



An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

October 2018

Report No. 19-004



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Overall Conclusion

Three of the four residential child care contractors (providers) audited generally complied with cost reporting requirements for fiscal year 2017. Specifically, **The Children's Home of Lubbock and Family Service Agency, High Sky Children's Ranch, and The El Paso Center for Children** accurately reported all or most of the expenditures tested on their cost reports.

The fourth provider audited, Willow Bend Center, had weaknesses in controls over its financial processes; as a result, Willow Bend Center reported errors in its cost report.

One of the two child placing agencies audited (**High Sky Children's Ranch**) conducted quarterly supervisory visits as required; however, it did not adequately document the results of those visits. The other child placing agency (The El Paso Center for Children) complied with foster home monitoring requirements.

All four providers generally complied with the Department of Family Protective Services background check requirements.

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

Background Information

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

Providers deliver those goods and services through contracts with the Department, and they are required to report their expenditures on annual cost reports. This audit included two types of providers with which the Department contracts:

- 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.
- Child placing agencies, which place or plan for the placement of the child in an adoptive home or other residential care setting.

During fiscal year 2017, the Department had 275 active contracts with 255 child placing agencies or general residential operations to provide residential child care on a 24-hour basis.

The Department received \$442,574,687 for providing services to 32,584 children in foster care during fiscal year 2017.

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 2017, the Department's *Annual Report and Data Book 2017*, the Health and Human Services Commission's *Specific Instructions for Completion of the 2017 24-RCC Cost Report*, and the Department.

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

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

Table 1

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
1-A	Willow Bend Center Had Weaknesses in Its Controls Over Its Financial Processes and It Reported Errors in Its Cost Report for Fiscal Year 2017	High
1-B	Willow Bend Center Complied with Background Check Requirements	Low
2-A	The Children’s Home of Lubbock Accurately Reported the Majority of Expenditures Tested on its Cost Report for 2017	Low
2-B	The Children’s Home of Lubbock Conducted Most Background Checks in Accordance with Requirements	Medium
3-A	High Sky Children’s Ranch Accurately Reported Some Expenditures Tested on Its 2017 Cost Report	Medium
3-B	High Sky Children’s Ranch Did Not Comply with All Foster Home Monitoring Requirements	High
3-C	High Sky Children’s Ranch Conducted Most Background Checks in Accordance with Requirements	Medium
4-A	The El Paso Center for Children Accurately Reported the Majority of Expenditures Tested on Its Cost Report for 2017	Low
4-B	The El Paso Center for Children Complied with Foster Home Monitoring Requirements	Low
4-C	The El Paso Center for Children Complied with Background Check Requirements	Low

^a A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

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

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

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

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The providers agreed with the recommendations in this report.

Audit Objective and Scope

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

The scope of this audit included the fiscal year 2017 cost reporting period for the four providers that provided 24-hour residential child care services for the Department of Family and Protective Services. Auditors also conducted Department of Public Safety name-based criminal background checks on all of the **providers' current** employees, volunteers, subcontractors, and foster families¹ as of May 1, 2018.

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

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Detailed Results

Chapter 1

Willow Bend Center’s General Residential Operation Contract

Willow Bend Center Background Information ^a	
Location	Tyler, TX
Contract services audited	General Residential Operation
Year permit was issued to provider	2010
Number of children served	84
Total expenditures reported on 2017 cost report	\$2,618,131
Federal tax filing status	Non-Profit
Number of staff as of the December 31, 2017	47
^a From January 1, 2017 through December 31, 2017	

Willow Bend Center (provider) did not always comply with cost reporting requirements. The provider had weaknesses in its controls over its financial processes; as a result, the provider did not always accurately report the funds it expended for providing 24-hour residential child care services for fiscal year 2017.

The provider should strengthen its processes to (1) accurately report its expenditures and revenues on its cost reports, (2) establish adequate oversight and segregation of duties in its financial processes, and (3) improve its information technology controls.

The provider complied with background check requirements for all employees and volunteers who had access to children as of May 1, 2018.

Sources: Willow Bend Center and the Department.

Chapter 1-A

Willow Bend Center Had Weaknesses in Its Controls Over Its Financial Processes and It Reported Errors in Its Cost Report for Fiscal Year 2017

Chapter 1-A
Rating:
High ²

The provider did not have adequate controls over its financial processes, including conflicts of interests.

The provider’s inadequate financial controls included (1) conflicts of interest within its governing body, (2) lack of segregation of duties, and (3) poorly designed approval processes for financial transactions. It should also strengthen its data backup processes. Without adequate financial controls, the provider increases its risk that it will not prevent or detect and correct errors in its financial data.

² The risk related to the issues discussed in Chapter 1-A is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

Willow Bend Center

Conflicts of interest within the governing body. The provider's governing board included a voting majority with a conflict of interest. The board was comprised of five members, three of which are related parties because they were (1) the provider's executive director, (2) the provider's administrator, or (3) a family member of the provider's executive director. Title 26, Texas Administrative Code, Section 748.107, requires providers to have a conflict of interest policy stating that the majority of the governing board's voting members must consist of persons who do not have a conflict of interest. Examples of a conflict of interest include being an employee or a family member of the executive director or administrator.

Lack of segregation of duties. The provider does not have adequate segregation of duty controls over its financial processes. Specifically, one individual processes the provider's financial transactions and records those transactions in the provider's general ledger and cost report. In addition, that same individual is the only person with access to the provider's accounting system and processes and records the provider's day-to-day expenses and payroll. The provider's policy requires its executive director or administrator to approve all expenditures; however, it does not have any procedures for that review and approval process. In addition, the provider stated that the approvals primarily consist of management signing checks without reviewing and approving the supporting documentation unless it is an unusual transaction or for more than \$5,000. Not adequately segregating duties, including supervisory reviews, increases the risk of fraud and abuse and decreases the provider's ability to identify and correct errors.

Inadequate oversight of payroll expenditures. The provider's payroll processes also lacked adequate oversight. While the provider's policy requires supervisors to review and approve timesheets, the provider did not ensure that supervisors consistently complied with that policy. Specifically, 6 (29 percent) of 21 timesheets tested did not have a supervisor's signature. In addition, for 17 (63 percent) out of 27 of the payroll transactions tested, the provider did not have supporting documentation for the employee pay rates as required or the documentation showed a different rate than the provider paid. Title 1, Texas Administrative Code, Section 355.105, requires providers to maintain supporting documentation for all forms of compensation for each employee. Not ensuring that payroll expenditures are reviewed and supported increases the risk that the provider will pay employees the incorrect amount.

Accounting system backup. The provider should strengthen its backup procedures for its accounting system. While the provider does perform backups of its accounting data, it does not ensure that those backups are sufficiently secured.

Willow Bend Center

The provider reported errors on its cost report for fiscal year 2017.

As a result of the control weaknesses discussed above, the provider reported inaccurate information, primarily related to payroll and related parties, on its cost report for fiscal year 2017.

Non-payroll expenditures. The provider's reported non-payroll expenditures for fiscal year 2017 reconciled to its general ledger with the exception of expenditures for utilities and telecommunications, which the provider overstated by \$642. In addition, the majority of non-payroll expenditures tested were allowable, supported, and accurately recorded in accordance with cost report requirements. However, the provider did not comply with all cost reporting requirements. Specifically, the provider:

- Reported unallowable transactions totaling \$314. Those transactions consisted of 3 (4 percent) of 70 expenditures tested totaling \$207, including one internet bill and two telephone bills for management that were not properly allocated between personal and business use. The provider also reported a duplicated expense for \$107.
- Did not report \$9,745 in revenue that it received from entities other than the Department of Family and Protective Services (Department) as required.
- Misclassified 7 (10 percent) of 70 expenditures totaling \$229; however, those errors did not change the total amount of allowable and supported expenditures the provider reported.

Payroll Expenditures. The provider did not comply with requirements for reporting total wages and benefits. As a net result of errors, it understated its total wages and benefits by \$78,022 on its 2017 fiscal year cost report. Specifically, the provider:

- Did not include all wages paid to employees that participated in a Section 125 Cafeteria plan. Instead, the provider reported the amount of wages after the Section 125 Cafeteria plan deduction. This caused the expenditures to be understated by \$216,155.
- Did not include \$139,134 in revenue offsets for Medicaid Reimbursements.
- Overstated the wages paid for one employee by \$1,001.

In addition, the provider incorrectly calculated the pay for 3 (11 percent) of 27 payroll expenditures tested. For two employees, the provider calculated their overtime incorrectly. For the other employee, the provider did not accurately prorate the pay for days worked.

Related Parties. The provider did not ensure that all related-party transactions were correctly reported as related-party expenditures on its cost report. Specifically, the provider incorrectly:

- Reported expenditures totaling \$103,729 from a related-party contract with a business owned by the executive director as non-related party staff wages.
- Reported \$1,752 for expenditures paid to a company owned by the executive assistant as food and non-food supplies instead of related-party expenditures.

Title 1, Texas Administrative Code, Section 355.102, requires providers to disclose all related-party expenditures on the cost report. The provider also misclassified related-party expenditures totaling \$56,946 for maintenance wages as a related-party program administration and operation expense instead of the correct classification of related-party staff wages.

In addition, the provider did not have any documentation showing that its related-party expenditures did not exceed the price of comparable services that could be purchased elsewhere. For example, the provider did not obtain bids or document any competitive pricing for services provided by its related-party contractors. Title 1, Texas Administrative Code, Section 355.102, requires that related-party expenditures not exceed the price of comparable services that could be purchased elsewhere.

Recommendations

The provider should:

- Update its conflict of interest policies and procedures for its governing board and ensure that the board does not have a voting majority with a conflict of interest.
- Establish adequate internal controls over financial processes, including but not limited to:
 - ♦ Segregation of duties for financial processes
 - ♦ A secondary review and approval of supporting documentation for expenses.
 - ♦ Appropriate access and backup procedures for the accounting system.
- Update its practices to ensure that they align with cost report reporting requirements.
- Report all related-party transactions as required on its cost report.
- Obtain support for prices of comparable services to related-party transactions to ensure that the costs are allowable.
- Ensure that pay rates for employees are appropriately supported.

Management's Response

A. Conflict of interest policies and procedures for governing board to ensure the board does not have a voting majority with a conflict of interest.

Provider agrees with this recommendation which will be implemented by The Board of Trustees. A board resolution will be drafted to ensure there is no conflict of interest by a voting majority of the governing board at the October 2018 Board of Trustees meeting. The target date for full implementation is October 31, 2018.

B. Establish adequate internal controls over financial processes including segregation of duties for financial processes; secondary review and approval of supporting documentation for expenses; and use appropriated access and backup procedures for the accounting system.

The Provider agrees with these recommendations which will be implemented by the Business Office.

The Provider will revise its financial policies to include adequate internal controls over financial processes including segregation of duties and secondary review and approval of supporting documentation for expenses which will be implemented by the Business Office. The target date for full implementation is December 31, 2018.

The Business Office will implement the use of the online backup service from its financial software program to address backup procedures for the accounting system with target date for full implementation by October 31, 2018.

C. Update of practices to ensure that they align with cost report reporting requirements.

The Provider agrees with this recommendation. The Business Office will update its practices to report costs appropriately. The target date for full implementation is April 30, 2019 when the 2018 Cost Report will be due for submission.

D. Report of all related party transactions as required on cost report.

The Provider agrees with this recommendation. The Business Office will take all necessary steps to ensure related parties are appropriately reported on future cost reports. The target date for full implementation is April 30, 2019 when the 2018 Cost Report will be due for submission.

E. Support of prices of comparable services of related party transactions, ensuring costs are allowable.

The Provider agrees with this recommendation. The Provider will seek comparable pricing when purchasing services or goods from a related party for future transactions. The target date for full implementation is October 31, 2018.

F. Pay rates for employees are appropriately supported.

The Provider agrees with this recommendation. The Human Resource Department will develop a systematic process for properly recording and documenting pay rates for employees. The target date for full implementation is October 31, 2018.

Chapter 1-B

Willow Bend Center Complied with Background Check Requirements

Chapter 1-B
Rating:
Low³

The provider conducted background checks in accordance with Title 40, Texas Administrative Code, Chapter 745, for all employees, volunteers, and subcontractors who were in positions that provided access to children as of May 1, 2018.⁴ Specifically as of May 2018, the provider had current background checks:

- For 48 individuals requiring a Department of Public Safety (DPS) name-based background check (as of January 7, 2018, any person requiring an FBI fingerprint check no longer required a DPS name-based criminal history check).
- For 57 individuals requiring a Federal Bureau of Investigations (FBI) fingerprint-based background check.
- For 57 individuals requiring a Department central registry background check

During fieldwork for this audit, auditors conducted DPS name-based background checks on the provider's current employees and foster families active as of May 1, 2018. Based on the results of those background checks, and risk evaluations from the Department, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care. (See Appendix 4 for additional information about background check requirements.)

³ The risk related to the issues discussed in Chapter 1-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

⁴ The Residential Child Care Licensing division of the Health and Human Services Commission identified issues in timeliness for background checks at Willow Bend Center prior to May 1, 2018. The provider was cited on:

- September 12, 2017, for five employees with expired background checks.
- December 8, 2017, for two employees who did not have initial background checks.
- December 20, 2017, for not submitting a renewal background for an employee.

The Children’s Home of Lubbock and Family Service Agency, Inc.

Chapter 2

The Children’s Home of Lubbock and Family Service Agency, Inc’s General Residential Operation Contract

The Children’s Home of Lubbock and Family Service Agency, Inc’s Background Information ^a	
Location	Lubbock, TX
Contract services audited	General Residential Operation
Year permit was issued to provider	1985
Number of children served	68
Total expenditures reported on 2017 cost report	\$3,134,787
Federal tax filing status	Non-Profit
Number of staff as of January 31, 2017, as shown on the provider’s cost report.	78

^a From February 1, 2016, through January 31, 2017

The Children’s Home of Lubbock and Family Service Agency, Inc. (provider) complied with the majority of cost reporting requirements, and it accurately reported the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2017 on its cost report. However, the provider should ensure that it maintains records to support the historical costs for depreciation expenditures and comply with requirements for allocating and classifying expenditures.

The provider complied with background check requirements for most of the employees, volunteers, and subcontractors tested. However, the provider did not always conduct background checks within the required timeframes.

Sources: The Children’s Home of Lubbock and Family Service Agency, Inc. and the Department.

Chapter 2-A

The Children’s Home of Lubbock Accurately Reported the Majority of Expenditures Tested on Its Cost Report for 2017

Chapter 2-A
Rating:
Low ⁵

The expenditures on the provider’s cost report for fiscal year 2017 reconciled to its general ledger. In addition, auditors tested the source documentation for 27 payroll expenditures totaling \$30,909; 28 non-payroll expenditures totaling \$24,078; and 3 payroll-related expenditures totaling \$9,133. All of those expenditures were allowable, supported, and accurately recorded in accordance with cost report requirements. In addition, the provider had adequate backup and user access controls over its accounting system.

⁵ The risk related to the issues discussed in Chapter 2-A is rated as Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

The Children's Home of Lubbock and Family Service Agency, Inc.

However, the provider did not comply with the cost reporting requirements in some instances. Specifically:

- Lack of Support - The provider did not maintain original supporting documentation for all depreciable asset acquisition costs tested. Specifically, of the 17 assets tested, the provider:
 - ♦ Had missing receipts for a partial amount of the recorded historical cost for 2 (12 percent) assets tested.
 - ♦ Did not have supporting documentation for 3 (18 percent) assets tested.

The provider's policy required it to retain financial information for 7 years, including original supporting documentation for asset purchases. However, the cost report instructions require providers to maintain records that are accurate and sufficiently detailed to support the financial information contained in the report.

- Misclassification – The provider misclassified bank fee and interest expenditures totaling \$1,202 under other non-depreciable equipment and operation supplies; however, this did not change the total amount of allowable and supported expenditures it reported.
- Allocation – The provider did not properly allocate three administrative employees' salaries. Title 1, Texas Administrative Code, Section 355.105, requires that at a minimum, a provider should conduct a time study based on four weeks per year, with one week being randomly selected from each quarter. However, the provider used a time study based on a review of three to four weeks from different years.

By not following cost report requirements, the provider increases the risk that it could provide the Health and Human Services Commission with incorrect financial information; the Health and Human Services Commission uses that information to help determine foster care reimbursement rates.

Recommendations

The provider should:

- Ensure that it maintains all receipts associated with expenditures on its cost report, including future purchases that require depreciation.
- Update its retention policy to require that it keep records of assets that are still undergoing depreciation.

The Children's Home of Lubbock and Family Service Agency, Inc.

- Review the cost report instructions and ensure that its practices align with cost reporting requirements.

Management's Response

Responsible for Implementation: Finance Department, President/CEO, and Board of Directors by October 29, 2018.

Management agrees with the recommendations. Management has started and will continue to scan and retain copies of invoices and receipts for Fixed Asset Acquisitions. Management will recommend a retention policy change on October 29, 2018 to the Board of Directors. The policy will require records be accurately kept of assets that are still undergoing depreciation.

Management will re-classified bank fee and interest in the future to "Fees - Contracted Administrative, Professional, Consulting and Training Services." Management will also reach out to Health and Human Services Commission if there's any question about classification of expenditures in the future.

Management will perform (one week) quarterly routine Time Studies for required administrators. The Children's Home of Lubbock recently completed Time Studies for the 3rd quarter of 2018. The next set of Time Studies are scheduled for December 2018.

Chapter 2-B

The Children's Home of Lubbock Conducted Most Background Checks in Accordance with Requirements

Chapter 2-B
Rating:
Medium ⁶

The provider conducted background checks as required for 103 (94 percent) of the 109 employees, volunteers, and subcontractors who were in positions that provided access to children as of May 1, 2018. However, the provider should improve its processes for conducting background checks to ensure that it obtains all checks within the timeframes required by Title 40, Texas Administrative Code, Chapter 745. Specifically, the provider:

- Did not have current DPS name-based background checks and Department central registry background checks for four subcontractors as of May 2018. Those four renewal checks were 5 months late as of May 2018. In addition, for three of those four subcontractors, the provider did not have current FBI fingerprint-based background checks,

⁶ The risk related to the issues discussed in Chapter 2-B is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

The Children's Home of Lubbock and Family Service Agency, Inc.

those checks were 4 to 5 months late as of May 2018. Title 40, Texas Administrative Code, Section 745.625, requires providers to request a renewal background check no later than two years from the date of the most recently requested initial or renewal background check on that person.

- Did not obtain an initial FBI fingerprint-based background check for two volunteers as required. The provider obtained the background checks 11 months and 5 months after the volunteers' start dates, respectively. One of those volunteers later became an employee; the check was performed two months after that person's employment start date. Title 40, Texas Administrative Code, Section 745.626, requires providers to have received the results of all required background checks prior to allowing the person to provide direct access to children in care.

Not conducting background checks within the required timeframes creates a risk that a child in the provider's care may be exposed to an individual that should not have interaction with children, as outlined in Title 40, Texas Administrative Code, Section 745.651. After auditors brought the above issues to its attention, the provider performed all of the required background checks and all subcontractors, volunteers, and employees had clear background checks.

During fieldwork for this audit, auditors conducted DPS name-based background checks on the provider's current employees, volunteers, and subcontractors who were active as of May 1, 2018. Based on the results of those background checks the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care. (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Conduct all background checks within required timeframes.
- Ensure that it receives all background check results prior to allowing an employee to have direct access to children.

The Children's Home of Lubbock and Family Service Agency, Inc.

Management's Response

Responsible for Implementation: Human Resource Specialist, Assistant to the President, and Administration by September 18, 2018.

Management agrees with the recommendations. Management has conducted all required DPS name-based background checks, Department central registry background checks, and FBI fingerprint-based background checks are up to date as of October 2, 2018. Meetings with administration with hiring authority has been completed along with Instructions on lawful requirements for new hires and volunteers.

Management will resubmit subcontractors background check in December 2018 so that all subcontractors will be on the same schedule of rotation throughout the year. The process works well for the Board of Directors and will work well with subcontractors. Direct care staff will have background check for both licenses upon hiring and will be added to a database that is reviewed daily. A monthly outlook calendar will serve as backup reminder. All 24 month background checks will be completed a month in advance. Child Care Licensing will take over the 24 month background checks on January 13, 2019.

High Sky Children’s Ranch, Inc.

Chapter 3

High Sky Children’s Ranch, Inc’s Child Placing Agency Contract

High Sky Children’s Ranch, Inc’s Background Information ^a	
Location	Midland, TX
Contract services audited	Child Placing Agency
Year permit was issued to provider	1991
Number of children served	198
Total expenditures reported on 2017 cost report	\$2,173,891
Federal tax filing status	Non-Profit
Number of staff as of the December 31, 2017, as shown on the provider’s cost report.	92
^a From January 1, 2017, through December 31, 2017	

High Sky Children’s Ranch, Inc. (provider) generally complied with cost reporting requirements; however, it did not always accurately report the funds it expended for providing 24-hour residential child care services for fiscal year 2017.

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

While the provider conducted quarterly monitoring visits of foster homes as required, it did not adequately document the results of those visits or conduct unannounced visits as required.

In addition, the provider complied with background check requirements for most employees and foster families, including household members over the age of 14, frequent visitors, and other caregivers who were reported active as of May 1, 2018. However, the provider did not always conduct background checks within the required timeframes.

Sources: High Sky Children’s Ranch, Inc. and the Department.

Chapter 3-A

High Sky Children’s Ranch Accurately Reported Some Expenditures Tested on Its 2017 Cost Report

Chapter 3-A
Rating:
Medium ⁷

The majority of the expenditures on the provider’s cost report for fiscal year 2017 reconciled to its general ledger. In addition, auditors tested the source documentation for 27 non-payroll expenditures totaling \$8,092; 28 payroll expenditures totaling \$33,368; and 14 payments made to foster parents totaling \$12,420. Those expenditures were allowable, supported, and accurately recorded with the exception of some payroll expenditures and one non-payroll expenditure. In addition, the provider had adequate backup and user access controls over its financial information systems. However, the provider did not consistently follow the cost reporting requirements in some instances. Specifically:

⁷ The risk related to the issues discussed in Chapter 3-A is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

High Sky Children's Ranch, Inc.

- Lack of support - The provider did not consistently maintain original documentation to support asset acquisition costs and could not provide documentation to support certain payroll and payroll-related transactions. Specifically:
 - ♦ For 2 (67 percent) of 3 assets tested, the provider did not maintain documentation to support the recorded historical costs. The provider's policies and procedures required asset documentation to be maintained for 10 years. However, the cost report instructions require providers to maintain records that are accurate and sufficiently detailed to support the financial information contained in the report.
 - ♦ For 8 (29 percent) of 28 employees tested, the provider did not have supporting documentation for the employee pay rates as required or the documentation showed a different rate than the provider paid. Not ensuring that payroll expenditures are adequately supported increases the risk that employees could be paid the incorrect amount.
- Related-party transaction - The provider did not disclose the purchase of a vehicle for \$39,414 as a related-party transaction as required. Although the provider did not identify the expenditure as a related-party transaction, it did obtain bids from multiple sources to ensure that the related-party expenditure did not exceed the price of comparable items that could be purchased elsewhere. Title 1, Texas Administrative Code, Section 355.102, requires that related-party expenditures not exceed the price of comparable services that could be purchased elsewhere.
- Unallowable expenditure – The provider reported 1 unallowable non-payroll expenditure for \$335 to the San Angelo Chamber of Commerce. The cost report instructions state that dues or membership fees to organizations whose primary emphasis is not related to the services being contracted are unallowable.
- Unallowable assets - The provider reported 1 unallowable asset with a historical cost of \$39,414 and a useful life of 5 years. That asset was for activities related to a different contract. In addition, the provider included two assets on its depreciation schedule that did not meet the minimum threshold for depreciation reporting.
- Inaccurate reporting - The provider inaccurately reported 5 line items in the cost report: (1) it overstated 3 line items totaling \$2,702 and (2) understated 2 line items totaling \$2,553, resulting in a net overstatement of \$149. Those errors occurred because of miscalculations, data entry errors, or other clerical errors.

High Sky Children's Ranch, Inc.

- **Misclassification** - The provider misclassified 2 line items totaling \$15,887; however, those misclassifications did not change the total amount of allowable and supported expenditures the provider reported.
- **Allocation** - The provider did not properly allocate one administrative employee's salary. Title 1, Texas Administrative Code, Section 355.105, requires that, at a minimum, a provider should conduct a time study based on four weeks per year, with one week being randomly selected from each quarter. However, provider's methodology was based on historical time studies.

By not following cost report requirements, the provider increases the risk that it could provide the Health and Human Services Commission with incorrect financial information; the Health and Human Services Commission uses that information to help determine foster care reimbursement rates.

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

For all 14 foster parent payments tested, the provider paid its foster parents the correct amounts according to each child's level of care and days of service as the Department required. The payments were adequately supported and totaled \$12,420.

Recommendations

The provider should:

- Ensure that it receives and keeps all receipts associated with expenditures on its cost report, including future purchases that require depreciation.
- Update its retention policy to require that it keep records of assets that are still undergoing depreciation.
- Report all related-party transactions as required on its cost report.
- Ensure that pay rates are appropriately supported.
- Update its practices to ensure that they align with cost report reporting requirements.

High Sky Children's Ranch, Inc.

Management's Response

Management agrees with the recommendations. The Finance Director will review Cost Report instructions and methodologies, as well as the findings and other comments from this audit, prior to completion of future cost reports.

It is Management's policy to require receipts for all purchases. All accounting files, including vendor invoices, receipts and check stubs are maintained for at least ten years. The Finance Director has implemented a procedure to retain fixed asset records electronically. All invoices pertaining to a fixed asset purchase will be scanned and saved in PDF files. This will preserve historical records for all purchases requiring depreciation.

Management agrees that pay rate changes affecting multiple employees, such as cost of living raises, have not been adequately documented. Additionally, pay rate changes arising from the annual budget process have not been documented in the personnel files. The Finance Director and HR Coordinator will work together to ensure that all pay rate changes are made in writing and placed in each personnel file.

High Sky Children’s Ranch, Inc.

Chapter 3-B

High Sky Children’s Ranch Did Not Comply with All Foster Home Monitoring Requirements

The provider had documentation showing that it had conducted quarterly visits at each of 9 applicable foster homes tested as required (see textbox for additional information about monitoring visit requirements). However, for 1 (25 percent) of the 4 applicable foster homes tested, the provider did not conduct at least 2 unannounced visits during the year as required.

Chapter 3-B
Rating:
High⁸

The provider also did not adequately document certain information required by Title 26, Texas Administrative Code, Section 749.2815. Specifically:

- For 6 (67 percent) of 9 applicable foster homes tested, the provider did not obtain signatures from each foster parent present during the visit as required.
- For 8 (89 percent) of 9 applicable foster homes tested, the provider did not document or only partially documented sections of its foster parent monitoring form. Specifically, the provider did not consistently document:
 - ♦ The date of the monitoring visit.
 - ♦ Signature of the caseworker conducting the visit.
 - ♦ The results of physical inspections for areas including infant care, medication storage, and car seat checks.

Monitoring Visit Requirements
Title 26, Texas Administrative Code, Section 749.2815, requires providers to evaluate and document at least once every quarter: (1) any change to household members, frequent visitors, or persons who will provide support as a caregiver; (2) any major life change in the foster family; (3) any change to the foster home disaster and emergency plans; and (4) any challenging behaviors of the current children in the home, the level of stress the family is currently experiencing, and any methods for **responding to each child’s challenging** behavior and/or alleviating any significant stress the foster family is experiencing. It also requires that at least two supervisory visits per year must be unannounced.

The provider’s foster home monitoring form did not fully comply with applicable requirements.

While the provider developed a documented foster home monitoring plan, the provider’s foster home monitoring form stated that unannounced visits should be conducted only once per year rather than the required twice per year. Additionally, the provider’s foster home monitoring form prompted for

⁸ The risk related to the issues discussed in Chapter 3-B is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

High Sky Children's Ranch, Inc.

the signature of only one foster parent, which attributed to the provider not obtaining signatures of all foster parents for each visit conducted as required.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. Not adequately documenting the results of all monitoring visits weakens the provider's ability to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Recommendations

The provider should:

- Improve its processes for foster home monitoring to ensure that it complies with all monitoring requirements.
- Revise its foster home monitoring form to align with applicable requirements.

Management's Response

Management agrees with the recommendations. Foster home monitoring forms have been updated to include fields for the home monitor's name, date of monitoring, specific home information, and names of all individuals present during home monitoring. Foster home monitoring forms have been updated to state the correct annual requirements for two (2) unannounced visits; two (2) visits with both foster parents present, if applicable; and one (1) visit with all household members present. Foster home monitoring forms have been updated with a specific section prompting the monitoring employee to evaluate the following areas at each home visit: any change to household members, frequent visitors, or persons who will provide support as a caregiver; any major life change in the foster family; any change to the foster home disaster and emergency plans; and any challenging behaviors of the current children in the home, the level of stress the family is currently experiencing, and any methods for responding to each child's challenging behavior and/or alleviating significant stress the foster family is experiencing. Foster home monitoring form was updated with specific sections and fields for evaluating and documenting the results of all monitoring requirements and physical inspections, to include a section for required follow-up and actions taken. Foster home monitoring form was updated with spaces for two foster parent signatures and agency staff signature.

Management will implement procedures to improve processes for foster home monitoring to ensure compliance with all monitoring requirements.

High Sky Children’s Ranch, Inc.

Foster home monitoring forms will be turned in to the Foster Care Program Assistant monthly. The Program Assistant will be responsible for ensuring that forms are dated, completed, and signed accurately. The Program Assistant will document the following annual requirements in a log that can be accessed for review by all Foster Care staff: two (2) unannounced visits; two (2) visits with both foster parents present, if applicable; and one (1) visit with all household members present. The Foster Care Supervisor will monitor compliance by reviewing the logs monthly to ensure all home monitoring requirements are fulfilled. Monthly file checks will be completed randomly on home files to ensure that the results of all home monitoring visits are documented adequately and all home monitoring requirements fulfilled.

Chapter 3-C

High Sky Children’s Ranch Conducted Most Background Checks in Accordance with Requirements

Chapter 3-C
Rating:
Medium⁹

The provider conducted all required background checks for 214 (97 percent) of the 220 employees and foster parents families, including household members over the age of 14, frequent visitors, and other caregivers who were in positions that provided access to children as of May 1, 2018. However, the provider should improve its processes for conducting background checks to ensure that it obtains all checks within the timeframes as required by Title 40, Texas Administrative Code, Section 745. Specifically:

- Four employees did not have current FBI fingerprint-based background checks as of May 2018. Those four renewal checks were 10 to 24 months late as of May 2018. Of those four employees, one also did not have a current DPS name-based background check and Department central registry background check as of May 2018. The DPS and Department background checks were 11 months late as of May 2018. Title 40, Texas Administrative Code, Section 745.625, requires providers to request renewal background checks no later than two years from the date of the most recently requested initial or renewal background check.
- Two individual household members did not have current FBI fingerprint-based background checks. Those two initial FBI fingerprint-based background checks were not obtained until 51 and 65 days after the foster home’s verification. Title 40, Texas Administrative Code, Section 745.633, requires child placing agencies to receive a cleared background

⁹ The risk related to the issues discussed in Chapter 3-C is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

High Sky Children's Ranch, Inc.

check for all household members over the age of 14 prior to verifying a foster home.

Not conducting background checks within the required timeframes creates a risk that a child in the provider's care may be exposed to an individual that should not have interaction with children as outlined in Title 40, Texas Administrative Code, Section 745.651. After auditors brought the above issues to its attention, the provider performed all of the required background checks and all four employees and household members had clear background checks.

During fieldwork for this audit, auditors conducted DPS name-based background checks on the provider's current employees and foster families, including household members over the age of 14, frequent visitors, and other caregivers active as of May 1, 2018. Based on the results of those background checks, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care. (See Appendix 4 for additional information about background check requirements.)

Recommendations

The provider should:

- Conduct all background checks within required timeframes.
- Ensure that it receives all background check results prior to allowing an employee to have direct access to children and prior to verifying foster homes.

Management's Response

Management agrees with the recommendations for both employees and foster families. Initial background checks are conducted prior to the hire date for new employees. Management has initiated a procedure for the HR Coordinator to run renewal background checks each January. The checks will be conducted every other year for each employee, or at intervals specified for each contract. The HR Coordinator will utilize the Events Tracking feature in the payroll system utilized by the agency, APS Payroll Online. An event will be entered when the initial background check is conducted, and a follow-up date will be entered. A report will be created in December of each year to determine which background checks need to be conducted in January. The event information will be updated to reflect that a background check was

High Sky Children's Ranch, Inc.

conducted, and a new follow-up date will be entered. This will ensure that all background checks are conducted within required timeframes.

Initial background checks must be conducted for foster home household members, fourteen (14) years of age or older, prior to verification of the foster home. Management will initiate a procedure for the Verification Risk Analyst to document the names, birthdates, and ages of all household members of foster home applicants on a foster home file checklist. The Verification Risk Analyst will document completion of background checks for each household member on the checklist and file copies of the background check requests and results in the foster home binder. The Verification Supervisor will ensure that all foster home household members, as documented in the home study and foster home file checklist, have completed background checks prior to approving and verifying a foster home. To ensure ongoing compliance, Management will initiate a procedure to track foster home household members who will turn fourteen (14) years of age after the date of verification to ensure that background checks are run within the required timeframe.

The El Paso Center for Children, Inc.

Chapter 4

The El Paso Center for Children, Inc’s Child Placing Agency Contract

The El Paso Center for Children, Inc. Background Information ^a	
Location	El Paso, TX
Contract services audited	Child Placing Agency
Year permit was issued to provider	1990
Number of children served	66
Total expenditures reported on 2017 cost report	\$713,551
Federal tax filing status	Non-Profit
Number of staff as of the December 31, 2017, as shown on the provider’s cost report.	45
^a From January 1, 2017, through December 31, 2017	

The El Paso Center for Children, Inc. (provider) complied with the majority of cost reporting requirements, and it accurately reported the majority of funds it expended for providing 24-hour residential child care services for fiscal year 2017 on its cost report.

The provider also ensured that foster parents were paid in accordance with Department requirements.

In addition, the provider complied with most Department requirements for monitoring its foster homes, and it complied with background check requirements for employees and foster families, including household members over the age of 14, frequent visitors, and other caregivers who were reported as active as of May 1, 2018.

Sources: The El Paso Center for Children, Inc. and the Department.

Chapter 4-A

The El Paso Center for Children Accurately Reported the Majority of Expenditures Tested on Its Cost Report for 2017

The expenditures on the provider’s cost report for fiscal year 2017 reconciled to the provider’s general ledger. In addition, auditors tested the source documentation for 26 payroll expenditures totaling \$47,400, 5 payroll-related expenditures totaling \$1,270, and 12 payments made to foster parents totaling \$10,628. All of those expenditures—as well as 26 (96 percent) expenditures totaling \$2,896 of the 27 non-payroll expenditures tested—were allowable, supported, and accurately recorded in accordance with costs report requirements. In addition, the provider had adequate backup and user access controls over its accounting system. However, the provider did not follow the cost reporting requirements in some instances. Specifically:

Chapter 4-A
Rating:
Low ¹⁰

¹⁰ The risk related to the issues discussed in Chapter 4-A is rated as Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

The El Paso Center for Children, Inc.

- Unallowable transactions - The provider reported 3 unallowable transactions in its fiscal year 2017 cost report including:
 - ♦ Revenue from 2016 totaling \$1,617.
 - ♦ Two expenditures that third parties paid totaling \$1,500.
- Misclassifications - The provider misclassified 5 line items totaling \$16,172; however, that did not change the total amount of allowable and supported expenditures it reported.

By not following cost report requirements, the provider increases the risk that it could provide the Health and Human Services Commission with incorrect financial information; the Health and Human Services Commission uses that information to help determine foster care reimbursement rates.

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

For all 12 foster parent payments tested, the provider paid its foster parents the correct amounts according to each child's level of care and days of service, as the Department required. The payments were adequately supported and totaled \$10,628.

Recommendation

The provider should ensure that it reports all expenditures as required by the cost report instructions.

Management's Response

Management agrees with this recommendation. The El Paso Center for Children Chief Financial Officer (CFO) will train administrative staff on the specific instructions for the completion of the 24-RCC cost report. Administrative staff will assist with preparation of cost report and submit to CFO for review and approval.

The El Paso Center for Children, Inc.

Chapter 4-B

The El Paso Center for Children Complied with Foster Home Monitoring Requirements

Chapter 4-B
Rating:

Low ¹¹

The provider complied with most requirements for monitoring foster homes. The provider conducted all required monitoring visits and adequately documented those visits as required. Specifically:

- For all 4 applicable foster homes tested, the provider conducted a supervisory visit in each foster home at least quarterly.
- For all 4 applicable foster homes tested, the provider conducted a monitoring visit with both foster parents present every 6 months.
- For all 5 applicable foster homes tested, the provider conducted at least two unannounced visits during the year.
- For all 5 applicable foster homes tested, the provider conducted a monitoring visit with all household members present at least once during the year.

However, for 1 (20 percent) of 5 applicable foster homes tested, the provider did not obtain signatures of both foster parents present during the visit as required.

The provider adequately documented all monitoring visits as required.

The provider also ensured that it documented its monitoring visits in compliance with requirements in Title 26, Texas Administrative Code, Section 749.2815. For example, the provider consistently documented the dates of visits, changes in household members, and major life changes in addition to adequately documenting all sections of its foster home monitoring form.

Recommendation

The provider should obtain all required signatures on foster home monitoring forms.

¹¹ The risk related to the issues discussed in Chapter 4-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The El Paso Center for Children, Inc.

Management's Response

Management agrees with this recommendation. To ensure required signatures are always obtained, foster care staff was retrained by The El Paso Center for Children Program Director on September 28, 2018 to secure all signatures of family members present during joint home visits.

Chapter 4-C

The El Paso Center for Children Complied with Background Check Requirements

Chapter 4-C
Rating:
Low ¹²

The provider conducted background checks in accordance with Title 40, Texas Administrative Code, Chapter 745, for all employees and foster parents, including household members over the age of 14, frequent visitors and other caregivers, who were in positions that provided access to children as of May 1, 2018. Specifically, as of May 2018, the provider had current background checks:

- For 66 individuals requiring a DPS name-based background check (as of January 7, 2018, any person requiring an FBI fingerprint check no longer required a DPS name-based criminal history check).
- For 67 individuals requiring an FBI fingerprint-based background check.
- For 78 individuals requiring a Department central registry background check.

During fieldwork for this audit, auditors conducted DPS name-based background checks on the provider's current employees and foster families, including household members over the age of 14, frequent visitors, and other caregivers active as of May 1, 2018. Based on the results of those background checks, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care. (See Appendix 4 for additional information about background check requirements.)

¹² The risk related to the issues discussed in Chapter 4-C is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

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

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

Scope

The scope of this audit included the fiscal year 2017 cost reporting period for four residential foster care contractors (providers) that provided 24-hour residential child care services for the Department. Auditors also conducted Department of Public Safety (DPS) name-based criminal background checks on all of the providers' current employees, volunteers, subcontractors, and foster families¹³ as of May 1, 2018.

Methodology

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

- Willow Bend Center
- The Children's Home of Lubbock and Family Services, Inc.
- High Sky Children's Ranch, Inc.
- The El Paso Center for Children, Inc.

¹³ Foster families consist of foster parents, frequent visitors, and household members aged 14 and older.

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

Data Reliability and Completeness

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

- All four providers had financial data and payroll data that was sufficiently reliable for purposes of this audit.
- All four providers had employee lists that were sufficiently reliable to perform audit procedures related to employee background checks.
- Both child placing agencies—The El Paso Center for Children, Inc and High Sky Children’s Ranch, Inc.—had foster family lists, including foster parents, caregivers, and household members, that were sufficiently reliable to perform audit procedures related to foster home monitoring and background checks.

Sampling Methodology

Auditors selected nonstatistical samples to test the following:

- The providers’ foster parent monitoring.
- The providers’ foster parent payments.
- The providers’ payroll expenditures.
- The providers’ direct and administrative expenditures.

The samples listed above were selected primarily through random and risk-based selection. Therefore, it would not be appropriate to project those test results to the population.

Information collected and reviewed included the following:

- Information from interviews with the Department’s residential child care program management and staff.
- Department program monitoring and licensing reports for the providers.
- Contracts between the Department and the providers.
- The providers’ cost reports and supporting documentation.

- The providers' financial records and supporting documentation, including records and supporting documentation for (1) payroll expenditures and (2) direct and administrative expenditures.
- The providers' personnel files.
- The providers' foster parent monitoring plans, monitoring files, and records for payments to foster parents.
- The providers' policies and procedures, including policies and procedures for information technology.
- Lists of the providers' employees, volunteers, foster parents, family members, frequent visitors, and caregivers.
- Information from the Department on the results of background checks that providers performed.
- Information from the Department on the payments it made to providers.
- Background check results from DPS.

Procedures and tests conducted included the following:

- Testing the providers' internal controls and information technology controls.
- Testing expenditures related to services provided to children.
- Testing related-party expenditures and contracts.
- Testing payroll records.
- Testing payments that the providers made to foster care parents.
- Comparing each provider's general ledger to each provider's cost report.
- Testing the providers' foster parent monitoring records.
- Testing to determine whether all required background checks were conducted on current employees, volunteers, foster parents, family members, frequent visitors, and caregivers as of May 1, 2018. The required background checks were:
 - ♦ Department central registry checks.

- ♦ DPS name-based background checks (as of January 7, 2018, any person requiring a Federal Bureau of Investigation (FBI) fingerprint check no longer required a DPS name-based criminal history check).
- ♦ FBI fingerprint background checks (fingerprinting background checks were not required for frequent visitors).

Auditors also conducted DPS name-based background checks on all of the providers' current employees, volunteers, subcontractors, and foster families¹⁴ as of May 1, 2018.

- Reviewing background check results for convictions that would prohibit a person from being present in a child care operation for current employees, volunteers, foster parents, family members, frequent visitors, and caregivers as of May 1, 2018.

Criteria used included the following:

- Code of Federal Regulations, Title 2, Part 200.
- Title 40, Texas Administrative Code, Chapters 745.
- Title 26, Texas Administrative Code, Chapters 748 and 749.
- Title 1, Texas Administrative Code, Chapter 355.
- Texas Government Code, Section 2155.1442.
- Contracts between the Department and providers that set the terms of delivery of contracted services to protect the well-being of children in their care.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2017 24-RCC Cost Report*.
- The Department's *Licensed or Certified Child Care Operations: Criminal History Requirements*.
- The Department's *Foster or Adoptive Homes: Criminal History Requirements*.

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

Project Information

Audit fieldwork was conducted from May 2018 through August 2018. 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:

- Anna Howe, CFE (Project Manager)
- Valeria Aguirre, MPA (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CFE, CGMA, CPA
- Brandy Corbin
- Becki Franklin, CISA, CFE, CGAP
- Elizabeth Gallegos, MAcc
- Jessica McGuire, MSA
- Jessica I. Prieto, MPACC
- Melissa M. Prompuntagorn
- Joseph Smith, MBA, CISA
- Daniel Spencer, MSA
- Alexander Sumners
- Tony White, CFE
- Yue Zhang, MPA, CISA
- George D. Eure, CPA (Quality Control Reviewer)
- Robert G. Kiker, CGAP (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

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

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

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

Table 2

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

Selected Requirements for Residential Child Care Providers

The following is a summary of (1) selected Health and Human Services Commission (Commission) and Department of Family and Protective Services (Department) requirements in the Texas Administrative Code and (2) selected requirements in the Commission's *Specific Instructions for Completion of the 2017 24-RCC 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 cost report to the Commission. A separate cost report is required for each separately licensed facility that the provider operates. The cost report must cover all of the provider's 24-hour residential child care activities, including all programs that are not related to the Department, at the licensed facility during the reporting period.
- **Accurate Cost Reporting.** Title 1, Texas Administrative Code, Section 355.102(c), states that providers are responsible for accurate cost reporting and for including in cost reports all costs incurred, based on an accrual method of accounting, that are reasonable and necessary.
- **Related-party Transactions.** Title 1, Texas Administrative Code, Section 355.102(i)(6), requires providers to disclose all related-party transactions on the cost report for all costs that providers report, including related-party transactions occurring at any level in the provider's organization. Providers must make available, upon request, adequate documentation to support the costs incurred by the related party.
- **Allowable and Unallowable Costs.** Title 1, Texas Administrative Code, Section 355.102, states that allowable and unallowable costs, both direct and indirect, are expenses that are reasonable and necessary to provide contracted client care and are consistent with federal and state laws and regulations. When a particular type of expense is classified as unallowable, the classification means only that the expense will not be included in the database for reimbursement determination purposes because the expense is not considered reasonable and/or necessary.

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

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

Financial Records

- Title 1, Texas Administrative Code, Section 355.105(b)(2)(A), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports.
- The Commission’s *Specific Instructions for the Completion of the 2017 24-Hour RCC Cost Report* lists in detail the records that providers must retain, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, loan documents, asset records, inventory records, minutes of board of directors meetings, work papers used in the preparation of a cost report, trial balances, and cost allocation spreadsheets.

Foster Parent Monitoring

- Title 40, Texas Administrative Code, Section 749.2815, requires child placing agencies to conduct supervisory visits (1) in foster homes on at least a quarterly basis; (2) with both foster parents, if applicable, at least once every six months; and (3) with all household members at least once a year. At least two visits per year must be unannounced. Each visit must be documented in the home's record, and the documentation must be signed by the foster parent(s) present for the visit and the child placement staff conducting the visit.

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

Title 40, Texas Administrative Code, Section 745.613, states that the purpose of a background check is to determine whether a person has any criminal or abuse and neglect history and whether the person's presence is a risk to the health or safety of children in care. Title 40, Texas Administrative Code, Section 745.611, defines background checks as searches of different databases. There are four types of background checks:

- Name-based criminal history checks. Checks conducted by the Department of Public Safety for crimes committed in Texas.
- Fingerprint-based criminal history checks. Checks conducted by the Federal Bureau of Investigation for crimes committed anywhere in the United States.
- Central registry checks. Checks conducted by the Department of Family and Protective Services (Department). The central registry is a database of people whom the Department's 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 another state's database of persons who have been found to have abused or neglected a child.

Title 40, Texas Administrative Code, Section 745.615, does not require fingerprint checks for frequent visitors.

Title 40, Texas Administrative Code, Section 745.651, specifies the types of criminal convictions that may preclude an individual from being present at a residential care provider. The Department details those types of convictions in three charts¹⁵ that specify whether a conviction permanently or temporarily bars a person from being present at an operation while children are in care, whether a person is eligible for a risk evaluation, and whether a person who is eligible for a risk evaluation may be present at the operation pending the outcome of the risk evaluation. Based on those charts, the following types of criminal convictions from the Texas Penal Code may preclude an individual from being present at a residential care provider:

¹⁵The Department of Family and Protective Services publishes three charts every January in the *Texas Register* and posts the charts on its Web site at http://www.dfps.state.tx.us/Child_Care/Child_Care_Standards_and_Regulations/Criminal_Convictions.asp.

- 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, exploitation of a child, elderly individual, or disabled individual 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.

For any felony offense that is not listed in a Department chart and that is within 10 years of the date of conviction, the person must have an approved risk evaluation prior to being present at an operation while children are in care. If the Department determines that the offense is a financial crime, the person may be present at a child care operation while children are in care, with conditions or restrictions, pending the outcome of the risk evaluation.

Title 40, Texas Administrative Code, Section 745.657, specifies that the following types of central registry findings may preclude an individual from being present at a residential care provider:

- Any sustained finding of child abuse or neglect, including sexual abuse, physical abuse, labor trafficking, sex trafficking, emotional abuse, physical neglect, neglectful supervision, or medical neglect.
- Any central registry finding of child abuse or neglect (whether sustained or not) for which the Department 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 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 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 (Department). Table 3 lists the 24-hour child care rates that went into effect on September 1, 2016. Table 4 lists the 24-hour child care rates that went into effect on September 1, 2017.

Table 3

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

Source: The Department.

Table 4

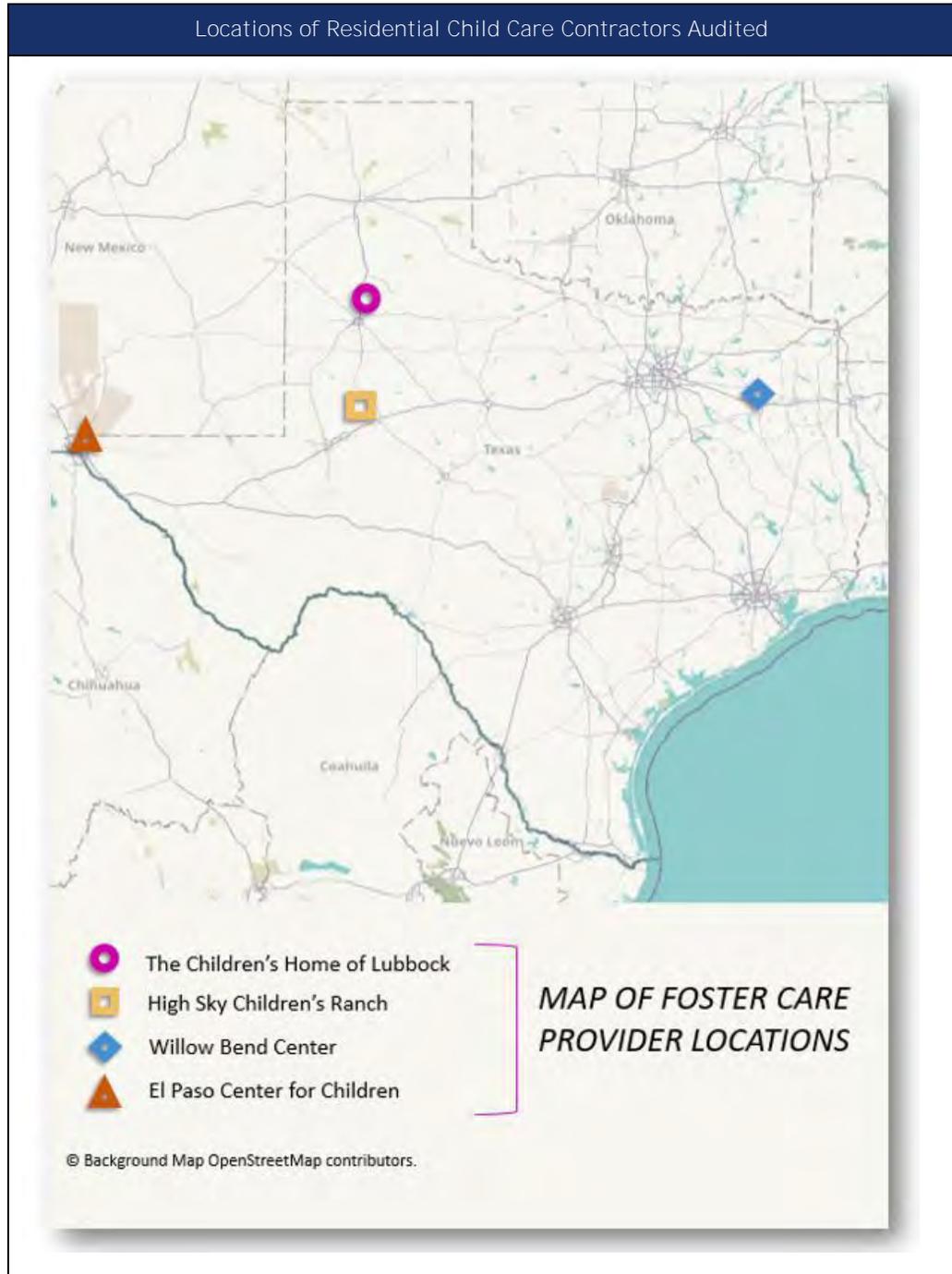
24-hour Residential Child Care Daily Payment Rates Effective September 1, 2017			
Child's Service Level Classification ^a	Minimum Daily Rate Paid to Foster Family per Child	Daily Rate Paid to Child Placing Agency per Child	Daily Rate Paid to General Residential Operation per Child
Basic	\$27.07	\$48.47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

Source: The Department.

Map of Providers' Locations

Figure 1 shows the locations of the four residential child care contracts (providers) audited.

Figure 1



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

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
18-022	An Audit Report on Foster Care Redesign at the Department of Family and Protective Services	March 2018
18-004	An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors	October 2017
17-011	An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors	October 2016
15-043	A Report on On-site Financial Audits of Selected Residential Foster Care Contractors	August 2015
14-043	A Report on On-site Audits of Residential Child Care Providers	August 2014
13-048	A Report on On-site Audits of Residential Child Care Providers	August 2013
13-036	An Audit Report on Caseload and Staffing Analysis for Child Protective Services at the Department of Family and Protective Services	May 2013
13-029	An Audit Report on Child Protective Services Funding, Direct Delivery Staff, and Disproportionality Efforts at the Department of Family and Protective Services	April 2013

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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

Ms. Cecile Young, Acting Executive Commissioner

Department of Family and Protective Services

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

Board Members and Executive Directors of the Following Providers Audited

The Children's Home of Lubbock and Family Service Agency, Inc.

The El Paso Center for Children, Inc.

High Sky Children's Ranch, Inc.

Willow Bend Center



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