map of the provider's locations). In addition, the provider's background check process did not ensure that it consistently conducted background checks on all employees, foster parents, household members, caregivers, and frequent visitors when required.

While the provider ensured that most foster parents were paid in accordance with the Department's requirements, the provider improperly deducted costs for respite care services from some foster parent payments, which the Department does not allow.

Benchmark Family Services, Inc. Background Information ^a	
Location	San Antonio, TX
Corporate Headquarters	New Carlisle, OH
Contract services audited	Child placing agency
Number of years provider had contracted with the Department of Family and Protective Services (Department) as of August 31, 2017	7
Number of children served	1,091
Total revenue from the Department for child placing agency services	\$8,711,357
Total expenditures reported on 2016 cost report	\$9,562,237
Federal tax filing status	Non-profit corporation
Number of staff as of June 30, 2016	83
^a From July 1, 2015, through June 30, 2016.	

Sources: Benchmark Family Services, Inc. and the Department.

Benchmark Family Services, Inc.

Chapter 1-A

Benchmark Family Services, Inc. Accurately Reported All Expenditures Tested on Its Cost Report for 2016; However, It Did Not Disclose Related Party Transactions as Required

Chapter 1-A
Rating:
Medium ²

The provider accurately reported all expenditures tested on its cost report for fiscal year 2016. The provider reported \$9,562,237 in expenditures for providing 24-hour residential child care services on its fiscal year 2016 cost report. (See Appendix 3 for a summary of requirements for cost reports and financial reports.)

However, the provider did not disclose related party transactions as required. In addition, the provider should strengthen its processes for foster parent payments and controls over its financial accounting system to comply with Department requirements.

The provider accurately reported the expenditures tested on its cost report for fiscal year 2016.

The expenditures on the provider's cost report for fiscal year 2016 reconciled to the provider's general ledger. In addition, all direct expenditures, administrative expenditures, allocated overhead expenditures, and payroll expenditures tested were allowable, supported, and accurately recorded in accordance with cost reporting requirements.

The provider did not disclose its related party transactions on its cost report as the Department required.

The provider did not disclose that \$842,185 of the expenditures reported on its cost report for fiscal year 2016 were related party transactions. Specifically, the provider did not report the following related party transactions:

- The provider contracts with a subcontractor for administrative services. State funds totaling \$817,550 were spent for those subcontracted services.³
- The provider's central office is on property leased from the owners of the subcontractor that provides administrative services. State funds totaling \$14,301 were spent on that lease.

² Chapter 1-A is rated Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s) because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

³ In addition to Texas, the provider manages foster care programs in Kentucky, Indiana, and Georgia. The provider allocated administrative expenses incurred by its central office between the foster care programs in those four states.

Benchmark Family Services, Inc.

- The provider's central office uses business credit cards that are issued under the names of the owners of the subcontractor that provides administrative services. State funds totaling \$10,334 were spent to pay the balances for those credit cards.

The Health and Human Services Commission's (Commission) *Specific Instructions for Completion of the 2016 24-RCC Cost Report* requires providers to report related party transactions. If a provider does not report all of those transactions, the Commission will not have accurate information to evaluate the costs of the State's foster care program.

The provider complied with most foster parent payment requirements; however, it deducted costs for respite care services from some payments tested, which the Department does not allow.

For 28 (93 percent) of the 30 foster parent payments tested, the provider paid its foster parents the correct amounts according to each child's level of care and days of services as the Department required. Those 28 payments totaled \$19,465. However, the provider deducted the costs for respite care services from two foster parent payments tested by a total of \$338, which the Department does not allow. The Department requires a child placing agency to pass through all required payment amounts to a foster family.

The provider should strengthen controls over its financial accounting system.

While the provider's financial data was sufficiently reliable for purposes of this audit, the provider did not ensure that the controls over its financial accounting system complied with Department requirements. To minimize security risks, auditors communicated the details about the control weaknesses in writing separately to the provider.

Recommendations

The provider should:

- Report all related party transactions as required on its cost reports.
- Pass through all payment amounts to foster payments as required.
- Implement the necessary controls over its financial system to comply with Department requirements.

Benchmark Family Services, Inc.

Management's Response

Recommendation: Report all related party transactions as required on its cost reports.

Response: Benchmark Family Services will review the definitions of related party per the Texas contract to ensure any transactions that fall under this definition are disclosed as such.

Recommendation: Pass through all payment amounts to foster payments as required.

Response: Benchmark Family Services will pay the primary home for all days that a child is placed in the home. Any respite days will be paid by the primary home to the respite home, or Benchmark Family Services will first pay the primary home for the respite days and on a separate transaction will then take back from the primary home to pay the respite home.

Recommendation: Implement the necessary controls over its financial system to comply with Department requirements.

Response: Benchmark Family Services will ensure password parameters are met in accordance with the TX contract requirements.

Chapter 1-B

Benchmark Family Services, Inc. Did Not Comply with the Department's Requirements for Monitoring Foster Homes

Chapter 1-B
Rating:
High⁴

The provider could not provide documentation to show that it consistently monitored foster homes in accordance with the Department's requirements (see text box for additional information about monitoring visit requirements). The provider did not conduct all required quarterly monitoring visits for 18 (62 percent) of the 29 foster homes tested. Specifically, based on the provider's documentation:

- The provider conducted some but not all of the required monitoring visits for 18 foster homes tested.

Monitoring Visit Requirements

Title 40, Texas Administrative Code, Section 749.2815, requires providers to evaluate and document at least once every quarter: (1) any change to household members, frequent visitors, or persons who will provide support as a caregiver; (2) any major life change in the foster family; (3) any change to the foster home disaster and emergency plans; and (4) any challenging behaviors of the current children in the home, the level of stress the family is currently experiencing, and any methods for responding to each child's challenging behavior and/or alleviating any significant stress the foster family is experiencing.

⁴ Chapter 1-B is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

Benchmark Family Services, Inc.

- The provider did not conduct any of the required monitoring visits for 1 foster home tested.

In addition, for 20 (80 percent) of the 25 applicable foster homes tested, the provider did not conduct at least two unannounced visits during the year as required. While the provider developed a documented policy for monitoring its foster homes as required, the provider's monitoring plan did not include the two required unannounced monitoring visits. Instead, the provider required that its case managers conduct only one unannounced visit per year. Not meeting the Department's requirements for the number of unannounced visits weakens the provider's ability to verify a foster home's ongoing compliance with the Department's requirements.

For the visits it conducted, the provider did not consistently document certain information the Department required. For example:

- For 16 (57 percent) of the 28 applicable foster homes tested, the provider did not complete documentation for at least one of those required visits.
- For 8 (29 percent) of the 28 applicable foster homes tested, the provider did not obtain signatures on the monitoring forms from both foster parents as required.
- For 13 (65 percent) of the 20 applicable foster homes tested, the provider did not conduct a monitoring visit with both foster parents present every 6 months as required. For 4 of those foster homes, the provider's documentation indicated that it conducted no visits during the 2016 reporting period with both parents present.
- For 9 (31 percent) of 29 applicable foster homes tested, the provider did not conduct a visit with all foster household members at least once each year as required.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. Not consistently (1) performing quarterly monitoring, (2) performing two unannounced visits per year, and (3) adequately documenting all monitoring visits weakens the provider's ability to identify situations that could put the children in the foster home at risk and to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Benchmark Family Services, Inc.

Recommendations

The provider should:

- Improve its process for foster home monitoring to ensure that it consistently conducts and documents all monitoring visits as required.
- Revise its policy for monitoring foster homes to ensure that it includes all of the Department's requirements.

Management's Response

Recommendation: Improve its process for foster home monitoring to ensure that it consistently conducts and documents all monitoring visits as required.

Response: Benchmark Family Services will add an additional review to its Quarterly Quality Assurance form, to ensure that the document is completed correctly. Additionally, Benchmark Family Services will be adding an alert to its data management system to ensure that twice per year staff are prompted to conduct an unannounced home visit. Lastly, Benchmark Family Services will be dedicating one (1) quarter to conduct home visits where both foster parents are present at the time of the visit; and one (1) quarter to conduct home visits where all household members are present at the time of the visit.

Recommendation: Revise its policy for monitoring foster homes to ensure that it includes all of the Department's requirements.

Response: Benchmark Family Services has made significant revisions this year in its Policies and Procedures, based upon the recent changes in the Minimum Standards for Texas. This included making revisions to Policies and Procedures related to required monitoring of foster homes. Benchmark's current Policies and Procedures related to monitoring of foster homes should be in compliance with the Department's requirements.

Benchmark Family Services, Inc.

Chapter 1-C

Benchmark Family Services, Inc. Did Not Comply with the **Department's Requirements for** Conducting Background Checks

Chapter 1-C
Rating:
High⁵

The provider did not consistently conduct all required background checks on foster parents, employees, household members, caregivers, and frequent visitors who were reported as active from July 1, 2015, through March 31, 2017. Of the 1,768 individuals tested, the provider did not conduct background checks for 220 (12 percent) individuals in compliance with requirements. That included 11 (7 percent) of 150 employees; 37 (4 percent) of 828 foster parents; and 172 (22 percent) of 790 household members, caregivers, and frequent visitors tested. In addition, auditors could not determine whether 100 (6 percent) of the 1,768 tested were cleared to be around children because the provider did not obtain required fingerprint background checks. Auditors also determined that the provider conducted some background checks up to 1,169 days late. (See Appendix 4 for additional information about background check requirements.)

Examples of the provider's noncompliance include:

- For 4 foster parents, the provider had not conducted any criminal background checks.
- For 9 foster parents, the provider did not receive the results of the initial background checks as required before those individuals' verification dates (see text box). For 2 foster parents, the provider received the results of the fingerprint background check 162 days after the verification date.
- For 16 household members, other caregivers, and frequent visitors, the provider had not conducted any criminal background checks. For 35 household members, other caregivers, and frequent visitors, the provider had not obtained fingerprint background checks as required.
- For 42 household members, other caregivers, and frequent visitors, the provider did not receive the results of the initial background checks as required before those individuals' reported start dates.

Verification Date

A foster parent's verification date is the date on which their home was approved by the provider to accept placement of foster children.

Source: The Department.

In addition, the provider did not adequately track foster family members. The provider gave auditors a list of its active foster parents from July 1, 2015,

⁵ Chapter 1-C is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

Benchmark Family Services, Inc.

through March 31, 2017. However, auditors subsequently determined that list was not complete and identified 19 additional individuals the Department reported had foster children in their care and were paid as foster parents; therefore, those individuals should have been included on the list. In addition, the provider did not have a formal process to track the start and termination dates of household members, frequent visitors, and caregivers.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on all of the provider's current employees and foster families⁶ as of March 31, 2017. Based on the results of those checks, (1) the individuals tested did not have misdemeanor or felony convictions that would pose a risk to children in the provider's care⁷ or (2) the provider took appropriate action on the individuals by either obtaining an approved risk evaluation from the Department or barring the individuals from working with children when required. (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Conduct all background checks for foster parents, caregivers, family members, and frequent visitors as required.
- Track the start dates of all household members, caregivers, volunteers, and frequent visitors to ensure that it conducts initial background checks within the required time frames.

Management's Response

Recommendation: Conduct all background checks for foster parents, caregivers, family members, and frequent visitors as required.

Response: Benchmark Family Services will ensure that all background checks for foster parents, caregivers, family members and frequent visitors are conducted as required. Benchmark Family Services will ensure that background checks, that are due within the next 60 days, are reviewed at the beginning of each month and that they are or have been submitted for processing.

⁶ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

⁷ An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice (State Auditor's Office Report No. 16-025, May 2016) determined some cases take one or more years to proceed through the legal system, which indicates criminal history background check results may be incomplete.

Benchmark Family Services, Inc.

Recommendation: Track the start dates of all household members, caregivers, volunteers, and frequent visitors to ensure that it conducts initial background checks within the required time frames.

Response: Benchmark Family Services will enhance its data management system to track the start and end dates of all household members, caregivers, volunteers, and frequent visitors, by adding fields to enter the date Benchmark Family Services was first made aware of and when they are no longer present.

Azleway, Inc. (provider), which operates five child placing agencies in Texas, generally reported its payroll expenditures accurately on its 2016 cost report. However, the provider did not consistently ensure that its non-payroll expenditures were allowable, supported, and accurate. The provider also incorrectly included financial transactions related to its former charter school operations and general residential operations that were not associated with its child placing agency activities in its cost report. In addition, the provider’s controls over its case management system did not comply with the Department requirements.

While the provider conducted quarterly monitoring visits of foster homes as required, it did not adequately document the results of those visits or conduct unannounced visits as required. Its policy for monitoring also did not fully comply with the Department requirements (see Appendix 6 for a map of the provider’s locations).

In addition, the provider had significant weaknesses in its compliance with background check requirements for employees, foster parents, volunteers, household members, caregivers, and frequent visitors.

The provider ensured that foster parents were paid in accordance with the Department’s requirements.

Azleway, Inc. Background Information ^a	
Location	Tyler, TX
Contract services audited	Child placing agency
Number of years provider had contracted with the Department of Family and Protective Services (Department) as of August 31, 2017	7
Number of children served	875
Total revenue from the Department for child placing agency services	\$6,798,675
Total expenditures reported on 2016 cost report	\$7,048,500
Federal tax filing status	Non-profit corporation
Number of staff as of August 31, 2016	42
^a From September 1, 2015, through August 31, 2016.	

Sources: Azleway, Inc. and the Department.

Chapter 2-A

Azleway, Inc. Accurately Reported Its Payroll Expenditures in Its Cost Report for Fiscal Year 2016; However, It Did Not Consistently Ensure That Its Non-payroll Expenditures Were Allowable and Sufficiently Supported

Chapter 2-A
Rating:
Low⁸

The provider generally complied with cost reporting requirements, including requirements for disclosing related party transactions, and it accurately reported on its cost report for fiscal year 2016 the majority of the payroll expenditures tested. The provider reported \$7,048,500 in expenditures for providing 24-hour residential child care services on its fiscal year 2016 cost report. (See Appendix 3 for a summary of requirements for cost reports and financial records.)

While the provider accurately reported most of its payroll expenditures, it did not consistently ensure that its non-payroll expenditures were allowable and sufficiently supported as the Department required.

The 60 payroll expenditures tested, which totaled \$111,678, were generally allowable, supported, and accurately recorded by the provider in its fiscal year 2016 cost report. However, a portion of one expenditure was not supported and, therefore, not accurately recorded in the cost report. In addition, the 75 non-payroll expenditures tested, which totaled \$56,823, were not consistently allowable and supported. (See Appendix 3 for a summary of requirements for cost reports and financial records.) Specifically, 12 (16 percent) of the 75 non-payroll expenditures tested contained errors. Those 12 non-payroll expenditures totaled \$21,539, and the errors were as follows:

- The provider reported 5 non-payroll expenditures totaling \$20,957 that were unallowable for the cost report. Those five expenditures were utility, insurance, and property tax costs that were not related to the provider's child placing agency operations.
- The provider reported 2 contract labor expenditures totaling \$541 for which it did not have sufficient supporting documentation. One expenditure was for reoccurring medical management services and, while the provider had an invoice for that expenditure, it did not have an agreement to support the rate charged on the invoice. The other expenditure was for security services and, while the provider had a copy of a memo from the date of hire with handwritten dates of days worked

⁸ Chapter 2-A is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

and a pay rate, there was no other documentation that validated the actual days and hours worked.

- The provider inaccurately reported the cost of 5 business meal expenditures. Those expenditures included \$41 in tips, which are unallowable for the cost report.

In addition, the provider misclassified 13 non-payroll expenditures totaling \$11,185; however, that did not change the total amount of allowable and supported expenditures it reported.

The provider did not accurately report its capital assets in the 2016 cost report.

Auditors tested a sample of 11 capital assets. For all 11, the provider did not have documentation to show that the purchase cost of the asset was accurate, the purchase was allowable and properly classified, or the purchase supported the child placing agency. Three of those assets were purchased for either the provider's charter school or its general residential operation foster care program and were not associated with its child placing agency activities; those unallowable assets totaled \$114,504.

If a provider does not report accurate information on its cost report, the Health and Human Services Commission will not have accurate information to evaluate the costs of the State's foster care program.

The provider complied with foster parent payment requirements.

For all 30 foster parent payments tested for fiscal year 2016, the provider paid its foster parents the correct amounts according to each child's level of care and days of services as the Department required. Those 30 payments totaled \$26,826.

The provider's controls over its case management system did not comply with the Department's requirements.

The provider did not have adequate user access controls for its case management system, which contains confidential data about the foster families and children. Specifically:

- The provider did not deactivate access for former employees in a timely manner. Fifteen (14 percent) of 104 user accounts that had access to the case management system were assigned to former employees. The provider's contractor asserted that it had removed access for those 15 users and that it had implemented new procedures to remove access for former employees in a timely manner.

- The provider did not always ensure that users had appropriate levels of access. Specifically, one user account was assigned to a subcontractor that provides employment services for children placed in the provider's general residential operations. However, that user account had full access rights to case management and financial applications, which was not needed for the subcontractor to perform its duties.

Having strong user access controls would help the provider ensure the accuracy and security of its foster care data.

Recommendations

The provider should:

- Develop and implement a process to ensure that the payroll and non-payroll and contract labor expenditures on its cost report are allowable, supported, and accurate.
- Ensure that the assets it reports on its cost report are sufficiently supported to document the purchase cost of the asset, and include on its cost report only the capital assets that were purchased for the child placing agency operations.
- Ensure that user access to its case management system is appropriate and limited to current employees.

Management's Response

Audit Concern:

"While the provider accurately reported most of its payroll expenses, the provider did not consistently ensure that its non-payroll expenditures were allowable and sufficiently supported as required by the department."

Responsible Party: Chief Financial Officer

We agree with the concern. Additional training will be completed before the 2017 Cost Report to ensure the provider accurately distinguishes between allowable and unallowable non-payroll expenditures. Each expenditure will be reviewed to determine if it is allowed and if the expenditure has sufficient supporting documentation.

Audit Concern:

“The provider did not accurately report its capital assets in the 2016 cost report.”

Responsible Party: Chief Financial Officer

We agree with the concern. A capital asset inventory will be conducted prior to the 2017 Cost Report. All capital assets will have sufficient supporting documentation. Capital assets not relating to child placing agency operations will not be included in the 2017 Cost Report.

Audit Concern:

“The provider did not have adequate user controls over its case management system.”

Responsible Party: Director Azleway Children’s Services

We agree with the concern. Former employees were removed at audit. Director Azleway Children’s Services will ensure that only appropriate individuals have access to the case management system.

Chapter 2-B
Azleway, Inc. Did Not Consistently Comply with Foster Home Monitoring Requirements

Chapter 2-B
Rating:
Medium⁹

The provider had documentation showing that it had conducted quarterly visits at its 30 applicable foster homes tested as required (see text box for additional information about monitoring visit requirements). However, for 3 (13 percent) of the 23 applicable foster homes tested, the provider did not conduct at least 2 unannounced visits during the year as required.

While the provider conducted quarterly monitoring visits for all 30 foster homes tested, it did not adequately document certain information the Department required. Specifically:

Monitoring Visit Requirements
Title 40, Texas Administrative Code, Section 749.2815, requires providers to evaluate and document at least once every quarter: (1) any change to household members, frequent visitors, or persons who will provide support as a caregiver; (2) any major life change in the foster family; (3) any change to the foster home disaster and emergency plans; and (4) any challenging behaviors of the current children in the home, the level of stress the family is currently experiencing, and any methods for **responding to each child’s** challenging behavior and/or alleviating any significant stress the foster family is experiencing.

⁹ Chapter 2-B is rated Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer the program(s) because the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

- For 26 (87 percent) of the 30 applicable foster homes tested, the provider did not obtain signatures from the foster parents on the monitoring forms as required.
- For 24 (80 percent) of the 30 applicable foster homes tested, the provider did not consistently document certain information that the Department required. Specifically, the provider did not consistently document:
 - ♦ The date of the monitoring visit.
 - ♦ The identification of household members, frequent visitors, and caregivers, including the date of their last background check.
 - ♦ Descriptions of foster children behaviors and methods to address any challenges.
 - ♦ Foster parents' answers to questions about experiencing any levels of stress.
 - ♦ Actions taken to address expired health inspections, fire inspections, or vehicle insurance.
 - ♦ Changes to foster home disaster and emergency plans.
 - ♦ The occurrences of any major life changes to a foster family.

The provider's policy for monitoring foster homes did not fully comply with the Department's requirements.

While the provider developed a documented policy for monitoring its foster homes, the policy did not define the frequency with which its case managers should perform monitoring visits. Specifically, the provider's monitoring plan did not specify:

- The frequency of the visits that case managers must conduct with both foster parents present. The Department requires that supervisory visits with both foster parents present be conducted at least once every six months.
- The frequency of the visits that case managers must conduct with all household members present. The Department requires that those visits be conducted with all household members present at least once every year.
- The frequency of that unannounced visits that case managers must conduct. The Department requires that at least two unannounced visits be conducted per year.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. It is crucial that the results of the monitoring visits address all of the required components because the monitoring visits may be the only opportunity for the provider to identify situations that could put the children in the home at risk and to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Recommendations

The provider should:

- Improve its process for foster home monitoring to ensure that it complies with all monitoring requirements.
- Revise its policy for monitoring foster homes to ensure that its policy aligns with Department requirements.

Management's Response

Audit Concern:

"The provider did not consistently comply with foster family monitoring requirements."

Responsible Party: Director Azleway Children's Services

We agree with the concern. The agency exceeds the required frequency of quarterly visits generally conducting visits on a monthly basis. Regional Directors will assure the most current Monthly Foster Home Monitoring Report form is utilized and completed accurately addressing any concerns. Although signatures are not required by statute, provider's procedure is to have the foster parents sign the form at the next visit after it has been word processed. An attendance form will be developed within 30 days to note date and those present at the visit. The Monthly Foster Home Monitoring Report will continue to be signed at the subsequent visit. Although included on the Monthly Foster Home Monitoring Report form in italics, the frequency of unannounced visits, visits with all present, and visits with all caregivers present will be included in an updated policy within 30 days.

Chapter 2-C

Azleway, Inc. Had Significant Weaknesses in Its Compliance with Background Check Requirements

Chapter 2-C
Rating:
High¹⁰

The provider did not conduct all required background checks for a significant portion of the employees, foster parents, volunteers, household members, caregivers, and frequent visitors who were reported as active from September 1, 2015, through March 31, 2017. Of the 938 individuals tested, the provider did not conduct background checks for 204 (22 percent) individuals in compliance with requirements. This included 21 (24 percent) of 87 employees tested, 24 (9 percent) of 264 foster parents tested, and 159 (27 percent) of 587 household members tested. Auditors also determined that the provider conducted some background checks for those individuals up to 520 days late. (See Appendix 4 for additional information on background check requirements.)

Overall, the provider did not have adequate processes to ensure that it received results of initial background checks before the individual's start dates, obtained fingerprint background checks as required, requested all renewal background checks within the required time frames, and adequately tracked household members, caregivers, and frequent visitors to ensure that background checks were conducted in a timely manner.

Examples of the provider's noncompliance include:

- For 3 employees and 42 household members, caregivers, volunteers, and frequent visitors, the provider did not obtain the results of background checks prior to the individuals' start dates as required.
- For 2 foster parents, the provider did not obtain any fingerprint background checks as required.
- For 22 household members, caregivers, and volunteers, the provider did not obtain fingerprint background checks as required.
- For 12 household members, caregivers, volunteers, and frequent visitors, the provider had not obtained any background checks for the time period from September 1, 2015, through March 31, 2017.

In addition, the provider did not adequately track the start dates of household members, caregivers, volunteers, and frequent visitors. As a result, auditors were unable to determine whether the provider conducted

¹⁰ Chapter 2-C is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

initial background checks for 176 household members, caregivers, volunteers, and frequent visitors tested in a timely manner.

The provider also did not have documented policies and procedures for performing initial employee background checks, background check renewals, and following up on background checks as appropriate. Having documented policies and procedures could help the provider ensure that it consistently conducts background checks within the required time frames.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's current employees and foster families¹¹ active as of March 31, 2017. Based on the results of those checks, (1) the individuals tested did not have misdemeanor or felony convictions that would pose a risk to children in the provider's care¹² or (2) the provider took appropriate action on the individuals by either obtaining an approved risk evaluation from the Department or barring the individuals from working with children when required. (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Conduct required background checks for all employees, foster parents, household members, caregivers, frequent visitors, and volunteers within the required time frames.
- Track the start dates of all household members, caregivers, volunteers, and frequent visitors to ensure that it conducts initial background checks within the required time frames.
- Develop and implement documented policies and procedures for conducting initial employee background checks, background check renewals, and employee risk evaluations.

¹¹ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

¹² *An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice* (State Auditor's Office Report No. 16-025, May 2016) determined some cases take one or more years to proceed through the legal system, which indicates criminal history background check results may be incomplete.

Management's Response

Audit Concern:

"The provider had significant weaknesses in its compliance with background check requirements."

Responsible Party: Director Azleway Children's Services

We agree with the concern. One employee was hired two days prior to the receipt of the third background result while two others identified were non-paid college field students or frequent visitors to a foster home. The fourth identified employee was hired during a time of background reporting difficulties by the state with specific written approval from background and residential childcare licensing for a prospective employee with approved central registry and DPS results. No foster parents were without background checks as one person identified was a foster home visitor not requiring FBI check and one late foster parent had to complete a new finger print check. Household members, visitors, volunteers and caregivers all had proper checks. Those no longer serving did not have subsequent checks nor did prospective caregivers who never completed the process have FBI checks.

The provider will update its background check policy & procedures and implement a tracking policy for beginning dates of visitors and caregivers within 60 days to assure that background checks are performed within required frameworks.

The Bair Foundation of Texas (provider), which operates six child placing agencies in Texas, generally complied with cost reporting requirements. Specifically, the provider accurately reported most of the expenditures tested for providing 24-hour residential child care services on its cost report for fiscal year 2016. However, it did not disclose related party transactions as required. In addition, it should strengthen controls over its financial accounting system and payroll system to comply with Department requirements.

The provider complied with most Department requirements for monitoring its foster homes and generally ensured that foster parents were paid in accordance with the Department requirements.

The provider generally complied with background check requirements for employees and foster families, including household members, frequent visitors, and other caregivers who were reported as active from July 1, 2015, through March 31, 2017 (see Appendix 6 for a map of the provider’s locations). However, the provider did not always obtain fingerprint background checks as required and ensure that it conducted all background checks within the required time frames. In addition, it did not have adequate processes to track household members, caregivers, and frequent visitors.

The Bair Foundation of Texas Background Information ^a	
Location	San Antonio, TX
Corporate Headquarters	New Wilmington, PA
Contract services audited	Child placing agency
Number of years provider had contracted with the Department of Family and Protective Services (Department) as of August 31, 2017	7 years
Number of children served	618
Total revenue from the Department for child placing agency services	\$6,348,186
Total expenditures reported on 2016 cost report	\$7,442,737
Federal tax filing status	Non-profit corporation
Number of staff as of June 30, 2016	100
^a From July 1, 2015, through June 30, 2016.	

Sources: The Bair Foundation of Texas and the Department.

The Bair Foundation of Texas

Chapter 3-A

The Bair Foundation of Texas Accurately Reported Most Expenditures Tested on Its Cost Report for 2016; However, It Did Not Disclose Related Party Transactions as Required

Chapter 3-A
Rating:
Medium¹³

The provider accurately reported most of the expenditures tested on its cost report for fiscal year 2016. The provider reported \$7,442,737 in expenditures for providing 24-hour residential child care services for fiscal year 2016. (See Appendix 3 for a summary of requirements for cost reports and financial records.)

However, the provider did not disclose related party transactions as required. In addition, it should strengthen controls over its financial accounting system and payroll system to comply with Department requirements.

The provider accurately reported most of the expenditures tested on its cost report for fiscal year 2016.

The expenditures that the provider reported on its cost report for fiscal year 2016 reconciled to the provider's general ledger. In addition, 130 (99 percent) of 131 direct expenditures, administrative expenditures, allocated overhead expenditures, and payroll expenditures tested were allowable and supported.

The provider did not disclose its related party transactions on its cost report as required.

The provider did not disclose that \$940,926 of the expenditures on the cost report for fiscal year 2016 were related party transactions. Specifically, the provider did not report the following related party transactions:

- The provider contracts with a subcontractor for management and administrative services. The provider's executive director is also executive management for the provider's three subcontractors. State funds totaling \$662,970 were spent for those subcontracted services.¹⁴
- The provider's central office is on property leased from the owners of its subcontractor that provides administrative services. State funds totaling \$254,520 were spent on that lease.

¹³ Chapter 3-A is rated Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s) because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

¹⁴ In addition to Texas, the provider allocated the administrative expenses incurred by the its central office among the foster care programs in Pennsylvania, Ohio, New Mexico, South Carolina , North Carolina, Virginia and Kentucky.

The Bair Foundation of Texas

- One board member of the provider's subcontractor also serves as the chair of the provider's board. State funds totaling \$23,436 were spent for services that subcontractor provided.

The Health and Human Services Commission's (Commission) *Specific Instructions for Completion of the 2016 24-RCC Cost Report* requires providers to report related party transactions. If a provider does not report all of those transactions, the Commission will not have accurate information to evaluate the costs of the State's foster care program.

The provider should strengthen controls over its financial accounting system and payroll system.

While the provider's financial data was sufficiently reliable for purposes of this audit, the provider did not ensure that controls over its financial accounting system and payroll system complied with Department requirements. Auditors identified user accounts with inappropriate access rights. To minimize security risks, auditors communicated details about the control weaknesses separately in writing to the provider.

Recommendations

The provider should:

- Report all related party transactions as required on its cost reports.
- Strengthen controls over its financial accounting system and payroll system to ensure they comply with Department requirements.

Management's Response

The Bair Foundation's attorney reviewed the Texas cost report related party definitions several years ago before we made this determination. I have sent you a copy of that letter indicating "The corporations are nonprofit without the ability to issue stock. There are no owners of either entity, and control may not be exercised through ownership. Furthermore, there is no common control through membership on the boards of directors of the organization... There is no other mechanism for one of the entities to exert legal control or practical influence over the other. Because there is no common ownership or control, the two entities should not be related parties for purposes of the Texas cost report regulations."

Finally, prior to completing the cost report, The Texas Department of Protective and Regular Services gave us a letter determining that the Management Corporation was not a related party. Each year the related

The Bair Foundation of Texas

party definition is reviewed for changes, the related party definitions for the Texas cost report has not materially changed to impact this determination. The Department guided The Bair Foundation incorrectly regarding related parties and The Bair Foundation is requesting that the misguidance by the Department should be clearly documented in the Department's final report from the auditors.

The Bair Foundation expended much resources to do our homework to ensure appropriate designation of related versus non-related party transactions. We were not isolated in this determination and in fact included the department in our discussion and determination.

The CFO, CIO and Human Resources Director have worked together and have already implemented the recommendations made to us.

- *Accounting system changes were as follows:*
 - ♦ *De-activated all unused accounts*
 - ♦ *Made the outside auditors' accounts read-only*
 - ♦ *Disabled an account used by a temporary employee*
- *Disabled one employee's access to the Accounts Payable side where she used to work before transferring to Accounts Receivable*
- *Payroll system changes were as follows:*
 - ♦ *Set up security groups that segment access by role and department*

The Bair Foundation of Texas

Chapter 3-B

The Bair Foundation of Texas Generally Complied with the Department's Requirements for Monitoring Foster Homes

Chapter 3-B
Rating:
Low¹⁵

The provider complied with most Department requirements for monitoring its foster homes (see text box for additional information about monitoring visit requirements). The provider had documentation showing that it conducted all quarterly monitoring visits as required. The provider generally complied with the Department's quarterly monitoring requirements. Specifically:

- For 23 (96 percent) of the 24 applicable foster homes tested, the provider conducted a monitoring visit with both foster parents present every 6 months as required.
- For 29 (97 percent) of the 30 applicable foster homes tested, the provider conducted a monitoring visit with all household members present at least once during the year as required.

Monitoring Visit Requirements

Title 40, Texas Administrative Code, Section 749.2815, requires providers to evaluate and document at least once every quarter: (1) any change to household members, frequent visitors, or persons who will provide support as a caregiver; (2) any major life change in the foster family; (3) any change to the foster home disaster and emergency plans; and (4) any challenging behaviors of the current children in the home, the level of stress the family is currently experiencing, and any methods for responding to each child's challenging behavior and/or alleviating any significant stress the foster family is experiencing.

However, for 5 (18 percent) of 28 applicable foster homes, the provider did not conduct two unannounced visits as required.

The provider generally ensured that it documented its monitoring visits in compliance with the requirements in Title 40, Texas Administrative Code, Section 749.2815. For example, the provider consistently documented the dates of the visits, changes in household members, changes to the foster home's disaster and emergency plans, and any challenging behaviors of the current children in the home. However, for 6 (20 percent) of the 30 applicable homes tested, the monitoring reports did not contain all required signatures.

The provider's monitoring plan addressed most of the requirements in the Texas Administrative Code. While the monitoring plan did not specify which signatures must be obtained on the monitoring forms or that a monitoring visit must be conducted with all household members present at least once per year, the monitoring forms had spaces for parent and placement staff signatures.

¹⁵ Chapter 3-B is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Bair Foundation of Texas

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. Conducting unannounced visits, adequately documenting its monitoring visits, and ensuring that its monitoring plan addresses all requirements would help the provider to identify situations that could put the children in the home at risk and to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

For all 31 of the foster family payments tested, the provider properly paid its foster parents the required amounts according to each child's level of care and days of services.

Recommendations

The provider should:

- Ensure that it conducts at least two unannounced monitoring visits and one monitoring visit with all household members present of foster homes each year as required.
- Obtain all required signatures on monitoring forms.
- Update its monitoring plan to include all requirements in the Texas Administrative Code.

Management's Response

Management does agree with the assessment provided with the exception of the bullet point to update the monitoring plan to include requirements in the Texas Administrative Code. All requirements in the administrative code are addressed on the form.

Plan of Correction

- *The Bair Foundation will track unannounced visits and annual visits with all household members on the computerized foster family nag system. This tracking system is monitored by supervisors monthly in supervision. Unannounced visits will occur every six months from certification. Unannounced visits, and the annual visit with all household members, will have clear documentation on the forms specifying the type of visit and who was present. For the annual visit, all household members will sign the form if age appropriate. Supervisors and Social Service workers will ensure that all household members sign the annual visit monitoring form. Checking for the signatures of the annual visit will be added to the reading guide so that PQI staff will monitor quarterly for compliance.*

The Bair Foundation of Texas

Staff will be trained on the tracking, supervision and monitoring of the unannounced visits and annual visits with all household members by November 30, 2017.

- *Supervisors and Social Service Workers will ensure all signatures are obtained on the visit forms. PQI staff will monitor for compliance.*
- *The Bair Foundation does comply with all the monitoring requirements listed in the Texas Administrative code. The form clearly outlines the information needed to ensure compliance. A formal monitoring plan will be developed by November 30, 2017. All current staff will be trained on the plan by November 30th and all new staff will receive training on the plan during their initial training. The staff training outline will be updated to include review of the monitoring plan by November 30th.*
- *The State Director will be responsible for ensuring the system is in place. Local supervisors will ensure compliance when reviewing documentation. PQI staff will review for compliance during quarterly records reviews.*

Chapter 3-C

The Bair Foundation of Texas Generally Complied with Background Check Requirements; However, It Should Ensure That It Consistently Obtains Fingerprint Background Checks

Chapter 3-C
Rating:
Medium ¹⁶

The provider complied with all background check requirements for 926 (97 percent) of the 954 employees, foster parents, household members, caregivers, and frequent visitors tested who were reported as active from July 1, 2015, through March 31, 2017. (See Appendix 4 for additional information on background check requirements.)

However, the provider did not always obtain or follow up on fingerprint background checks as required and consistently conduct background checks within the required time frames. Auditors determined that the provider conducted some background checks up to 857 days late. In addition, the provider did not have adequate processes to track household members, caregivers, and frequent visitors to ensure that it conducted background checks in a timely manner.

¹⁶ Chapter 3-C is rated Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s) because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

The Bair Foundation of Texas

The provider also did not adequately track the Social Security numbers, birth dates, and start and termination dates of employees, household members, and frequent visitors. As a result, auditors were unable to determine whether all employees, household members, and frequent visitors received initial and renewal background checks in a timely manner.

Examples of the provider's noncompliance include:

- For 3 employees, the provider did not obtain results of fingerprint background checks prior to the individuals' start dates as required.
- For 8 household members, caregivers, and frequent visitors, the provider did not obtain fingerprint background checks as required.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's current employees and foster families¹⁷ active as of March 31, 2017. Based on the results of those checks, the individuals tested did not have misdemeanor or felony convictions that would pose a risk to children in the provider's care.¹⁸ (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Conduct background checks, including fingerprint-based checks, for all employees and caregivers within the required time frames.
- Consistently follow up on fingerprint background check renewal results.
- Adequately track the start and termination dates of household members and frequent visitors to ensure that it conducts all background checks as required.

¹⁷ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

¹⁸ *An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice* (State Auditor's Office Report No. 16-025, May 2016) determined some cases take one or more years to proceed through the legal system, which indicates criminal history background check results may be incomplete.

The Bair Foundation of Texas

Management's Response

The Bair Foundation does not agree with the documented results of the audit. Back up documentation was provided to verify that background checks were completed within the time frames of the Texas Administrative code for 10 of the 11 examples listed as non-compliant.

- *Two of the three employees did have FBI checks done prior to being left alone with children. One employee was a secretary and based on the job description presented, did not have access to children alone prior to receiving her results. One employee did not receive her caseload and was not left alone with children until after her 30th day of employment. The third employee did not have an FBI run, however she was a secretary, and was never alone with children. Documentation was submitted for these individuals.*

745.626 states: How soon after I request a background check on a person can that person provide direct care or have direct access to a child?

(b) If a fingerprint-based check is required, you must receive the results of the fingerprint check prior to allowing the person to provide direct care or have direct access to a child in care, unless:

(1) Your operation is experiencing a staff shortage; and

(2) The results of the name-based DPS and Central Registry checks do not preclude the person's presence at the operation while children are in care.

- *Documentation of proof was submitted on the 8 of the 8 missing criminal checks stated in this letter. These included actual submission forms and information regarding the applicant not completing the process, therefore not needing FBI fingerprints. Based on these submissions, we feel all 8 in question were in compliance.*

The Bair Foundation had three biological children of a respite provider who did not have FBI fingerprints completed. We feel we fell within the Minimum Standards as they were never left alone with a foster child. We had five individuals whose initial role was inaccurately submitted into the CLASS system. Subsequent submissions were accurately reported.

Plan:

- *All criminal back ground checks will be completed in the required time frames. For staff criminal checks, the managing supervisor will inform Human Resources of hire date. All criminal checks will be present in the Human Resources file prior to starting. For foster families, the*

The Bair Foundation of Texas

certification checklist documents the criminal check requirements. All children of the household will have their birthdates entered into the tracking system to ensure the criminal check requirement is populated prior to their 18th birthday. The same will be entered for adopted children. Supervisors and Social Service Worker's will monitor the tracking system monthly to ensure compliance.

- *The Bair Foundation has created a tracking form to document when a criminal check is requested and when it is no longer required. Specific reasons for discontinuing the criminal checks will be listed on the tracking form and clear documentation of the process will be located in the family file. This process will also be utilized for respite providers. All respite providers will be monitored during the PQI process to ensure compliance.*
- *The State Director will be responsible for training staff and setting up the tracking system. Local supervisors will be responsible for maintaining the tracking systems. PQI will monitor during quarterly record reviews.*
- *Supervisors will ensure new staff start dates are reported to Human Resources. Human Resources Director will ensure criminal checks are received prior to the start date.*

Angel Wings Family Services, Inc.

Chapter 4

Angel Wings Family Services, Inc.

Angel Wings Family Services, Inc. (provider) accurately reported on its cost report for 2016 the majority of expenditures tested for providing 24-hour residential child care services. The provider also complied with the Department’s requirements for disclosing related party transactions. In addition, the provider ensured that foster parents were paid in accordance with the Department’s requirements. However, the provider should improve its controls to ensure that it maintains complete and accurate documentation for all expenditures on its cost report.

The provider also did not consistently (1) comply with the Department’s requirements for monitoring foster home and (2) conduct background checks for all foster parents, household members, caregivers, and frequent visitors in compliance with Department requirements.

Chapter 4-A

Angel Wings Family Services, Inc. Complied with Cost Reporting Requirements; However, It Should Improve Its Controls to Ensure That It Maintains Sufficient Documentation

Chapter 4-A
Rating:
Low ¹⁹

The provider generally complied with cost reporting requirements, including requirements for disclosing related party transactions, and accurately reported on its cost report for fiscal year 2016 the majority of the expenditures tested. The provider reported \$907,826 in expenditures for providing 24-hour residential child care services on its fiscal year 2016 cost report. (See Appendix 3 for a summary of requirements for cost reports and financial records.)

Angel Wings Family Services, Inc. Background Information ^a	
Location	Missouri City, TX
Contract services audited	Child placing agency
Number of years provider had contracted with the Department of Family and Protective Services (Department) as of August 31, 2017	4
Number of children served	93
Total revenue from the Department for child placing agency services	\$1,063,950
Total expenditures reported on 2016 cost report	\$907,826
Federal tax filing status	Non-profit corporation
Number of staff as of December 31, 2016	6

^a From January 1, 2016, through December 31, 2016.

Sources: Angel Wing Family Services, Inc. and the Department.

¹⁹ Chapter 4-A is rated Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Angel Wings Family Services, Inc.

The provider also paid foster parents in accordance with Department contractual guidelines and the contractor's fee policy for the cost reporting period for 29 of the 30 payments tested. For one payment, the provider overpaid a family by \$17.34.

The provider accurately reported payroll and payroll-related expenditures on its cost report for 2016. However, 9 (30 percent) of 30 non-payroll expenditures tested were not adequately supported. Specifically:

- For 3 expenditures totaling \$1,400 for cleaning services, audit binder services, and day care services, the supporting documentation provided to auditors was on provider letterhead, rather than an invoice from an external vendor.
- For 5 expenditures totaling \$168 for reimbursement of employee cell phone use and a retail purchase, the provider did not have adequate receipts or billing statements.
- For 1 \$150 utility expenditure for a prior provider location, the provider did not have the original lease document that was in effect at the time of the expenditure.

Without adequate supporting documentation, auditors could not determine whether the \$1,718 in non-payroll expenditures listed above were allowable and accurately reported in the provider's 2016 cost report.

Recommendation

The provider should maintain complete and accurate documentation that fully supports all expenditures on its cost reports.

Management's Response

1. *Effective Immediately, Angel Wings Executive Staff will ensure that all service providers who require any sort of payment turn in appropriate invoices. Angel Wings has secured an "Invoice Booklet" as well to allow certain service providers (i.e.: cleaning staff) to write an invoice each time a service is provided so that it comes directly from the provider.*
2. *Receipts:*
 - a. *Effective immediately, all Angel Wings staff will submit a copy of the first page of their phone bill along with their expense report as back up for the reimbursement. This will be done through the new online*

Angel Wings Family Services, Inc.

expense/receipt tracking system. The Executive Director/LCPAA will ensure this.

b. Angel Wings has secured an online receipt tracking system that not only captures electronic images of the receipts, but also captures the "Reason" for the transactions and codes the transaction according to Cost Report Guidelines. This system will be operational by 10/31/17. The Executive Director/LCPAA will ensure this.

3. The original lease document was found at the location of the previous lease after the onsite audit. Angel Wings will ensure that all leases, contracts, and agreements are kept on-site at the corporate office available for review by DFPS at all times. The Executive Director/LCPAA will ensure this.

Chapter 4-B

Angel Wings Family Services, Inc. Did Not Consistently Comply with the Department's Requirements for Monitoring Foster Homes

Chapter 4-B
Rating:
Medium²⁰

The provider did not consistently comply with Department requirements for documenting its quarterly monitoring visits for the 26 foster homes tested that the provider reported as active during the time period from January 1, 2016, to December 31, 2016.

The provider had documentation showing that it performed a visit every quarter as required for 25 (96 percent) of the 26 foster homes tested. For one foster home, the provider conducted one quarterly visit a month late. However, for 25 (96 percent) of 26 foster homes tested, the provider did not consistently document certain information the Department required (see text box for additional information about monitoring visit requirements). For example, for 20 foster homes, monitoring reports did not indicate who was present during the visit or whether all family members were present for two of the quarterly visits as required.

Monitoring Visit Requirements

Title 40, Texas Administrative Code, Section 749.2815, requires providers to evaluate and document at least once every quarter: (1) any change to household members, frequent visitors, or persons who will provide support as a caregiver; (2) any major life change in the foster family; (3) any change to the foster home disaster and emergency plans; and (4) any challenging behaviors of the current children in the home, the level of stress the family is currently experiencing, and any **methods for responding to each child's** challenging behavior and/or alleviating any significant stress the foster family is experiencing.

In addition, a monitoring report identified one individual as a household member; however, the provider could not produce any other required

²⁰ Chapter 4-B is rated Medium because the Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

Angel Wings Family Services, Inc.

information about that individual. As a result, auditors could not determine whether the provider complied with background check requirements for that individual (see background check section below for further discussion).

The provider generally ensured that foster parents were present during the visits and/or signed the monitoring reports as required. Specifically, based on the provider's monitoring records:

- For 9 (90 percent) of 10 applicable foster homes tested, both foster parents were present during visits at least every 6 months as required.
- For 25 (96 percent) of the 26 foster homes tested, the monitoring reports were signed by the foster parent(s) as required.

The provider's foster home monitoring plan in effect at the time the monitoring visits tested occurred did not address all requirements. However, the provider adopted a new monitoring plan in May 2017 that addressed all requirements.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department standards. It is crucial that the results of the monitoring visits address all of the required components because the monitoring visits may be the only opportunity for the provider to identify situations that could put the children in the home at risk and to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Recommendations

The provider should:

- Conduct all foster home monitoring visits as required and improve its monitoring processes to ensure that (1) its monitoring reports address and document all elements required, and (2) household members, frequent visitors, and other individuals are sufficiently documented on monitoring reports to facilitate background checks as required.
- The provider should ensure that its case managers comply with the new monitoring plan for all foster home monitoring visits.

Angel Wings Family Services, Inc.

Management's Response

1. *Effective immediately, Angel Wings management has made changes to all quarters of the Foster Home Monitoring form. The new form addresses all of elements in the Texas Administrative Code; some of the changes include:*
 - *Indicate planned or unannounced visit*
 - *All household members present*
 - *List of household members present during visit*
 - *Expiration of Fire and Health Inspections*
 - *Mandatory documents posted*
2. *Effective immediately, Angel Wings management has trained case managers on how to properly complete a thorough home monitoring and how to accurately fill out the form. The Executive Director/LCPAA will ensure this.*
3. *Effective immediately, Angel Wings has obtained an outside consultant to audit all client and family files. As part of the audit will be to ensure that all forms as completed correctly and have all the necessary signatures.*

Chapter 4-C

Angel Wings Family Services, Inc. Did Not Consistently Conduct Background Checks Within the Required Time Frames

Chapter 4-C
Rating:
Medium²¹

The provider did not always conduct background checks within the required time frames for employees, foster parents, household visits, caregivers, and frequent visitors who were reported active during the time period from January 1, 2016, to March 31, 2017. Of the 124 individuals tested, the provider did not conduct background checks for 12 (9.7 percent) individuals in compliance with requirements. Of those 12 individuals, two were foster parents. Auditors also determined that the provider conducted some background checks up to 300 days late.

In addition, the provider did not sufficiently document information about household members, caregivers, and frequent visitors who were active during the time period specified above to ensure that it complied with

²¹ Chapter 4-C is rated Medium because the Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

Angel Wings Family Services, Inc.

background check requirements. For example, four individuals identified as household members or caregivers on foster home monitoring reports did not have documented start dates. While the provider conducted background checks on those four individuals, auditors could not determine whether it conducted those checks within the required time frames.

In addition, the provider did not adequately track foster family members. The provider gave auditors a list of its active foster parents from January 1, 2016, through March 31, 2017. However, auditors subsequently determined that list was not complete and identified nine additional individuals that the Department reported had foster children in their care and were paid as foster parents; therefore, those individuals should have been included on the list.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's current employees and foster families²² active as of March 31, 2017. Based on the results of those checks, none of the provider's employees or foster families had misdemeanor or felony convictions that would pose a risk to children in the provider's care.²³ (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Develop and implement a process to ensure it conducts background checks for foster family members within the required time frames.
- Develop and implement a process to track the all household members, frequent visitors, caregivers, and volunteers, including start dates, to ensure that background checks are conducted every 24 months as required.

²² Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

²³ *An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice* (State Auditor's Office Report No. 16-025, May 2016) determined that some cases take one or more years to proceed through the legal system, which indicates criminal history background check results may be incomplete.

Angel Wings Family Services, Inc.

Management's Response

1. *Angel Wings uses a high secure Client Database. Historically, Angel Wings Management has used a binder and spreadsheets to track Background check dates. However, Angel Wings Management began using the Client Database to enter and track all foster home, household members, respite caregivers, and frequent visitors. All current individuals associated with Angel Wings foster homes are now entered into the Client Database. Additionally, changes were recently made to the database to make entering and tracking these individuals more easily. Angel Wings Management will continue to use this method moving forward to ensure ongoing re-occurring compliance with the standard. The Executive Director/LCPAA will ensure this.*
2. *Angel Wings Foster Home Management will send out a memorandum to all Foster Homes notifying them that any failure to report new caregivers or new frequent visitors (who were not part of the original or past background check processing) will be put on a Correct Action by Angel Wings, and could face immediately License Rescinding. This information will also be communicated in Orientation for new families, and put in the Foster Parent Agreement as part of the contract between the foster family and Angels Wings. This will be effective 11/1/17, and be enforced by the Executive Director/LCPAA.*
3. *Monitoring*
 - a. *Angel Wings currently update each family's new caregivers and frequent visitors in the home quarterly and then run the checks. Beginning 11/1/17, All Case Management staff will use the same form on a monthly basis. They will question the family about any "new" caregivers or frequent visitors, add them to the form, and then immediately follow up with an email containing the Background Check Consent Form. Quarterly, the Case Manager will then verify the list of caregivers and frequent visitors on the Quarterly Monitoring Report.*
 - b. *Caregivers and frequent visitors will also be re-verified upon the due date for the resubmission of background checks. At any time a caregiver or frequent visitor is no longer part of the foster home record, that individual will be removed from the ongoing list for the home. The Executive Director/LCPAA will ensure this.*
4. *The Client Database is also able to run reports of all of these foster family individuals and show their last submitted and next due date.*

The Settlement Club, Inc. (provider) generally complied with cost reporting requirements and accurately reported on its cost report for fiscal year 2016 all of the expenditures that auditors tested. However, the provider should strengthen controls over its case management system to ensure that the data is secure.

In addition, the provider should strengthen its processes for conducting background checks for the employees of its general residential operation to ensure that it complies with Department requirements.

The Settlement Club, Inc. Background Information ^a	
Location	Austin, TX
Contract services audited	General residential operation (group home)
Number of years provider had contracted with the Department of Family and Protective Services (Department) as of August 31, 2017	9
Number of children served	83
Total revenue from the Department for general residential operations	\$2,560,796
Total expenditures reported on 2016 cost report	\$3,275,856
Federal tax filing status	Non-profit corporation
Number of staff as of May 31, 2016	122
^a From June 1, 2015, through May 31, 2016.	

Sources: The Settlement Club, Inc. and the Department.

The Settlement Club, Inc.

Chapter 5-A

The Settlement Club, Inc. Generally Complied with Cost Reporting Requirements; However, It Should Strengthen Its Controls Over Its Case Management Data

Chapter 5-A
Rating:

Low²⁴

The provider generally complied with cost reporting requirements.

The provider generally complied with cost reporting requirements, including requirements for disclosing related party transactions, and accurately reported on its cost report for fiscal year 2016 all of the expenditures that auditors tested. The provider reported \$3,275,856 in expenditures for providing 24-hour residential child care services on its fiscal year 2016 cost report. (See Appendix 3 for a summary of requirements for cost reports and financial records.)

All of the expenditures tested were generally allowable, adequately supported, and accurately reported on the provider's fiscal year 2016 cost report in accordance with the cost reporting requirements for direct and administrative expenditures and payroll expenditures.

The provider should strengthen controls over its case management system.

The provider did not have adequate information technology controls to help ensure that the data in its case management system, which it uses for tracking confidential data about the children in its care and other information about its general residential operations program, is secure. Specifically:

- Auditors identified two user accounts with inappropriate access to create new client and family records; that access was not required based on the users' job duties.
- One unassigned generic user account had an inappropriate level of access to create client and family records.

To minimize security risks, auditors communicated other information related to control weaknesses separately in writing to the provider.

²⁴ Chapter 5-A is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Recommendations

The provider should:

- Restrict access to its case management system to only individuals whose job duties require that access.
- Perform and document a periodic review of all access to its case management system to verify that access is appropriate based on users' job duties and that generic user accounts do not have the ability to modify records.

Management's Response

- *Restrict access to its case management system to only individuals whose job duties require that access.*

The Settlement Home agrees that access to the agency's case management system should be limited to employees based on the requirements to their job. Our IT department has addressed this issue and has reviewed our current employee access and has evaluated and made adjustments to levels of access where necessary.

- *Perform and document a periodic review of all access to its case management system to verify that access is appropriate based on users' job duties and that generic user accounts do not have the ability to modify records.*

Our Systems Administrator will perform periodic reviews to ensure the proper access level for all employees. The generic account that was identified as an issue has been terminated from our system.

Chapter 5-B

The Settlement Club, Inc. Did Not Consistently Comply with the Department's Requirements for Conducting Background Checks

Chapter 5-B
Rating:
Medium ²⁵

The provider did not comply with background check requirements for 7 (4 percent) of 177 employees and volunteers tested who provided services for its general residential operations program from June 1, 2015, through March 31, 2017. For example, five employees and two volunteers, the provider did not conduct all required background check results prior to the individuals' start dates.

The provider also did not have written policies and procedures for conducting initial and renewal background checks. Having documented policies and procedures could help the provider ensure that it consistently conducts background checks within the required time frames.

During fieldwork for this audit, auditors conducted Department of Public Safety name-based criminal background checks on the provider's current employees and identified volunteers and visitors active as of March 31, 2017. Based on the results of those checks, the individuals tested did not have misdemeanor or felony convictions that would pose a risk to children in the provider's care.²⁶ (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Conduct background checks for all employees within the required time frames.
- Develop and implement written policies and procedures for conducting initial and renewal background checks.

²⁵ Chapter 5-B is rated Medium because the Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

²⁶ *An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice* (State Auditor's Office Report No. 16-025, May 2016) determined that some cases take one or more years to proceed through the legal system, which indicates criminal history background check results may be incomplete.

Management's Response

- *Ensure it performs background checks for all employees within the required time frames.*

The Settlement Home disagrees with all but one background check. After reviewing the issues identified, we've determined that we did comply with the required background checks per the DFPS Minimum Standards 745.626. Going forward, we will ensure that all background checks will be performed within the required time periods to make sure we are 100% compliant.

- *Develop written policies and procedures for conducting initial and renewal background checks.*

The Settlement Home will develop a clear policy and procedure for conducting initial and renewal background checks. The agency's Human Resources Director will be responsible for implementing and following the policy and procedures to ensure compliance.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors and verify whether the selected contractors are spending federal and state funds on required services that promote the well-being of foster children in their care.

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

Scope

The scope of this audit included the fiscal year 2016 cost reporting period for five residential foster care contractors (providers) that provided 24-hour residential child care services for the Department. Auditors also conducted Department of Public Safety name-based criminal background checks on all of the providers' current employees and foster families²⁷ as of March 31, 2017.

Methodology

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

- Angel Wings Family Services, Inc.
- Azleway, Inc.
- The Bair Foundation of Texas.
- Benchmark Family Services, Inc.
- The Settlement Club, Inc.

²⁷ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

Additionally, the audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and interviewing management and staff at the Department and the providers.

Data Reliability and Completeness

Auditors assessed the reliability of the data used in the audit and determined the following:

- All five providers had financial data and payroll data that was sufficiently reliable for purposes of this audit.
- All three providers that had a case management system—Angel Wings Family Services, Inc.; Azleway, Inc.; and Benchmark Family Services, Inc.—had case management data that was sufficiently reliable for the purposes of this audit.
- All five providers had employee lists that were sufficiently reliable to perform audit procedures related to employee background checks. However, auditors identified issues that are discussed in the report chapters.
- All four child placing agencies—Angel Wings Family Services, Inc.; Azleway, Inc.; The Bair Foundation of Texas; and Benchmark Family Services, Inc.—had foster family lists, including foster parents, caregivers, and household members, that were sufficiently reliable to perform audit procedures related to foster home monitoring and background checks. However, auditors identified issues that are discussed in the report chapters.

Sampling Methodology

Auditors selected nonstatistical samples to test the following:

- Foster home monitoring.
- Foster parent payments.
- Payroll expenditures.
- Direct and administrative expenditures.
- Asset management.

The samples listed above were selected primarily through random selection designed to be representative of the population. In some cases, auditors selected additional items for testing based on risk. Those sample items

generally were not representative of the population. The test results as reported did not identify which items were selected randomly or risk-based. Therefore, it would not be appropriate to project those test results to the population.

Information collected and reviewed included the following:

- Information from interviews with the Department's residential child 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 and supporting documentation, including records and supporting documentation for payroll expenditures and direct and administrative expenditures.
- Providers' personnel files.
- Providers' foster home monitoring plans, monitoring files, and records for payments to foster parents.
- Providers' policies and procedures, including policies and procedures for information technology.
- Lists of the providers' employees, volunteers, foster parents, family members, frequent visitors, and caregivers.
- Information from the Department on the results of background checks that providers conducted.
- Information from the Department on the payments it made to providers.
- Background check results from the Department of Public Safety.
- An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice (State Auditor's Office Report No. 16-025, May 2016).

Procedures and tests conducted included the following:

- Tested internal controls and information technology controls at providers.
- Tested expenditures related to services provided to children.

- Tested related party expenditures.
- Tested payroll records.
- Tested payments that the providers made to foster parents.
- Compared each provider's general ledger, when available, to its cost report.
- Tested foster home monitoring records.
- Tested to determine whether providers conducted all required background checks on employees, volunteers, foster parents, family members, frequent visitors, and caregivers active during the 2016 cost reporting period. The required background checks were Department central registry checks, Department of Public Safety criminal history background checks, and Federal Bureau of Investigation fingerprint background checks (fingerprinting background checks were not required for frequent visitors). Auditors also conducted Department of Public Safety name-based criminal background checks on all of the providers' current employees and foster families²⁸ as of March 31, 2017.
- Reviewed Department of Public Safety criminal background check results for convictions that would prohibit a person from being present in a child-care operation for employees, volunteers, foster parents, family members, frequent visitors, and caregivers active during the 2016 cost reporting period.

Criteria used included the following:

- Code of Federal Regulations, Title 2, Part 200.
- Title 40, Texas Administrative Code, Chapters 745, 748, and 749.
- Title 1, Texas Administrative Code, Chapter 355.
- Texas Government Code, Section 2155.1442.
- Contracts between the Department and providers.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2016 24-RCC Cost Report*.
- The Department's *Licensed or Certified Child Care Operations: Criminal History Requirements*.

²⁸ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

- The Department's *Foster or Adoptive Homes: Criminal History Requirements*.

Project Information

Audit fieldwork was conducted from April 2017 through August 2017. 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:

- Kathy Aven, CFE, CIA (Project Manager)
- Jamie Kelly, MBA (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- George D. Eure, CPA
- John Felchak
- Jennifer Grant
- Willie J. Hicks, MBA, CGAP
- Nick P. Hoganson
- Alejandra Moreno del Angel, CPA
- Brianna C. Pierce, CPA
- Michelle Rodriguez
- Julia Youssefnia, CPA
- Robert G. Kiker, CGAP (Quality Control Reviewer)
- Cesar Saldivar, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Selected Requirements for Residential Child Care Providers

The following is a summary of (1) selected Health and Human Services Commission (Commission) and Department of Family and Protective Services (Department) requirements in the Texas Administrative Code and (2) selected requirements in the Commission's *Specific Instructions for Completion of the 2016 24-RCC Cost Report*. The requirements are related to residential child care providers' cost reporting, financial records, and foster home monitoring.

Cost Reporting

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.

- **Cost report submission.** Each separately licensed residential child care provider that has a contract with the Department to provide residential child care services during a fiscal year is required to submit a cost report to the Commission. A separate cost report is required 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, including all programs that are not related to the Department, at the licensed facility during the reporting period.
- **Accurate Cost Reporting.** Title 1, Texas Administrative Code, Section 355.102(c), states that providers are responsible for accurate cost reporting and for including in cost reports all costs incurred, based on an accrual method of accounting, that are reasonable and necessary.
- **Related Party Transactions.** Title 1, Texas Administrative Code, Section 355.102(i)(6), requires providers to disclose all related party transactions on the cost report for all costs that providers report, including related-party transactions occurring at any level in the provider's organization. Providers must make available, upon request, adequate documentation to support the costs incurred by the related party.
- **Allowable and Unallowable Costs.** Title 1, Texas Administrative Code, Section 355.102, states that allowable and unallowable costs, both direct and indirect, are expenses that are reasonable and necessary to provide contracted client care and are consistent with federal and state laws and regulations. When a particular type of expense is classified as unallowable, the classification means only that the expense will not be included in the database for reimbursement determination purposes because the expense is not considered reasonable and/or necessary.

Costs are “reasonable” if the amount spent is what a prudent and cost-conscious buyer would have spent. “Necessary” costs are appropriate and related to the provider’s operation and are not for personal or other activities not directly or indirectly related to the provision of contracted services. The classification does not mean that the providers may not make the expenditure.

- Cost allocation methods. Providers must use direct costing 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. Whenever direct costing of shared costs is not reasonable, providers must allocate costs either individually or as a pool of costs across the business components sharing the benefits. The allocation method must be a reasonable reflection of the actual business operations. Providers must apply any allocation method used for cost-reporting purposes consistently across all contracted programs and business entities. Providers must fully disclose any change in allocation methods for the current year from the previous year. Providers must obtain prior written approval from the Commission to use an unapproved allocation method.
- Reporting expenses. Providers may include only adequately documented, reasonable, necessary, and allowable program expenses incurred or accrued during the reporting period on their cost reports. The costs covering all of a 24-hour residential child care provider’s activities must be reported in accordance with the published Department guidelines, as well as with state and federal laws, rules, and regulations regarding allowable and unallowable costs.

Financial Records

- Title 1, Texas Administrative Code, Section 355.105(b)(2)(A), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports. It also requires providers to retain the records for at least 3 years and 90 days after the end of the contract period.
- The Commission’s *Specific Instructions for the Completion of the 2016 24-Hour RCC Cost Report* lists in detail the records that providers must retain, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, loan documents, asset records, inventory records, minutes of board of directors meetings, work papers used in the preparation of a cost report, trial balances, and cost allocation spreadsheets.

Foster Home Monitoring

- Title 40, Texas Administrative Code, Section 749.2815, requires child placing agencies to conduct supervisory visits (1) in foster homes on at least a quarterly basis; (2) with both foster parents, if applicable, at least once every six months; and (3) with all household members at least once a year. At least two visits per year must be unannounced. Each visit must be documented in the foster 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 Child Care Provider

Title 40, Texas Administrative Code, Section 745.613, states that the purpose of a background check 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 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. Checks conducted by the Department of Public Safety for crimes committed in Texas.
- Fingerprint-based criminal history checks. Checks conducted by the Department of Public Safety and the Federal Bureau of Investigation for crimes committed in Texas and crimes committed anywhere in the United States, respectively.
- Central registry checks. Checks conducted by the Department of Family and Protective Services. The central registry is a database of people whom the Department of Family and Protective Services' Child Protective Services unit, Adult Protective Services unit, or Licensing unit have found to have abused or neglected a child.
- Out-of-state central registry checks. Checks 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 745.615, does not require fingerprint checks for frequent visitors.

Title 40, Texas Administrative Code, Section 745.651, specifies the types of criminal convictions that may preclude an individual from being present at a residential care provider. The Department of Family and Protective Services details those types of convictions in three charts²⁹ that specify whether a conviction permanently or temporarily bars a person from being present at an operation while children are in care, whether a person is eligible for a risk evaluation, and whether a person who is eligible for a risk evaluation may be present at the operation pending the outcome of the risk evaluation. Based on those charts, the following types of criminal convictions from the Texas

²⁹The Department of Family and Protective Services publishes three charts every January in the *Texas Register* and posts the charts on its Web site at http://www.dfps.state.tx.us/Child_Care/Child_Care_Standards_and_Regulations/Criminal_Convictions.asp.

Penal Code may preclude an individual from being present at a residential care provider:

- Title 4, Section 15.031 (criminal solicitation of a minor).
- Title 5 (offenses against the person). Examples of those offenses include criminal homicide, kidnapping, unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (offenses against the family). Examples of those offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order, and sale or purchase of a child.
- Title 7 (offenses against property). Examples of those offenses include arson, robbery, forgery, credit card and debit card abuse, breach of computer security, exploitation of a child, elderly individual, or disabled individual and online solicitation of a minor.
- Title 8 (offenses against public administration). Examples of those offenses include impersonating a public servant, failure to stop or report aggravated sexual assault of a child, and violations of the civil rights of a person in custody.
- Title 9 (disorderly conduct and related offenses). Examples of those offenses include stalking, animal abuse, dog fighting, prostitution-type offenses, obscene displays, and sexual performance by a child.
- Title 10 (offenses against public health, safety, and morals). Examples of those offenses include making a firearm accessible to a child and intoxication-related offenses.
- Title 11 (organized crime). Examples of those offenses include engaging in organized criminal activity and coercing/inducing/soliciting membership in a criminal street gang.
- Any like offense under the law of another state or federal law.

For any felony offense that is not listed in a Department of Family and Protective Services chart and that is within 10 years of the date of conviction or for which a person is currently on parole, the person must have an approved risk evaluation prior to being present at an operation while children are in care.

Title 40, Texas Administrative Code, Section 745.657, 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, labor trafficking, sex trafficking, emotional abuse, physical neglect, neglectful supervision, or medical neglect.
- Any central registry finding of child abuse or neglect (whether sustained or not) for which 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 745.659, specifies several possible consequences of having either a conviction listed in Title 40, Texas Administrative Code, Section 745.651, or a central registry finding in Title 40, Texas Administrative Code, Section 745.657. The Department of Family and Protective Services will notify the provider in writing:

- Whether the conviction permanently bars a person from being present at an operation while children are in care.
- Whether the conviction temporarily bars a person from being present at an operation while children are in care.
- Whether the provider may request a risk evaluation for a person. If that person is eligible for a risk evaluation, the Department of Family and Protective Services will determine whether the person may be present at an operation while children are in care pending the outcome of the risk evaluation.

Payment Rates for 24-hour Residential Child Care Providers

All 24-hour residential child care providers are paid a fixed daily rate for each child placed in their care based on each child's service level of care. Child placing agencies are required to reimburse foster families for clients receiving services under a contract with the Department of Family and Protective Services. Table 3 lists the 24-hour residential child care rates that were effective September 1, 2016. Table 4 lists the 24-hour child care rates that went into effect on September 1, 2017.

Table 3

24-hour Residential Child Care Daily Payment Rates Effective September 1, 2016			
Child's Service Level Classification ^a	Minimum Daily Rate Paid to Foster Family per Child	Daily Rate Paid to Child Placing Agency per Child	Daily Rate Paid to General Residential Operation per Child
Basic	\$23.10	\$43.71	\$45.19
Moderate	\$40.44	\$76.72	\$103.03
Specialized	\$51.99	\$101.86	\$162.30
Intense	\$92.43	\$186.42	\$260.95
^a Emergency shelter services are also provided at the daily rate of \$129.53.			

Source: The Department of Family and Protective Services.

Table 4

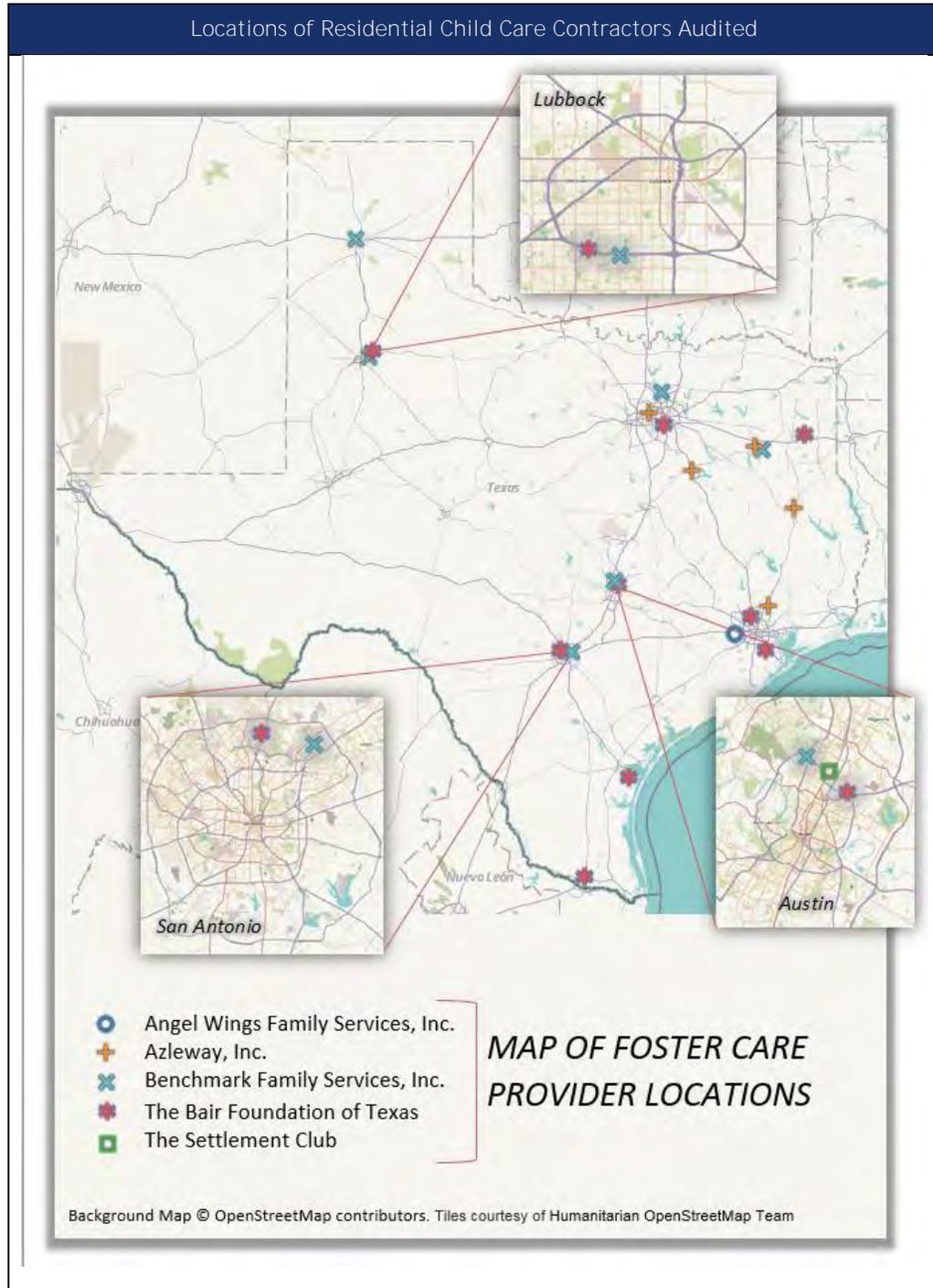
24-hour Residential Child Care Daily Payment Rates Effective September 1, 2017			
Child's Service Level Classification ^a	Minimum Daily Rate Paid to Foster Family per Child	Daily Rate Paid to Child Placing Agency per Child	Daily Rate Paid to General Residential Operation per Child
Basic	\$27.07	\$48.47	\$45.19
Moderate	\$47.37	\$85.46	\$103.03
Specialized	\$57.86	\$109.08	\$197.69
Intense	\$92.43	\$186.42	\$277.37
^a Emergency shelter services are also provided at the daily rate of \$129.53.			

Source: The Department of Family and Protective Services.

Map of Providers' Locations

Figure 1 shows the locations of the five residential child care contractors (providers) audited.

Figure 1



Source: The State Auditor's Office created the map based on information from the providers.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
17-011	An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors	October 2016
15-043	A Report on On-site Financial Audits of Selected Residential Foster Care Contractors	August 2015
14-043	A Report on On-site Audits of Residential Child Care Providers	August 2014
13-048	A Report on On-site Audits of Residential Child Care Providers	August 2013
13-036	An Audit Report on Caseload and Staffing Analysis for Child Protective Services at the Department of Family and Protective Services	May 2013
13-029	An Audit Report on Child Protective Services Funding, Direct Delivery Staff, and Disproportionality Efforts at the Department of Family and Protective Services	April 2013
12-050	A Report on On-site Audits of Residential Child Care Providers	August 2012
11-049	A Report on On-site Audits of Residential Child Care Providers	August 2011
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

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Mr. Charles Smith, Executive Commissioner

Department of Family and Protective Services

Mr. Henry "Hank" Whitman, Jr., Commissioner

Board Members and Executive Directors of the Following Providers Audited

Angel Wings Family Services, Inc.

Azelway, Inc.

The Bair Foundation of Texas

Benchmark Family Services, Inc.

The Settlement Club, Inc.



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