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A Report on

# **On-site Financial Audits of Selected Residential Foster Care Contractors**

August 2015  
Report No. 15-043



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## Overall Conclusion

Three of the five residential child care contractors (providers) audited accurately reported on their cost reports the majority of funds they expended for providing 24-hour residential child care services for fiscal year 2014. Those three providers were:

- The Devereux Foundation.
- Good Hearts Youth and Family Services, Inc.
- National MENTOR Healthcare, LLC.

Two providers audited had weaknesses in controls over their financial processes. As a result, auditors identified errors in the expenditures they reported on their cost reports for providing 24-hour residential child care services for fiscal year 2014. Those two providers were:

- New Beginnings Children's Home at Canaan Land Ranch, Inc.
- New Day Foundation.

## Key Points

Auditors identified internal control weaknesses at all five providers. Those control weaknesses are the responsibility of the providers and not their external accountants. Specifically:

- All five providers should strengthen their financial processes over expenditures.
- Three providers (National MENTOR Healthcare, LLC, New Beginnings Children's Home at Canaan Land Ranch, Inc., and New Day Foundation) should strengthen their efforts to consistently maintain documentation showing that they

### 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 revenue and expenditures on annual cost reports.

During fiscal year 2014, the Department had 314 contracts with 295 providers to provide residential child care on a 24-hour basis. This audit included two types of providers with which the Department contracts:

- Child placing agencies, which place or plan for the placement of a 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.

The Department received approximately \$397,462,117 for providing services to 16,961 children in foster care during fiscal year 2014. Approximately 59 percent of that amount came from the federal government and approximately 41 percent came from the State.

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

Sources: The Department's residential child-care contract for 2014; the Department's *Annual Report and Data Book 2014* (unaudited by the State Auditor's Office); the Health and Human Services Commission's *2014 Texas 24-hour Residential Child Care 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 Verma Elliott, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

accurately reported their expenditures associated with providing 24-hour child care services.

- Three providers (Good Hearts Youth and Family Services, Inc., New Beginnings Children’s Home at Canaan Land Ranch, Inc., and New Day Foundation) should improve the accuracy and classification of financial transactions they include on their cost reports.
- Two providers (New Beginnings Children’s Home at Canaan Land Ranch, Inc. and New Day Foundation) did not have any documented policies for their financial processes, did not have a formal expenditure process, and did not have adequate information technology controls to help ensure accurate financial record keeping and reporting.
- One provider (New Day Foundation) did not have a process to ensure that its external accountant accurately recorded its financial transactions or accurately prepared its cost report. Specifically:
  - It did not obtain an annual review of its fiscal year 2014 financial statements.
  - Its revenue in the general ledger and on its fiscal year 2014 cost report was prepared using the cash method of accounting instead of the required accrual method of accounting.
  - It did not record financial transactions in its general ledger on a consistent basis.
- One provider (New Day Foundation) was subject to three tax liens due to delinquent taxes during fiscal year 2014.

With the exceptions of New Beginnings Children’s Home at Canaan Land Ranch, Inc. and New Day Foundation, the providers generally complied with background check requirements on individuals such as employees, volunteers, foster parents, foster family members, and caregivers. However, all five providers should improve their processes to help ensure that they conduct those checks in a timely manner and as required.

Three of the five providers audited—The Devereux Foundation, Good Hearts Youth and Family Services, Inc., and National MENTOR Healthcare, LLC—were child placing agencies. All three of those providers properly paid foster parents accurately. Overall, two providers (The Devereux Foundation and Good Hearts Youth and Family Services, Inc.) complied with foster family monitoring requirements. One provider (National MENTOR Healthcare, LLC) did not consistently comply with foster family monitoring requirements.

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

## ***Summary of Management's Response***

The audited providers agreed with the recommendations addressed to them in this report.

## ***Summary of Information Technology Review***

The Devereux Foundation, Good Hearts Youth and Family Services, Inc., and National MENTOR Healthcare, LLC had adequate controls over information technology to help ensure accurate financial record keeping and reporting. New Beginnings Children's Home at Canaan Land Ranch, Inc. and New Day Foundation did not have appropriate input, processing, output, or audit trail controls over their accounting systems.

## ***Summary of Objective, Scope, and Methodology***

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors by verifying that 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 audits of selected residential child care providers that provide foster care services to the Department of Family and Protective Services (Department).

The audit scope included the fiscal year 2014 cost reporting period for five residential foster care contractors (providers) that provided services to the Department.

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

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

- Four providers (The Devereux Foundation, Good Hearts Youth and Family Services, Inc., National MENTOR Healthcare, LLC, and New Beginnings Children's Home at Canaan Land Ranch, Inc.) had financial data that was sufficiently reliable to perform audit procedures related to revenues, foster parent payments, payroll, and direct and administrative expenditures.

- One provider (New Day Foundation) had financial data that was of undetermined reliability to perform audit procedures related to revenues, payroll, and direct and administrative expenditures because auditors could not determine whether the general ledger extracted from the provider's accounting system was complete. However, auditors were able to reconcile the general ledger to the provider's trial balance and determined that the populations described above were sufficient for sampling purposes.
- All five providers had employee lists that were sufficiently reliable to perform audit procedures related to employee background checks.
- All three child placing agencies (The Devereux Foundation, Good Hearts Youth and Family Services, Inc., and National MENTOR Healthcare, LLC) had foster family lists, including foster parents, caregivers, and household members, that were sufficiently reliable to perform audit procedures related to foster family monitoring and background checks.

# Contents

## ***Detailed Results***

---

Chapter 1	
The Devereux Foundation .....	1
Chapter 2	
Good Hearts Youth and Family Services, Inc. ....	4
Chapter 3	
National MENTOR Healthcare, LLC.....	10
Chapter 4	
New Beginnings Children’s Home at Canaan Land Ranch, Inc. ....	15
Chapter 5	
New Day Foundation .....	22

## ***Appendices***

---

Appendix 1	
Objective, Scope, and Methodology .....	31
Appendix 2	
Selected Requirements for Residential Child Care Providers.....	37
Appendix 3	
Criminal Convictions and Other Findings That May Prohibit an Individual from Being Present at a Residential Child Care Provider .....	40
Appendix 4	
Payment Rates for 24-hour Residential Child Care Providers.....	43
Appendix 5	
Related State Auditor’s Office Work .....	44

## Detailed Results

Chapter 1

### The Devereux Foundation

The Devereux Foundation Background Information <sup>a</sup>	
Location	Victoria, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department	5
Number of children served	69
Total revenue from the Department	\$538,857
Total revenue for child placing agency services	\$538,857
Federal tax filing status	Non-profit corporation
Number of staff at year end	13
<sup>a</sup> From July 1, 2013, through June 30, 2014.	

Sources: The Devereux Foundation’s fiscal year 2014 cost report and State Auditor’s Office analyses.

The Devereux Foundation (provider) accurately reported on its cost report the funds it expended for providing 24-hour residential child care services for fiscal year 2014. However, the provider should strengthen certain controls over its financial processes to help ensure that it accurately reports non-cash transactions, such as accruals and allocated expenditures.

Overall, the provider complied with the Department of Family and Protective Services’ (Department) foster family monitoring and background check requirements. However, it should ensure that it conducts the background checks within the required time frames.

**The provider complied with cost reporting requirements.**

The provider accurately reported \$609,499 in expenditures on its fiscal year 2014 cost report and complied with the cost reporting requirements. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

Overall, the provider’s expenditures were allowable, adequately supported, and accurately reported on its fiscal year 2014 cost report in accordance with the cost reporting requirements for direct and administrative expenditures, allocated overhead expenditures, and payroll expenditures.

The provider received the appropriate amount of revenue from the Department for all 30 revenue transactions tested for \$48,390 based on the children’s level of care, number of days of service, and the contracted rate. Additionally, it maintained adequate supporting documentation for revenue it received from the Department. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

The provider appropriately disclosed all related party transactions on its fiscal year 2014 cost report in accordance with the cost reporting requirements.

# The Devereux Foundation

**The provider had adequate controls over financial processes; however, it should strengthen its controls over non-cash transactions.**

Overall, the provider implemented certain financial controls, such as requiring approvals for its direct and administrative expenditures and foster parent expenditures. However, it did not require documented approvals for non-cash transactions, such as expenditure accruals or overhead costs allocated by the corporate office to the provider. Specifically:

- Two (3 percent) of 61 direct and administrative expenditure transactions tested were accruals totaling \$415 that did not have documented approvals.
- All 30 allocated overhead transactions tested totaling \$3,594, or 2 percent of total overhead expenditures, did not have documented approvals.

Not requiring documented approvals of non-cash transactions creates a risk that unauthorized transactions could go undetected.

The provider had adequate controls over its information technology to help ensure accurate financial record keeping and reporting.

**The provider complied with foster family monitoring requirements.**

The provider performed monitoring for all 19 foster care homes tested as required by state rules. (See Appendix 2 for requirements for foster parent monitoring.)

For all 30 of the foster parent payments tested totaling \$27,110, the provider properly paid its foster parents the required amounts according to the children's level of care and days of service. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

**Overall, the provider complied with background check requirements; however, it should ensure that it conducts those checks as required.**

Auditors tested the provider's background checks for 15 employees who provided foster care services and 134 members of foster families, including caregivers, from July 2013 through March 31, 2015. Overall, the provider complied with background check requirements for those individuals. However, the provider did not perform a fingerprint background check by the due date for one foster family member as required by Title 40, Texas Administrative Code, Section 745.616. The provider asserted that the family member was not required to have a fingerprint background check because that individual became an inactive household member prior to the due date and did not have direct access to children; however, auditors could not verify that assertion.

Based on the results of the Department of Public Safety criminal background checks that auditors conducted, at the time of the audit, none of the provider's

# The Devereux Foundation

employees or foster family members had misdemeanor or felony convictions that would pose a risk to children in the provider's care. (See Appendix 3 for additional information about background check requirements.)

## Recommendations

The provider should:

- Develop and implement a process to document its review and approval of non-cash transactions, such as accruals and allocated overhead costs.
- Perform background checks for foster family members within the required time frames stated in the Texas Administrative Code.

## Management's Response

	Recommendation	Person Responsible For Implementing the Corrective Action	Timeline for Implementation
1	<i>The provider should develop and implement a process to document its review and approval of non-cash transactions, such as accruals and allocated overhead costs.</i>	<i>Director of Finance Executive Director</i>	<i>December 2015</i>
2	<i>The provider should perform background checks for foster family members within the required timeframes as stated in the Texas Administrative Code.</i>	<i>Director of Human Resources Human Resources Manager Executive Director</i>	<i>August 2015</i>

# Good Hearts Youth and Family Services, Inc.

Chapter 2

## Good Hearts Youth and Family Services, Inc.

Good Hearts Youth and Family Services, Inc. Background Information <sup>a</sup>	
Location	Houston, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department	5
Number of children served	163
Total revenue from the Department	\$1,779,929
Total revenue for child placing agency services	\$1,780,601
Federal tax filing status	Non-profit corporation
Number of staff at year end	14

<sup>a</sup> From January 1, 2014, through December 31, 2014.

Sources: Good Hearts Youth and Family Services, Inc.'s fiscal year 2014 cost report and State Auditor's Office analyses.

Good Hearts Youth and Family Services, Inc. (provider) accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2014. However, the provider should strengthen its financial processes to ensure that it accurately reports expenditures on its cost report and strengthen its controls over its expenditure approvals.

The provider generally complied with the Department of Family and Protective Services' (Department) foster family monitoring and background check requirements. However, it should ensure that it conducts background checks within the required time frames.

**The provider generally complied with cost reporting requirements; however, it should ensure that it accurately reports expenditures on its cost report.**

The provider accurately reported the majority of its \$1,750,084 in expenditures on its fiscal year 2014 cost report and generally complied with the cost reporting requirements. (See Appendix 2 for a summary of requirements for cost reports and financial records.) The provider relied on its external accountant to prepare its cost report; however, it is the provider's responsibility to ensure that its cost report is accurate.

The provider's fiscal year 2014 cost report had a net understatement of \$12,636 for 13 employee benefit expenditure line items because its external accountant did not accurately record the provider's expenditures for employee vacation amounts when preparing the cost report.

Additionally, the provider's fiscal year 2014 cost report misclassified 7 expenditure line items totaling \$50,876. Specifically:

- ♦ Two line items—the treatment coordinator salaries line item and the treatment coordinator benefits line item—included salaries and benefits totaling \$28,094 that should have been reported as case worker expenditures. Those two line items were also affected by the employee benefit issues discussed above.
- ♦ The other direct care non-labor cost line item included foster parent certification costs totaling \$2,532 that should have been reported as training.
- ♦ The contract administrative services line item included staff training costs that should have been reported as staff development. It also

# Good Hearts Youth and Family Services, Inc.

included foster parent training costs that should have been reported as training. The total amount misclassified was \$7,298.

- ♦ The other transportation expenses line item included employee mileage and meals that should have been reported as travel and seminars. It also included car insurance costs that should have been reported as insurance. The total amount misclassified was \$10,888.
- ♦ The administrative staff travel and training line item included staff drug screenings and tuberculosis screenings that should have been reported as staff vaccinations. It also included fingerprinting costs that should have been reported as other expenses. The total amount misclassified was \$1,215.
- ♦ The federal payroll tax line item included unemployment taxes totaling \$849 that should have been reported as unemployment taxes.

The provider's payroll expenditures tested were allowable, adequately supported, and accurately reported on its fiscal year 2014 cost report in accordance with the cost reporting requirements.

Overall, the provider's direct and administrative expenditures tested were allowable and adequately supported on its fiscal year 2014 cost report. However, its expenditures were not always accurately reported on its cost report in accordance with the cost reporting requirements. Specifically, of the 60 direct and administrative expenditures tested, 16 (27 percent) expenditures totaling \$10,157 were misclassified on the provider's fiscal year 2014 cost report. Of the misclassifications, \$9,199 were in addition to the cost report misclassifications discussed on the first page of this chapter.

The provider received the appropriate amount of revenue from the Department for all 30 revenue transactions tested for \$52,707 based on the children's level of care, number of days of service, and the contracted rate. Additionally, it maintained adequate supporting documentation for revenue it received from the Department. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

The provider did not appropriately disclose related party transactions on the supplemental schedules on its fiscal year 2014 cost report. Specifically, the provider did not report a \$34,500 loan between the provider and its executive director.

**The provider had adequate controls over financial processes; however, it should strengthen its controls over its expenditures.**

The provider implemented certain financial controls, such as requiring approvals for its expenditure reimbursements to employees; however, it did not require documented approvals for its non-reimbursable expenditures. Of the 60 direct and administrative expenditures tested, 43 (72 percent)

# Good Hearts Youth and Family Services, Inc.

expenditures totaling \$35,881 were for non-reimbursable expenditures; therefore, they did not require documented approvals. The provider asserted that those expenditures were approved verbally. However, not requiring documented approvals increases the risk that an unauthorized transaction could be processed and funds could be misappropriated.

The provider had adequate controls over its information technology to help ensure accurate financial record keeping and reporting.

## **The provider generally complied with foster family monitoring requirements.**

The provider generally complied with foster family monitoring requirements but did not always conduct monitoring visits as required by state rules. (See Appendix 2 for requirements for foster parent monitoring.) Specifically:

- For 2 (17 percent) of 12 applicable foster homes tested, the provider did not conduct a monitoring visit with both foster parents present every 6 months as required.
- For 2 (7 percent) of 28 applicable foster homes tested, the provider did not conduct a monitoring visit with all household members present at least once during the year as required.

For all 30 of the foster parent payments tested totaling \$28,842, the provider properly paid its foster parents the required amounts according to the children's level of care and days of service. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

## **The provider generally complied with background check requirements; however, it should ensure that it conducts required checks for all employees and foster family members as required.**

Auditors tested the provider's background checks for 25 employees who provided foster care services and 97 members of foster families from January 2014 through March 31, 2015. The provider generally complied with background check requirements for those individuals. However, the provider did not perform the background checks on one employee and three foster family members as required. Specifically:

- For one employee, the provider did not perform a fingerprint background check by the due date as required by Title 40, Texas Administrative Code, Section 745.616. That check was conducted 59 days late.
- For two foster family members, the provider did not perform the fingerprint background checks as required by Title 40, Texas Administrative Code, Section 745.616. The provider was not able to provide evidence that those checks were performed.

# Good Hearts Youth and Family Services, Inc.

- For one foster family member, the provider did not have the required background checks within the previous two years as required by Title 40, Texas Administrative Code, Section 745.625.

Based on the results of the Department of Public Safety criminal background checks that auditors conducted, at the time of the audit, none of the provider's employees or foster family members had misdemeanor or felony convictions that would pose a risk to children in the provider's care. (See Appendix 3 for additional information about background check requirements.)

## Recommendations

The provider should:

- Review the external accountant's preparation of its cost report to ensure that the report (1) accurately lists expenditures and (2) appropriately reports related party transactions in accordance with cost reporting requirements.
- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost reports.
- Develop and implement a process to document its review and approval of non-reimbursable expenditures.
- Improve its process over foster family monitoring to ensure that it performs all required monitoring per Texas Administrative Code.
- Perform background checks for employees and foster family members within the required time frames stated in the Texas Administrative Code.

## Management's Response

*The Provider should:*

- *Review the external accountant's preparation of its cost report to ensure that the report (1) accurately lists expenditures and (2) appropriately reports related party transactions in accordance with cost reporting requirements*

**Answer:** *Good Hearts Youth and Family Services agrees with this finding.*

*Good Hearts employed an internal book-keeping staff for 2014, for the year the audit was performed. The Good Hearts employee was not consistent in the GL Codes and also did not report any related parties to the external CPA for the CPA to report them. Since January 2015, Good Hearts has new processes and procedures in place to ensure that the GL codes are consistently used,*

# Good Hearts Youth and Family Services, Inc.

*reviewed, and are done in accordance with cost reporting requirements. Good Hearts Management will also work closely with the external CPA to ensure that all information given for the use of cost reporting is accurate.*

*Effective: Immediately*

*Responsible: Good Hearts Board of Directors, Good Hearts Executive Director, and C.P.A.*

- *Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost reports*

*Answer: Good Hearts Youth and Family Services agrees with this finding.*

*Good Hearts realized through the SAO audit that the former book-keeper staff was not consistent in all files with required documentation. Since January 2015, a new process has been put in place to ensure completeness and accuracy of all documentation that supports expenditures. The Executive Director now personally ensures that all back up is complete and accurate and all transactions can be reviewed at any time.*

*Effective Immediately*

*Responsible: Good Hearts Executive Director*

- *Develop and implement a process to document its review and approval of non-reimbursable expenditures*

*Answer: Good Hearts Youth and Family Services agrees with this finding.*

*The Board of Directors have voted and agreed that the Executive Director has permission to make purchase or expenditures that are under \$1,000 without Board Approval. However, all back up of each transaction must be filed appropriately and accurately after the transaction is made and the Board of Directors will review such transactions at least quarterly at Board Meetings when reviewing financials. Any purchase over \$1,000 must have prior written approval by the Board of Directors.*

*Effective Immediately*

*Responsible: Board of Directors and Executive Director.*

- *Improve its process over foster family monitoring to ensure that it performs all required monitoring per Texas Administrative Code*

*Answer: Good Hearts Youth and Family Services agrees with this finding.*

*The Foster Home Developers will complete quarterly monitoring inspections. During the 1st and 4th quarters the unannounced visits will be conducted. During the 2nd quarter the FHD's will visit all household*

## Good Hearts Youth and Family Services, Inc.

*members and will be interviewed. During the 3rd quarter both foster parents will be interviewed and present. Having specified times to complete the minimum standards requirements will help ensure that the minimum standards requirements are being met. The LCPAA will review all Quarterly Monitoring reports to ensure that the above requirements are met within the appropriate time frames.*

*Effective 9/1/15*

*Responsible: Foster Home Developers, LCPAA*

- *Perform background checks for employees and foster family members within the required timeframes as stated in the Texas Administrative Code*

*Answer: Good Hearts Youth and Family Services agrees with this finding.*

*The Executive Director or designee will complete all background checks prior to hire. Perspective foster parents and employees will not receive a hire date until all background check information has been obtained. This includes criminal background, FBI, and central registry checks. The Executive Director or designee, will assign a hire/start date for any new employee once the documents have been received. Good Hearts will not allow any potential foster family to proceed with the licensure process until all background documents have been received. These documents include criminal background checks, central registry, and FBI. The LCPAA or designee will give the approval for the potential foster parent to begin the licensure process once all the background documents have been obtained and in the file.*

*Effective Immediately*

*Responsible: Executive Director, LCPAA*

# National MENTOR Healthcare, LLC

Chapter 3

## National MENTOR Healthcare, LLC

National MENTOR Healthcare, LLC (Doing business as Texas MENTOR) Background Information <sup>a</sup>	
Location	Austin, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department	6
Number of children served	143
Total revenue from the Department	\$1,338,574
Total revenue for child placing agency services	\$1,338,574
Federal tax filing status	For profit limited liability company
Number of staff at year end	14
<sup>a</sup> From October 1, 2013, through September 30, 2014.	

National MENTOR Healthcare, LLC (provider) accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2014. However, the provider should maintain complete and accurate documentation that fully supports all expenditures in its general ledger and on its cost report. Additionally, it should strengthen certain controls over its financial processes to help ensure that it accurately reports expenditures.

Overall, the provider complied with the Department of Family and Protective Services' (Department) background check requirements. However, it did not always comply with foster family monitoring requirements. It should improve its processes to help ensure that it conducts background checks within the required time frames.

**The provider generally complied with cost reporting requirements for the expenditures for which it had supporting documentation; however, it should ensure that it maintains documentation that fully supports its cost report.**

Sources: National MENTOR Healthcare, LLC's fiscal year 2014 cost report and State Auditor's Office analyses.

The provider accurately reported the majority of its \$1,379,590 in expenditures on its fiscal year 2014 cost report and generally complied with the cost reporting requirements. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

For transactions tested with supporting documentation, the provider's expenditures were generally allowable and accurately reported in its fiscal year 2014 cost report. Specifically, the provider had supporting documentation for 45 (75 percent) of 60 direct and administrative expenditures tested, 29 (83 percent) of 35 overhead expenditures tested, and 23 (66 percent) of 35 payroll expenditures tested. However, it did not always maintain adequate supporting documentation in accordance with cost reporting requirements. Without supporting documentation, auditors could not determine whether \$7,947 in expenditures were allowable and accurately reported in its general ledger or on its fiscal year 2014 cost report. Specifically:

- For 15 (25 percent) of 60 direct and administrative expenditures tested totaling \$212, the provider did not maintain adequate supporting documentation.
- For 6 (17 percent) of 35 overhead expenditures tested totaling \$1,033, the provider did not have supporting documentation.

# National MENTOR Healthcare, LLC

- For 12 (34 percent) of 35 payroll expenditures tested totaling \$6,702, the provider did not maintain supporting documentation for vacation or sick leave paid.

The provider received the appropriate amount of revenue from the Department for all 30 revenue transactions tested for \$62,509 based on the children's level of care, number of days of service, and the contracted rate. Additionally, it maintained adequate supporting documentation for revenue it received from the Department. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

**The provider had adequate controls over financial processes; however, it should strengthen its processes for expenditure approvals.**

The provider implemented certain financial controls, such as requiring approvals for direct and administrative expenditures and foster parent expenditures. However, it did not ensure that it received approvals on all expenditures. Specifically:

- For all 7 (100 percent) hourly payroll expenditures tested totaling \$5,660, the provider did not have evidence of its approvals of time sheets because it did not maintain those time sheets. The time sheet approval errors are in addition to the \$7,947 in cost report errors discussed above.
- Four (7 percent) of 60 direct and administrative expenditures tested did not receive the required approvals according to the provider's policy.
- One (8 percent) of 12 overhead expenditures tested required an approval according to the provider's policy; however, it did not have evidence of that approval.

Not consistently documenting approvals increases the risk that an unauthorized transaction could be processed and funds could be misappropriated.

The provider implemented controls over revenue it received from the Department by using a form to track each child's level of care and days of service and by appropriately notifying the Department of an error in payment as required.

The provider had adequate controls over its information technology to help ensure accurate financial record keeping and reporting. The financial systems the provider used are maintained at the corporate level.

# National MENTOR Healthcare, LLC

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

The provider did not always comply with foster family monitoring requirements in state rules. (See Appendix 2 for requirements for foster parent monitoring.) Specifically:

- For 3 (10 percent) of 31 foster care homes tested, the provider did not conduct all required quarterly monitoring visits.
- For 3 (10 percent) of 31 foster care homes tested, the provider did not adequately document its quarterly monitoring visits due to incorrect documentation or lack of documentation by the child placement staff who conducted the visit.
- For 5 (16 percent) of 31 foster homes tested, the provider did not obtain signatures on the monitoring forms from the foster parents as required.
- For 4 (36 percent) of 11 applicable foster homes tested, the provider did not conduct a monitoring visit with both foster parents present every 6 months as required.
- For 1 (5 percent) of 22 applicable foster homes tested, the provider did not conduct a monitoring visit with all household members present at least once during the year as required.

Additionally, the provider did not retain documentation showing that it had a tracking system for its 2014 monitoring visits.

For all 34 foster parent payments tested totaling \$34,780, the provider properly paid its foster parents the required amounts according to the children's level of care and days of service. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

**Overall, the provider complied with background check requirements; however, it should ensure that it conducts those checks within the required time frames.**

Auditors tested the provider's background checks for 25 employees who provided foster care services and 229 members of foster families, including caregivers, from October 2013 through March 31, 2015. Overall, the provider complied with background check requirements for those individuals.

However, the provider did not perform the background checks as required for three employees as required. Specifically:

- For two employees, the provider did not ensure that the required central registry and criminal background checks were cleared prior to allowing those employees to have direct access to children in care, as required by Title 40, Texas Administrative Code, Section 745.626. Those checks were conducted 35 and 41 days late.

# National MENTOR Healthcare, LLC

- For one employee, the provider did not perform the fingerprint background check by the due date as required by Title 40, Texas Administrative Code, Section 745.616. That check was conducted 93 days late. The provider asserted that the employee did not have direct access to children; however, auditors were not able to verify that assertion.

Based on the results of the Department of Public Safety criminal background checks that auditors conducted, at the time of the audit, none of the provider's employees or foster family members had misdemeanor or felony convictions that would pose a risk to children in the provider's care. (See Appendix 3 for additional information about background check requirements.)

## Recommendations

The provider should:

- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost report.
- Ensure that expenditures receive the required approvals in accordance with its policy.
- Improve its process for foster family monitoring to ensure that it performs all required monitoring as required by the Texas Administrative Code.
- Perform background checks for employees within the required time frames stated in the Texas Administrative Code.

## Management's Response

1. *Recommendation: Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost report. Response: Findings are accepted as written. The Program Director will maintain each employee's expense reports, vacations requests, and time-sheets which includes all PTO (Paid Time Off) with the employee's personnel binder. When an employee is no longer employed with Texas MENTOR, their personnel binder will be maintained according to the MENTOR Network's Document Retention Schedule. This was implemented on May 1, 2015.*
2. *Recommendation: Ensure that expenditures receive the required approval in accordance with its policy, findings are accepted as written. Response: At the time of a change in office personnel, some of the time records were inadvertently purged prior to time of audit period of Oct 2013-Sept 14. Our practices have been modified so that situation does not repeat. Each employee submits their time-sheet with vacation and sick time used to the Program Director for approval. Once approved, the employee's time-*

# National MENTOR Healthcare, LLC

*sheet is submitted to the Human Resource Manager. The Program Director will maintain the employee time-sheets with the employee's personnel binder. The Human Resource Manager also maintains copies of employee time sheets. This process was implemented in February 2015.*

3. *Recommendation: Improve processes over foster family monitoring to ensure that it performs all required monitoring as required by the TAC, while conclusion of findings are accepted, monitoring visits did occur during the time period of Oct 2013-Sept 2014. Response: We concur there were a small number of missing signatures on home monitoring forms during the time period audited. Since October 1, 2014, Texas MENTOR revised our processes and have increased observation and monitoring of home monitoring forms to ensure visits include all required parties and signatures. Observations and monitoring are completed by the Program Director or Clinical Lead, and random spot checks are completed by Quality Assurance Staff.*
  
4. *Recommendation: Background checks are required for employees within the required timeframes as stated in the TAC. Response: We accept the findings as written. During the time period of the audit, Oct 2013-Sept 2014, 2 contract staff from the same program were inadvertently overlooked for required background checks. In addition, an office manager who had no direct responsibility of children, did not receive their FBI checks within the required timeframes. This was self-corrected once identified by Texas MENTOR monitoring staff. Since October 1, 2014, Texas MENTOR has improved their tracking system to include all staff and dates of background checks that can also be monitored by off site management and Quality Assurance Staff.*

# New Beginnings Children’s Home at Canaan Land Ranch, Inc.

Chapter 4

## ***New Beginnings Children’s Home at Canaan Land Ranch, Inc.***

New Beginnings Children’s Home at Canaan Land Ranch, Inc. Background Information <sup>a</sup>	
Location	San Antonio, TX
Contract services audited	General residential operation
Number of years provider has contracted with the Department	5
Number of children served	29
Total revenue from the Department	\$245,662
Total revenue for general residential operation services	\$308,904
Federal tax filing status	Non-profit organization, owned or affiliated with a religious organization
Number of staff at year end	11
<sup>a</sup> From January 1, 2014, through December 31, 2014.	

New Beginnings Children’s Home at Canaan Land Ranch, Inc. (provider) did not always accurately report on its cost report its expenditures and revenues associated with providing 24-hour residential child care services for fiscal year 2014. The provider should strengthen its processes to ensure that it (1) complies with cost reporting requirements to accurately report its expenditures and revenues, (2) maintains complete and accurate documentation that fully supports all expenditures in its general ledger and on its cost report, and (3) strengthens its controls over financial and information technology processes.

The provider also should improve its processes for performing background checks on its employees within the required time frames.

**The provider did not consistently comply with cost reporting requirements.**

The provider reported \$301,894 in expenditures and \$26,831,977 in revenues on its fiscal year 2014 cost report. Because of a data entry error, the provider significantly overstated its revenues. In addition, the provider did not always accurately report its

expenditures and revenues and did not consistently comply with cost reporting requirements. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

The data entry error, as well as errors in the provider’s general ledger and cost report that are discussed throughout this chapter, resulted in a net overstatement of \$26,530,925 on the fiscal year 2014 cost report. Most of that error was due to the misreporting of revenue from the Department of Family and Protective Services (Department). The provider relied on its external accountant to prepare its cost report; however, it is the provider’s responsibility to ensure that its cost report is accurate.

The provider’s fiscal year 2014 cost report was not supported by the provider’s general ledger for 8 (29 percent) of 28 cost report line items tested. For those 8 line items, the differences between the cost report and general ledger totaled \$1,712. The provider’s external accountant made adjustments to the amounts on the fiscal year 2014 cost report, but corresponding adjustments were not also recorded in the provider’s general ledger. The provider did not have supporting documentation for those adjustments; as a result, auditors

# New Beginnings Children's Home at Canaan Land Ranch, Inc.

were unable to verify the accuracy of the amounts listed on the fiscal year 2014 cost report.

The provider's fiscal year 2014 cost report misclassified 6 (21 percent) of 28 revenue and expenditure line items tested. Five of those 6 line items included revenues and expenditures totaling \$40,380. For example, the provider's revenue from the Department was overstated by \$22,248 because it included a misclassification of Medicare revenue. The misclassification amount for one line item could not be quantified due to a lack of documentation.

In addition, the provider's payroll expenditures were not adequately supported and accurately reported on a consistent basis on its fiscal year 2014 cost report. For 32 payroll transactions tested, the provider overstated its fiscal year 2014 cost report by \$3,172 because of errors. That amount is included in the net overstatement for the provider's fiscal year 2014 cost report. The payroll errors included the following:

- The provider used the incorrect pay rate for 4 (13 percent) of 30 applicable payroll expenditures tested because it did not use the pay rate contained in the personnel files to calculate the payroll expenditure amounts. Two payroll expenditures tested were bonuses and, therefore, not subject to a pay rate.
- The provider lacked adequate supporting documentation for 5 (16 percent) of the 32 payroll transactions tested. For four of those transactions, auditors could not verify the accuracy of the cost report due to insufficient documentation. One transaction for \$203 never occurred, but the provider still recorded it on its general ledger and carried it to the fiscal year 2014 cost report. (That transaction is not included in the issues discussed below.)
- The provider did not record 27 (87 percent) of 31 applicable payroll expenditures tested in the correct cost report line item. For 25 items, the employee portion of payroll taxes was recorded on an incorrect cost report line item and there was insufficient documentation to quantify the effect of that error. Two direct care expenditures totaling \$216 were classified incorrectly as administrative expenditures.
- The provider did not record 5 (16 percent) of 31 applicable payroll expenditures tested totaling \$2,051 in the correct fiscal year. Those five expenditures were incurred during the 2013 cost reporting period; however, the provider included the five expenditures on its fiscal year 2014 cost report.

Forty-five (70 percent) of 64 direct and administrative expenditure transactions tested were generally allowable and accurately reported in the provider's fiscal year 2014 cost report. For 14 (22 percent) transactions tested totaling \$2,021, the provider did not maintain adequate documentation in

# New Beginnings Children's Home at Canaan Land Ranch, Inc.

accordance with cost reporting requirements; as a result, auditors could not determine whether the expenditures were allowable and accurately reported on the provider's fiscal year 2014 cost report. Additionally, 5 transactions (8 percent) totaling \$968 included expenditures that were unallowable under the cost reporting requirements. Those unallowable expenditures included late fees, insufficient funds charges, and unallowable depreciation. The errors related to inadequate supporting documentation and unallowable expenditures are included in the total net overstatement amount for the fiscal year 2014 cost report.

For all 16 revenue transactions tested totaling \$23,531, the provider received the appropriate amount of revenue from the Department based on the children's level of care, number of days of service, and the contracted rate. Additionally, the provider maintained adequate supporting documentation for revenue it received from the Department. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

The president of the provider's board of directors made a \$5,300 loan to the provider. However, the provider did not appropriately disclose on the supplemental schedule on its fiscal year 2014 cost report a related party transaction for a \$450 loan repayment it made to the board president. That error was included in the total net overstatement amount for the fiscal year 2014 cost report. Additionally, the provider did not maintain supporting documentation for the original loan agreement.

**The provider did not have adequate controls over financial processes and information technology.**

The provider did not have adequate controls over its financial processes.

The provider had documented policies and procedures on information technology, background and criminal checks, safeguarding confidential information, records retention, conflicts of interest, and staff training and orientation. However, the provider had not updated those policies since they were created in 2009 and 2010, and the policies did not include any recent Department changes, such as the required Federal Bureau of Investigation fingerprint background checks and the required notification to the Department of any criminal indictments or related information.

The provider did not have any documented policies for its financial processes, including recording revenues and expenditures, reconciliation of Department payments, travel, asset inventories, and purchase processing.

The provider lacks segregation of duties for most financial processes. With the exception of payroll, which is processed by a third-party vendor, one individual is responsible for processing financial transactions and recording those transactions in the general ledger. Additionally, the provider did not have a formal expenditure approval process.

# New Beginnings Children's Home at Canaan Land Ranch, Inc.

Auditors determined that the provider's accounting data was sufficiently reliable for purposes of this audit. However, the provider did not have adequate information technology controls to help ensure accurate financial record keeping and reporting due to a lack of (1) physical security controls and (2) input, processing, output, and audit trail controls. Auditors communicated details about the control weaknesses separately in writing to the provider.

Not having adequate controls over its financial processes and information technology increases the risk that financial information could be misreported on the provider's general ledger and cost report, funds could be misappropriated, and confidential information could be breached.

**The provider should improve its processes for background checks to ensure that it conducts those checks on employees as required.**

Auditors tested the provider's background checks for 26 employees who provided foster care services from January 2014 through March 31, 2015. The provider ensured that its employees had the required background checks within the previous two years. However, the provider did not perform all background checks for its employees as required. Specifically:

- For three employees, the provider did not ensure that required central registry and criminal background checks were cleared prior to allowing those employees to have direct access to children in care, as required by Title 40, Texas Administrative Code, Section 745.626. Those checks were conducted between 3 and 23 days late. The provider asserted that those three employees were in training and did not have direct access to children until the background checks were completed. However, the provider did not have adequate supporting documentation to allow auditors to verify that assertion.
- For nine employees, the provider did not perform a fingerprint background check by the due date as required by Title 40, Texas Administrative Code, Section 745.616. Those checks were conducted between 20 and 62 days late.

Based on the results of the Department of Public Safety criminal background checks that auditors conducted, at the time of the audit, none of the provider's employees had misdemeanor or felony convictions that would pose a risk to children in the provider's care. (See Appendix 3 for additional information about background check requirements.)

# New Beginnings Children's Home at Canaan Land Ranch, Inc.

## Recommendations

The provider should:

- Review the external accountant's preparation of the cost report to ensure that (1) it accurately records revenues and expenditures in its general ledger and on its cost reports and (2) it appropriately reports all related party transactions in accordance with cost reporting requirements.
- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost reports.
- Develop and implement controls over financial process and information technology including:
  - ♦ Documenting policies and procedures for financial processes and regularly updating all policies and procedures.
  - ♦ Segregating duties between the processing of financial transactions and the recording of those transactions in its general ledger.
  - ♦ Documenting review and approval of expenditures.
  - ♦ Implementing physical security controls over computer equipment and storage devices used to process and/or save financial accounting information.
  - ♦ Implementing input, processing, output, and audit trail controls in its financial accounting system.
- Perform background checks for employees within the required time frames stated in the Texas Administrative Code.

## Management's Response

*Review the external accountant's preparation of the cost report to ensure the (1) it accurately records revenues and expenditures in its general ledger and on its cost reports and (2) it appropriately reports all related party transactions in accordance with cost reporting requirements.*

1. *New Beginnings Children's Home (NBCH) **agrees** with this recommendation and implemented the following procedures in March of 2015.*
  - a. *NBCH Director will continuously review financial information submitted to ensure that it accurately represents NBCH and meets the cost report requirement.*

# New Beginnings Children's Home at Canaan Land Ranch, Inc.

- b. *The Director will report all related party transactions in accordance with the cost report requirements*

*Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost report.*

1. *New Beginnings Children's Home agrees with this recommendation and as of August 2015 implemented a meeting with staff to communicate the importance of submitting all supporting documentation related to expenditures. The LCCA and the Director will continue to work with our external accountant on, matching our internal codes with related cost report code, coding expenditures accurately, and ensuring that all required documentation is presented prior to approval.*

*Develop and implement controls over financial process and information technology including:*

- *Documenting policies and procedures on financial processes and regularly update all policies and procedures.*
  1. *New Beginnings Children's Home **agrees** with the recommendation and is working with our external accountant and Governing Body Secretary to create/develop written policies and procedures for financial processes. The Director and LCCA will also review all policy and procedures every two years and make the necessary updates. Implementation will occur in September 2015*
- *Segregating duties between the processing of financial transactions and the recording of those transactions in its general ledger.*
  1. *New Beginnings Children's Home **agrees** with the recommendation and implemented the following procedures in February 2015 as it relates to financial transactions:*
    - a. *The program coordinator will coding all direct care expenses on a separate document prior to them being inputted into the general ledger*
    - b. *The Chief Financial Officer (CFO) will continue to provide oversight through monthly audits on bank statements and bank reconciliations.*
- *Documenting review and approval of expenditures and storage devices used to process and/or save financial accounting information.*
  1. *New Beginnings Children's Home **agrees** with the recommendation and beginning August 2015 will implement an approval from the Governing Body president on non-reoccurring expenditures exceeding*

# New Beginnings Children's Home at Canaan Land Ranch, Inc.

*\$500.00. The Director will utilize an email or meeting minutes as supporting documentation. IT controls were implemented to protect the confidentiality of all information processed or saved on storage devices.*

- *Implementing input, processing, output, and audit trail controls in its financial accounting system.*
  1. *New Beginnings Children's Home **agrees** with the recommendation however, at this time due to the size of the organization, The Governing Body does not elect to secure additional staff to support the financial accounting system. The Director, CFO, and the external accountant will continue to review the current processes in place and identify ways to improve the internal controls and oversight.*

*Perform background checks for employees within the required time frames as stated in the Texas Administrative Code.*

1. *New Beginnings Children's Home agrees with the recommendation and in January 2015 implemented a pre-hire and calendar procedure to ensure that all initial and annual background checks for employees are performed within the required time frame.*

## New Day Foundation

New Day Foundation Background Information <sup>a</sup>	
Location	Spring, TX
Contract services audited	General residential operation
Number of years provider has contracted with the Department	7
Number of children served	27
Total revenue from the Department	\$743,657
Total revenue for general residential operation services	\$774,118
Federal tax filing status	Non-profit
Number of staff at year end	21
<sup>a</sup> From January 1, 2014, through December 31, 2014.	

Sources: New Day Foundation's fiscal year 2014 cost report and State Auditor's Office analyses.

New Day Foundation (provider) had significant weaknesses in its financial processes that resulted in errors in the expenditures it reported on its cost report for providing 24-hour residential child care services for fiscal year 2014. The provider did not always maintain supporting documentation for expenditures, miscalculated and misclassified expenditures and revenues, and had ineffective processes over cost reporting and record keeping.

The provider did not consistently comply with the Department of Family and Protective Services' (Department) background check requirements and should improve its processes to help ensure that it conducts those checks as required.

**The provider did not consistently comply with cost reporting requirements.**

The provider reported \$798,947 in expenditures and \$845,826 in revenues on its fiscal year 2014 cost report.

However, it did not accurately report those expenditures and revenues and did not consistently comply with cost reporting requirements. (See Appendix 2 for a summary of requirements for cost reports and financial records.) The provider relied on its external accountant to record its financial transactions and prepare its cost report. However, it is the provider's responsibility to ensure that its cost report is accurate.

The provider's fiscal year 2014 cost report had a net overstatement of \$93,100 that was due to multiple errors in the general ledger and cost report that are discussed throughout this chapter.

The provider's fiscal year 2014 cost report was not supported by the provider's general ledger for 28 (70 percent) of 40 cost report line items tested. Additionally, auditors could not determine the accuracy of 20 of those 28 line items because they included adjustments totaling \$45,996 for which the provider lacked supporting documentation.

The provider's fiscal year 2014 cost report misclassified 23 (56 percent) of 41 cost report line items. That included all of its revenue totaling \$845,826 and expenditure line items totaling \$264,221.

# New Day Foundation

In addition to the cost report, providers must submit supplemental schedules to disclose additional information. The provider's fiscal year 2014 cost report did not contain accurate supplemental schedules. Identified errors are summarized below.

## Schedule A – Depreciation and Amortization

- Schedule A of the provider's fiscal year 2014 cost report erroneously listed depreciation for two trucks; however, it should have reported depreciation for one truck and two vans. As a result of that error, total depreciation on Schedule A was overstated by \$4,346 and prior period accumulated depreciation was overstated by \$16,892.
- The provider did not include on its fiscal year 2014 cost report \$3,000 in depreciation for a fire suppression system. That error was included in the overall net overstatement for the provider's fiscal year 2014 cost report.

## Schedule B – Related Party Transactions

- Schedule B of the provider's fiscal year 2014 cost report did not disclose \$49,500 in loan repayments the provider made to its executive director.
- The provider leased its house from the executive director; however, Schedule B of the provider's fiscal year 2014 cost report did not report those expenditures correctly. Specifically:
  - ♦ The cost of the house was overstated by \$3,746.
  - ♦ The prior period accumulated depreciation was overstated by \$2,558.
  - ♦ The total cost of the building lease with a related party was overstated by \$8,648.
- Additionally, auditors noted that the provider paid \$475 more to the executive director than was stated in its lease agreement.

## Schedule C – Related Party Compensation

Schedule C of the provider's fiscal year 2014 cost report did not correctly report the compensation for three related parties. Specifically:

- The executive director's compensation was overstated by \$3,269.
- The compensation for the facility manager, who is the executive director's brother, was overstated by \$17,914.
- Schedule C of the provider's fiscal year 2014 cost report also overstated the compensation for a barber, who was also a board member, by \$3,210. Because that board member was not an employee or contractor and did not

# New Day Foundation

receive direct compensation, the provider should not have listed that compensation or that person on Schedule C.

## **Additional Issues Identified Related to the Provider's Fiscal Year 2014 Cost Report**

The provider submitted its fiscal year 2014 cost report to the Health and Human Services Commission 30 days late. The cost report was due by March 31, 2015, but the provider submitted it on April 30, 2015.

In addition, mortgage and loan payments made to the executive director, totaling \$48,445, were recorded incorrectly in specific line items on the cost report: \$18,500 was classified as contract staff-treatment coordination psychological associate and \$29,945 was classified in the interest-transportation loans line item.

The provider's payroll expenditures tested were not always adequately supported or accurately reported on its cost report. Specifically:

- During payroll testing, auditors noted that one pay period was recorded twice in the provider's general ledger and on its fiscal year 2014 cost report. The double recording of salary payments comprised \$16,833 of the overall net overstatement for the provider's fiscal year 2014 cost report. Although the salaries were recorded twice in the provider's general ledger and cost report, the employees were not paid twice.
- The provider incorrectly calculated 23 (77 percent) of 30 payroll expenditures tested. The inaccuracies, totaling an underpayment of \$226, were carried to the salary line items recorded on the fiscal year 2014 cost report. Those errors resulted from miscalculations in the total number of hours worked and did not match auditors' recalculation of the amount that should have been paid to employees based on the hours worked according to time cards. Auditors could not determine whether 4 (13 percent) of the 30 items tested were correctly recorded on the fiscal year 2014 cost report due to lack of support for employee pay rates.
- The provider's payroll costs were not supported by employee time cards for 17 (85 percent) of 20 payroll expenditures tested. Fourteen items were understated by a total amount of \$354 and 1 item was overstated by \$128. The final 2 items had an overstatement and understatement that resulted in a net error of \$0.
- The provider did not have support in the personnel files for the pay rates for 14 (48 percent) of 29 applicable payroll expenditures tested.
- The provider did not record 10 (33 percent) of 30 applicable payroll expenditures tested in the correct cost report line item. The total dollar amount that should have been reported was \$3,929. That caused the cost report to be understated by \$60.

# New Day Foundation

Additionally, the provider's direct and administrative expenditures tested were not always adequately supported and allowable. Specifically:

- For 23 (37 percent) of 63 direct and administrative expenditures tested for the fiscal year 2014 cost report, the provider did not have adequate supporting documentation. Specifically:
  - ♦ Four expenditures tested totaling \$41,615 were adjustments made to the general ledger and were not purchases that were included on the cost report.
  - ♦ For 19 expenditures tested totaling \$2,381, the provider did not have detailed receipts available. Auditors traced 18 of the expenditures to the provider's bank statements and 1 expenditure to the summarized receipt. Although auditors determined that the expenditures were made, without detailed receipts auditors could not determine whether they were allowable or accurately reported in the provider's cost report.
- For 5 (8 percent) of 63 direct and administrative expenditures tested, the provider included costs that were unallowable according to the cost reporting requirements. Four of the 5 items tested totaled \$716 in unallowable costs; those costs included tips, late fees, nonsufficient fees, and a home warranty plan that should have been allocated over the life of the policy. One of the five expenditures tested was related to tax payments, penalties, and interest. However, for that expenditure, the provider had insufficient documentation showing how much of the total amount was for penalties and interest. Penalties and interest are unallowable costs.
- For 5 of 63 direct and administrative expenditures tested totaling \$246, the provider misclassified those expenditures on its fiscal year 2014 cost report. For example, one purchase was recorded as food when the purchase was for school supplies.

The provider received the appropriate amount of revenue from the Department for all 30 revenue transactions tested totaling \$127,548 based on the children's level of care, number of days of service, and the contracted rate. Additionally, it maintained adequate supporting documentation for revenue it received from the Department. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

# New Day Foundation

## **The provider had significant weaknesses in controls over its financial processes.**

The provider did not have adequate controls over its financial processes. The lack of adequate controls over the provider's financial processes contributed to the errors identified on the fiscal year 2014 cost report and expenditure testing. Examples of the inadequate controls included the following:

- The provider did not have any documented policies for its financial processes, including processes for recording revenues and expenditures, processing purchases, and taking an inventory of assets.
- The provider did not have a formal expenditure approval process.
- The provider did not have employees' signatures documented on time cards for 8 (40 percent) of 20 payroll expenditures tested.
- The provider did not obtain an annual review of its fiscal year 2014 financial statements as required by Title 40, Texas Administrative Code, Section 748.163.

The provider's accounting processes are a combination of the provider gathering financial documentation and providing that documentation to its external accountant, who then records the information in an electronic accounting system. However, those processes do not have appropriate input, processing, output, or audit trail controls. For example, the external accountant entered the same vendor name into the accounting system multiple times but spelled it differently each time, and the accountant also entered incorrect dates for purchases. Furthermore, the provider did not consistently provide the external accountant with receipts or other supporting documentation for financial transactions. As a result, the external accountant recorded the provider's expenditures on an inconsistent basis. Additionally, there was no documentation to show that the external accountant provided periodic financial reports to the provider for review to verify the accuracy of the financial information.

The provider relied on its external accountant, using the processes described above, to prepare its fiscal year 2014 cost report. However, the provider's processes were not sufficient to ensure that the external accountant accurately prepared the cost report. For example, not all revenue on the provider's fiscal year 2014 cost report was recorded using the accrual method of accounting. The cost reporting requirements require the cost report to be prepared using an accrual method of accounting.

The control weaknesses in the financial processes and the accounting system discussed above increase the risk of inaccurate financial reporting in the provider's general ledger and cost reports and increase the risk that funds could be misappropriated.

# New Day Foundation

Because it owed delinquent taxes from 2013, the provider had liens placed on it during 2014. Specifically:

- A school district placed two tax liens on the provider for delinquent 2013 taxes totaling \$873. The provider was assessed an additional \$349 in penalties and interest. The total \$1,222 amount was improperly included on the provider's fiscal year 2014 cost report. The provider paid the delinquent taxes and penalties in 2014.
- The Internal Revenue Service (IRS) placed a tax lien on the provider for delinquent payroll taxes. The provider was assessed \$6,633 in penalties and interest in 2014. Auditors tested 3 payments the provider paid to the IRS totaling \$22,100 during fiscal year 2014. Two of the payments were solely for payroll taxes. The third payment, for \$3,000, did not have sufficient documentation showing how much of the payment was for outstanding payroll taxes, penalties, and/or late fees. The IRS released the lien in March 2014.

**The provider should improve its processes for background checks to help ensure that it conducts those checks as required.**

Auditors tested the provider's background checks for 29 employees who provided foster care services from January 2014 through March 31, 2015. The provider generally ensured that (1) it performed the central registry and criminal background checks on its employees before those employees had direct access with children in care and (2) it had conducted the required background checks within the previous two years. However, the provider did not perform the background checks on 10 employees as required. Specifically:

- For all 10 employees, the provider did not perform the fingerprint background check by the due date as required by Title 40, Texas Administrative Code, Section 745.616. Eight of those checks were conducted between 2 and 30 days late. One of those checks was 194 days late and, for one employee, there was no evidence that the provider had conducted the check.
- For one employee, the provider did not ensure that the required central registry and criminal background checks were cleared prior to allowing that employee to have direct access to children in care, as required by Title 40, Texas Administrative Code, Section 745.626. Those checks were conducted four days late.

Based on the results of the Department of Public Safety criminal background checks that auditors conducted, at the time of the audit, none of the provider's employees had misdemeanor or felony convictions that would pose a risk to children in the provider's care. (See Appendix 3 for additional information about background check requirements.)

## Recommendations

The provider should:

- Review the external accountant's preparation of its cost report to ensure that the cost report (1) accurately lists revenues and expenditures and (2) appropriately reports the supplemental schedules in accordance with cost reporting requirements.
- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and cost reports.
- Appropriately report all related party transactions in accordance with cost reporting requirements.
- Submit its cost report to the Health and Human Services Commission by the required due date.
- Develop and implement controls over financial and information technology processes, including:
  - ♦ Documenting policies and procedures on financial processes.
  - ♦ Developing a process to review the external accountant's financial and cost reporting of the provider's financial activity.
  - ♦ Obtaining an annual review of its financial statements as required by Title 40, Texas Administrative Code, Section 748.163.
  - ♦ Documenting review and approval of expenditures.
- Work with its external accountant to:
  - ♦ Properly record revenue in the general ledger and cost report using the accrual method of accounting
  - ♦ Record revenue and expenditures on a consistent basis.
  - ♦ Implement input, processing, output, and audit trail controls over the accounting system used to track the provider's financial information and prepare the cost report.
- Perform background checks for employees as required by the Texas Administrative Code.

# New Day Foundation

## Management's Response

*We are taking the appropriate action to make certain that all findings are corrected. The recommendations are being implemented along with other procedures.*

*The provider has implemented a monitoring system where backgrounds will be performed on a regular and routine basis.*

*The provider has set guidelines where expenditures and revenues will be reviewed on a regular and monthly basis along with the external accountants to record its financial transactions and to make certain that they are stated correctly. Confirmations will be requested for major areas.*

*Prior cost reports will be reviewed to make certain line items are corrected. Depreciation and amortization will be recomputed and corrected to reflect proper account balances.*

*Related party transactions in the future will be disclosed properly. Internal documents and controls will be implemented to properly account for related party transactions.*

*Cost reports will be timely with Health and Human Services Commission.*

*In our review process, Executive Director transactions will be properly recorded and documented.*

*Payroll vouchers will properly reviewed for details; such as time, cost, classifications, etc. and properly recorded to ledger.*

*A New Day Foundation has immediately implemented the use of the Online Time Duration Calculator to ensure that the timecards hours are accurately calculated.*

*A New Day Foundation has immediately placed in all employee personnel files a form documenting the amount of their wages and raises.*

*All employee timecards will be signed prior to reporting their hours to payroll.*

*During the internal review process, direct and administrative expenses will be coded to proper accounts and tested for correct support. Our vouching system will be fully operative.*

*The provider has implemented procedures to strengthen its control over its financial processes: receipts, disbursements, revenues, payable, asset controls and expenditures. The documented procedures should help assure tighter controls to help eliminate any misappropriations.*

# New Day Foundation

*The provider is and will continue to do special budgets to make certain taxes are paid timing. The provider will be seeking a small business credit line to assist with timing short falls.*

*Detail for employee background checks and policy is below.*

*The recommendations provide very good guidance for our corrective action plan.*

*We will have procedures fully operative in the very near future.*

## *Background Check/ FBI*

- 1. Fingerprints/background checks are submitted and clear prior to employment or contact with children in care. Initially, only background check results were required by DFPS .The fingerprints policy was instituted recently/ last year by DFPS. New Day Foundation employees who were already employed delay in implementing the new fingerprints policy instituted by DFPS.*
  - a. New Day Foundation will henceforth ensure all employees, volunteers and Contractors background /FBI fingerprints are submitted on time and clear.*
  - b. New Day Foundation will implement the background /FBI fingerprints policy and adhere to DFPS Standards.*

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors by verifying that 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 audits of selected residential child care providers that provide foster care services to the Department of Family and Protective Services (Department).

### **Scope**

The audit scope included the fiscal year 2014 cost reporting period for five residential foster care contractors (providers) that provided services to the Department.

### **Methodology**

The audit methodology included selecting five providers based on (1) State Auditor's Office risk rankings and input from the risk rankings the Department uses in its annual statewide monitoring plan and (2) the providers' contract status and location as reported by the Department. The five providers selected were:

- The Devereux Foundation.
- Good Hearts Youth and Family Services, Inc.
- National MENTOR Healthcare, LLC.
- New Beginnings Children's Home at Canaan Land Ranch, Inc.
- New Day Foundation

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**

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

- Four providers (The Devereux Foundation, Good Hearts Youth and Family Services, Inc., National MENTOR Healthcare, LLC, and New Beginnings Children’s Home at Canaan Land Ranch, Inc.) had financial data that was sufficiently reliable to perform audit procedures related to revenues, foster parent payments, payroll expenditures, and direct and administrative expenditures.
- One provider (New Day Foundation) had financial data that was of undetermined reliability to perform audit procedures related to revenues, payroll expenditures, and direct and administrative expenditures because auditors could not determine if the general ledger extracted from the accounting system was complete. However, auditors reconciled the general ledger to the provider’s trial balance and determined that the populations described above were sufficient for sampling purposes.
- All five providers had employee lists that were sufficiently reliable to perform audit procedures related to employee background checks.
- All three child placing agencies (The Devereux Foundation, Good Hearts Youth and Family Services, Inc., and National MENTOR Healthcare, LLC) had foster family lists, including foster parents, caregivers, and household members, that were sufficiently reliable to perform audit procedures related to foster family monitoring and background checks.

## **Sampling Methodology**

Auditors selected non-statistical samples for tests of compliance and controls for revenue, foster parent monitoring, foster parent payments, payroll expenditures, and direct and administrative expenditures. Auditors selected those samples primarily through random selection designed to be representative of the population. For those cases, results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured.

In some cases, auditors used professional judgment to select samples, including any additional sample items for compliance testing. Those sample items generally were not representative of the population and, therefore, it would be inappropriate to extrapolate test results to the population.

Auditors selected the following samples:

- To test Department revenues that the providers received for foster care services, auditors used professional judgment to select items for testing at all five providers.

- To test foster parent monitoring for the three providers that were child placing agencies, auditors tested all foster parents for two providers (The Devereux Foundation and Good Hearts Youth and Family Services, Inc.). For one provider (National MENTOR Healthcare, LLC), auditors selected a nonstatistical sample of foster parent monitoring through random selection and used professional judgment to select additional items for testing.
- To test foster parent payments for the three providers that were child placing agencies, auditors used professional judgment to select items for testing for all three providers (The Devereux Foundation, Good Hearts Youth and Family Services, Inc., and National MENTOR Healthcare, LLC).
- To test payroll expenditures, auditors selected nonstatistical samples of payroll expenditures through random selection and used professional judgment to select additional items for testing for three providers (Good Hearts Youth and Family Services, Inc., National MENTOR Healthcare, LLC, and New Beginnings Children’s Home at Canaan Land Ranch, Inc.). For one provider (The Devereux Foundation), auditors selected a nonstatistical sample of payroll expenditures through random selection. For one provider (New Day Foundation), auditors used professional judgment to select items for testing.
- To test direct and administrative expenditures, auditors used professional judgment to select items for testing for three providers (Good Hearts Youth and Family Services, Inc., National MENTOR Healthcare, LLC, and New Beginnings Children’s Home at Canaan Land Ranch, Inc.). For two providers (The Devereux Foundation and New Day Foundation), auditors selected nonstatistical samples of direct and administrative expenditures through random selection and used professional judgment to select additional items for testing.
- Auditors tested direct and administrative expenditures allocated to the provider from its corporate office for two providers (The Devereux Foundation and National MENTOR Healthcare, LLC). For one provider (The Devereux Foundation), auditors selected a nonstatistical sample of allocated expenditures through random selection. For the other provider (National MENTOR Healthcare, LLC), auditors used professional judgment to select items for testing.
- Auditors tested all employees and foster family members for compliance with background check requirements.

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, direct and administrative expenditures, and revenues from the Department.
- Providers' personnel files.
- Providers' foster parent monitoring plans, monitoring files, and records for payments to foster parents.
- Providers' policies and procedures, including policies and procedures for information technology.
- Information on Department payments to providers from the Uniform Statewide Accounting System.
- List of the providers' employees, volunteers, foster parents, family members, and caregivers.
- Information from the Department on the results of background checks that providers performed.
- Background check results from the Department of Public Safety.

Procedures and tests conducted included the following:

- Testing internal controls and information technology controls at providers.
- Testing expenditures related to services provided to children.
- Testing related-party expenditures and contracts.
- Testing payroll records.
- Testing payments the providers made to foster care parents.
- Comparing each provider's state foster care revenue with Department records.
- Comparing each provider's general ledger to each provider's cost report.
- Testing foster parent monitoring records.
- Testing that required Department central registry and Department of Public Safety criminal history background checks were conducted on

employees, contractors, volunteers, foster parents, family members, and caregivers prior to the start date and within the previous two years.

- Testing that required Federal Bureau of Investigation fingerprint background checks were conducted on employees, volunteers, foster parents, family members, and caregivers for general residential operations as of March 1, 2014, and for child placing agencies as of June 1, 2014.
- Reviewing 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, contractors, volunteers, foster parents, family members, and caregivers as of March 31, 2015.

Criteria used included the following:

- U.S. Office of Management and Budget Circulars A-110 and A-122.
- Title 40, Texas Administrative Code, Chapters 732, 745, 748, and 749.
- Title 1, Texas Administrative Code, Chapter 355.
- Texas Government Code, Section 2155.1442.
- Texas Human Resources Code, Chapter 42.
- Contracts between the Department and providers.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2014 Texas 24-Hour Residential Child Care Cost Report*.
- The Department's *Licensed or Certified Child Care Operations: Criminal History Requirements*.
- The Department's *Foster or Adoptive Homes: Criminal History Requirements*.

## **Project Information**

Audit fieldwork was conducted from April 2015 through July 2015. 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:

- Jeannette Quiñonez, CPA (Project Manager)
- Shahpar M. Ali, CPA, M/SBT, CISA (Assistant Project Manager)
- Scott Boston, MPAff
- Salem Chuah
- Paige Dahl
- Ann E. Karnes, CPA
- Robert G. Kiker, CGAP
- Bianca F. Pineda, CGAP
- Valentine A. Reddic, MBA, CFE
- Nakeesa Shahparasti, CPA
- Doug Stearns
- Gregory Steadman, CISA
- Alexander Sumners
- George D. Eure, CPA (Quality Control Reviewer)
- Mary Wise, CPA, CFE (Quality Control Reviewer)
- Verma Elliott, CPA, CIA, CGAP, MBA (Audit Manager)

## ***Selected Requirements for Residential Child Care Providers***

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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 the Completion of the 2014 Texas 24-Hour Residential Child Care Cost Report*. The requirements are related to residential child care providers' cost reporting, financial records, and foster parent 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 *Texas 24-Hour Residential Child Care 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 revenue.** Providers must report the following revenue types separately: (1) revenue associated with a single source continuum contract; (2) Department revenue associated with 24-hour residential child care; (3) Medicare revenue; (4) Medicaid revenue; (5) private payments; (6) gifts, grants, donations, endowments, and trusts; (7) appropriations from state or local government sources; (8) gains on sales of assets; (9) interest; and (10) other revenue.
- **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 cost-finding methodology, as well as with state and federal laws, rules, and regulations regarding allowable and unallowable costs.

#### Financial Records

- Title 1, Texas Administrative Code, Section 355.7101(15), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports. It also requires providers to retain the records for at least 3 years and 90 days after the end of the contract period.
- The Commission's *Specific Instructions for the Completion of the 2014 Texas 24-Hour Residential Child Care Cost Report* lists in detail the records that providers must retain, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, time cards, payrolls,

mileage logs, minutes of board of directors meetings, workpapers used in the preparation of a cost report, trial balances, and cost allocation spreadsheets.

#### **Foster Parent Monitoring**

- Title 40, Texas Administrative Code, Section 749.2815,<sup>1</sup> 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 one visit per year must be unannounced. Each visit must be documented in the home's record, and the documentation must be signed by the foster parent(s) present for the visit and the child placement staff conducting the visit.

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<sup>1</sup> The requirements in Title 40, Texas Administrative Code, Section 749.2815, were in effect during the audit scope of fiscal year 2014. Those requirements changed effective September 1, 2014.

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

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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.

Texas Human Resources Code, Section 42.056, specifies that the following individuals are required to have fingerprint checks: current and prospective employees; current and prospective foster parents; prospective adoptive parents; and individuals who are at least age 14 who are counted in child-to-caregiver ratios, will reside in a prospective adoptive home, have unsupervised access to children, or reside in the facility or family home. 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 Protective Services details those types of convictions in three charts<sup>2</sup> 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

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<sup>2</sup> The Department of Family 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](http://www.dfps.state.tx.us/Child_Care/Child_Care_Standards_and_Regulations/Criminal_Convictions.asp).

present at the operation pending the outcome of the risk evaluation. Based on those charts, the following types of criminal convictions from the Texas 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 these offenses include criminal homicide, kidnapping, unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (offenses against the family). Examples of these offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order, and sale or purchase of a child.
- Title 7 (offenses against property). Examples of these offenses include arson, robbery, forgery, credit card and debit card abuse, breach of computer security, and online solicitation of a minor.
- Title 8 (offenses against public administration). Examples of these 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 these 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 these offenses include making a firearm accessible to a child and intoxication-related offenses.
- Title 11 (organized crime). Examples of these 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, 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 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 1 lists the 24-hour residential child care rates for fiscal year 2013 and Table 2 lists the 24-hour residential child care rates for fiscal years 2014 and 2015.

Table 1

24-hour Residential Child Care Daily Payment Rates Fiscal Year 2013			
Child's Service Level Classification <sup>a</sup>	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	\$22.15	\$39.52	\$42.18
Moderate	\$38.77	\$71.91	\$96.17
Specialized	\$49.85	\$95.79	\$138.25
Intense	\$88.62	\$175.66	\$242.85
<sup>a</sup> Emergency shelter services are also paid at a daily rate of \$115.44.			

Source: The Department of Family and Protective Services.

Table 2

24-hour Residential Child Care Daily Payment Rates Fiscal Years 2014 and 2015			
Child's Service Level Classification <sup>a</sup>	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	\$41.94	\$45.19
Moderate	\$40.44	\$76.31	\$103.03
Specialized	\$51.99	\$101.65	\$148.11
Intense	\$92.43	\$186.41	\$260.17
<sup>a</sup> Emergency shelter services are also paid at a daily rate of \$122.20.			

Source: The Department of Family and Protective Services.

## ***Related State Auditor's Office Work***

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<b>Related State Auditor's Office Work</b>		
<b>Number</b>	<b>Product Name</b>	<b>Release Date</b>
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

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The Honorable Dennis Bonnen, House Ways and Means Committee

### **Office of the Governor**

The Honorable Greg Abbott, Governor

### **Health and Human Services Commission**

Mr. Chris Traylor, Executive Commissioner

### **Department of Family and Protective Services**

Mr. John J. Specia, Commissioner

### **Board Members and Executive Directors of the Following Providers Audited**

The Devereux Foundation  
Good Hearts Youth and Family Services, Inc.  
National MENTOR Healthcare, Inc.  
New Beginnings Children's Home at Canaan Land Ranch, Inc.  
New Day Foundation



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