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A Report on

On-site Audits of Residential Child Care Providers

August 2014
Report No. 14-043

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Overall Conclusion

Three of the five residential child care contractors (providers) audited accurately reported in their cost reports the majority of funds they expended for providing 24-hour residential child care services for 2013. Those providers were:

- Avalon Center, Inc.
- Buckner Children and Family Services, Inc.
- Children's Hope Residential Services, Inc. - West.

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

- L'Amor Village Residential Treatment Center.
- The Open Arms Agency.

All five providers should strengthen their efforts to consistently maintain documentation showing that they accurately reported their expenditures associated with providing 24-hour child care services. They also should improve the accuracy and classification of financial transactions they include on their cost reports.

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 2013, the Department had 377 contracts with 218 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 children in adoptive homes or other residential care settings.
- Residential treatment centers, which are general residential operations for 13 or more children or young adults that exclusively provide treatment services for children with emotional disorders.

The Department paid approximately \$365,808,880 for providing services to the 29,986 children in foster care during fiscal year 2013. Approximately 57 percent of that amount came from the federal government and approximately 43 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 2013, the Health and Human Services Commission 2013 Texas 24-Hour Residential Child Care Cost Report, and unaudited information from the Department.

Key Points

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

- Two providers (L’Amor Village Residential Treatment Center and The Open Arms Agency) created their general ledgers from bank feeds, bank statements, or check stubs, instead of from financial transaction documentation such as receipts and invoices.
- One provider (L’Amor Village Residential Treatment Center) did not conduct reviews of the financial information that its external accountants prepared.
- One provider (The Open Arms Agency) used the cash basis of accounting instead of the accrual basis of accounting and did not have an independent accountant review its financial records prior to submitting its cost report.
- Two providers (Avalon Center, Inc. and Children’s Hope Residential Services, Inc. - West) did not have adequate processes for identifying incorrect payments from the Department of Family and Protective Services (Department).
- Two providers (L’Amor Village Residential Treatment Center and The Open Arms Agency) did not have all required policies and procedures for information technology.

Cost Reports

The Health and Human Services Commission’s (Commission) *Specific Instructions for the Completion of the 2013 Texas 24-Hour Residential Child Care Cost Report* requires providers to (1) maintain records that are accurate and sufficiently detailed to substantiate financial information on their cost reports and (2) include only allowable expenditures incurred or accrued during the cost reporting period. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

The Commission uses provider cost reports to determine the payment rates the providers receive for taking care of foster children. (See Appendix 4 for additional information on daily rates.) Not reporting accurate financial information on a cost report could impair the Commission’s ability to set appropriate payment rates.

With the exception of The Open Arms Agency, the providers generally complied with background check requirements for individuals such as employees, contractors, volunteers, foster parents, family members, frequent visitors, and caregivers. However, all five of the providers should improve their processes to help ensure that they conduct those checks in a timely manner and as required.

Two of the five providers audited—The Open Arms Agency and Buckner Children and Family Services, Inc.—were child placing agencies. Both of those providers paid foster parents accurately and appropriately and substantially followed foster family monitoring requirements.

Auditors also 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

Buckner Children and Family Services, Inc. and Children's Hope Residential Services, Inc. - West had adequate controls over information technology to help ensure accurate financial record keeping and reporting. L'Amor Village Residential Treatment Center and The Open Arms Agency did not have adequate policies and procedures addressing information technology. Auditors performed minimal tests related to information technology at Avalon Center, Inc., because that provider maintains accounting records only in hard-copy form.

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.

The scope of this audit included the 2013 cost reporting period for five residential foster care contractors (providers) that provided services to the Department.

The audit methodology included judgmentally 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:

- All five providers had financial data that was sufficiently reliable to perform audit procedures related to revenues, foster parent payments, payroll, and non-payroll expenditures.
- Children's Hope Residential Services, Inc. - West and L'Amor Village Residential Treatment Center provided auditors with employment dates that were not consistently reliable for the purposes of detecting all potential errors involving background checks.

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Detailed Results

Chapter 1

Avalon Center, Inc.

Avalon Center, Inc. (provider) accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for 2013. However, the provider should maintain complete and accurate documentation that fully supports all expenditures in its general ledger and on its cost report. In addition, the provider should strengthen certain controls over its financial processes to help ensure that it accurately reports expenditures and that the Department of Family and Protective Services (Department) pays the provider correctly for its services.

Avalon Center, Inc. Background Information ^a	
Location	Eddy, TX
Contract services audited	Residential treatment center
Number of years provider has contracted with the Department of Family and Protective Services (Department)	26
Number of children served	84
Total revenue from the Department	\$1,338,104
Total revenue for residential treatment center services	\$1,338,104
Federal tax filing status	Non-profit
Number of staff at year end	29

^a From January 1, 2013, through December 31, 2013.

The provider generally complied with the Department’s background check requirements. However, it should improve its processes to help ensure that it conducts those checks in a timely manner.

The provider substantially followed cost reporting requirements.

The provider accurately reported the majority of its \$1,371,153 in expenditures on its 2013 cost report.¹ The provider misclassified two expenditure line items that totaled \$295; however, that did not affect the total expenditures on the cost report because both expenditures were allowable. Additionally, the provider submitted its 2013 cost report 57 days after the due date because it did

not provide financial records to the external accountant that prepares its cost report in a timely manner. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

The provider did not maintain adequate supporting documentation for 15 (23 percent) of 65 direct and administrative expenditures tested. Those 15 expenditures totaled \$6,145, and auditors could not determine whether they were allowable and correctly recorded. The majority of those transactions were expenditures the provider made using petty cash, and it did not have receipts for the exact amount of cash it spent.

¹ The provider excluded \$40,673 in payroll tax penalty expenses from the cost report as required by the Health and Human Services Commission’s *Specific Instructions for the Completion of the 2013 Texas 24-Hour Residential Child Care Cost Report*; therefore, the State Auditor’s Office did not audit those expenses. However, penalty expenses such as that significantly reduce the amount of funds available to promote the well-being of foster children in the provider’s care, which could affect the operating condition of the provider.

Avalon Center, Inc.

In addition, the provider did not include the correct amounts on its cost report for 7 (11 percent) of 65 direct and administrative expenditures tested, which resulted in a net overstatement of \$359. The provider misclassified expenditures totaling \$6,099, the majority of which was associated with a \$5,622 furniture purchase.

The provider also included 4 unallowable fees and penalties of \$210 on its cost report; recorded 1 expenditure tested on its cost report for the wrong year; and omitted another expenditure from its cost report. Those errors resulted in a net overstatement of expenditures on the cost report of \$755.

The provider did not always accurately calculate or have adequate support for payroll expenditures. Specifically:

- For 11 (37 percent) of 30 payroll expenditures tested, the provider (1) did not calculate the payroll expense based on the number of hours recorded on time sheets or (2) calculated the payroll expense incorrectly. As a result, the corresponding amount on the cost report for those payroll expenditures was overstated by \$295.
- The provider did not have supporting documentation for 1 (3 percent) of 30 payroll expenditures tested to identify the type of care provided (direct or administrative), the year, or whether it appropriately classified that expenditure on its cost report. The amount of that payroll expenditure was \$800.
- The provider reported 1 (3 percent) of 30 payroll expenditures tested in the wrong cost report line.

The provider also did not appropriately disclose on the supplemental schedule in its 2013 cost report a related-party² transaction with a former board member who provided \$1,500 in training services.

The provider should strengthen its controls over financial processes.

The provider relies on an external accountant to maintain financial records and prepare its cost report; however, the provider should strengthen its controls over financial processes for revenue, supervisory review of time sheets, and policies and procedures.

The provider does not have an adequate process for identifying incorrect payments from the Department. For 3 (10 percent) of 30 revenue payments auditors tested, the Department did not pay the provider the correct amount based on the days and level of service provided, and the provider did not

² A related party is a person or organization related to the provider by blood/marriage, common ownership, or any association, which permits either entity to exert power or influence, either directly or indirectly, over the other. (Source: The Health and Human Services Commission's *Specific Instructions for the Completion of the 2013 24-Hour Residential Child Care Cost Report*.)

notify the Department of the errors as required by its contract. For those 3 payments, the Department overpaid the provider by a net \$454. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

The provider did not ensure that a supervisor reviewed daily time sheets for 14 (58 percent) of 24 payroll expenditures for direct care staff tested, as required by the provider's processes. Lack of supervisory review and approval increases the risk that expenditures that are calculated inaccurately or that are not properly supported could go undetected.

The provider did not have detailed, written policies and procedures for financial management or background checks. Specifically, the provider did not have detailed, written policies or procedures for accounting for revenues and expenditures, reviewing payroll, performing financial reconciliations, or conducting required background checks. Policies and procedures are important to help all employees understand required processes, hold employees accountable for following required processes, and help maintain consistency in the performance of key processes.

The provider generally complied with background check requirements. However, it should improve the timeliness of those checks.

Auditors tested the provider's background checks for 55 employees and volunteers who provided foster care services from January 2013 through June 2014. For one employee, the provider did not ensure that the required central registry or name-based check 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. For three other employees, the provider did not perform a fingerprint check by the due date required by Title 40, Texas Administrative Code, Section 745.616; however it performed those checks after the due date.

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 volunteers 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:

- Prepare and submit its cost report on time and in accordance with Department requirements.
- Accurately report expenditures in the appropriate lines on its cost report.

Avalon Center, Inc.

- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost report.
- Report all related-party transactions in accordance with the cost report instructions.
- Develop and implement procedures to identify and correct improper payments from the Department.
- Consistently review and approve time sheets to help ensure the accuracy of payroll expenditures.
- Develop and implement written policies and procedures for financial management and background checks.
- Perform initial and renewal background checks for all employees and volunteers as required by the Texas Administrative Code.

Management's Response

The Avalon Center has made many changes since the 2013 fiscal year. These changes were implemented late in 2013 and early 2014 and address many of the recommendations of the State Auditor's office.

The Avalon Center has had communications with the accounting firm completing the cost report about timely submission. New accounting procedures have been put in place in 2014 to assist in ensuring that expenses are correctly reported on the cost report. These include but are not limited to a new electronic payroll system and book keeping system and itemized spreadsheets for expenses. This will also ensure that related party transactions are recorded and reported. Payroll tax penalties were not audited as these costs are not allowable and only allowable costs are subject to the audit.

In addition, new procedures were put in place to ensure accurate documentation to support all expenditures is received and appropriately filed. New procedures have been put in place to ensure consistent review and approval of time sheets to ensure the accuracy of payroll expenditures. All initial and renewal background checks for all employees and volunteers will be performed according to the Texas Administrative Code.

The Avalon Center is also working with an accountant and with an attorney to develop written policies and procedures for financial management, background checks and ensuring proper payments.

Buckner Children and Family Services, Inc.

Chapter 2

Buckner Children and Family Services, Inc.

Buckner Children 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 2013. However, the provider should

strengthen its cost reporting processes to help ensure that it accurately reports expenditures and revenues.

The provider generally followed the Department of Family and Protective Services' (Department) foster parent monitoring and background check requirements. However, it should improve its processes to help ensure that it conducts those checks as required.

The provider substantially followed cost reporting requirements.

The provider accurately reported the majority of its \$1,014,162 in expenditures on its 2013 cost report. However, 14 (26 percent) of 53 revenue and expenditure line items on the cost report did not match the provider's general ledger. 5 expenditure line items included a total of \$128 in expenditures that the provider misclassified. The provider also inaccurately accounted for 5 expenditure line items, resulting in a net \$19,656 understatement of expenditures.

Additionally, the provider misclassified \$39,490 in Department revenues and other revenues, including revenue from the State's single source continuum

contractor, and inappropriately included \$5,574 in Department revenues on its cost report. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

The provider had adequate supporting documentation for 68 (97 percent) of 70 direct and administrative expenditures tested. However, the provider included on its 2013 cost report \$166 in expenditures that were unsupported or unallowable, \$332 in expenditures that the provider misclassified, and \$315 in expenditures that the provider did not incur in 2013.

In addition, for 29 (97 percent) of 30 payroll expenditures tested, the provider had adequate documentation to support the pay rates for employees. However, for all 30 payroll transactions tested, the provider did not have supporting documentation for the time charged because the provider does not require time sheets for salaried employees, as required by the Health and Human Services Commission's cost report instructions.

Buckner Children and Family Services, Inc. Background Information^a	
Location	Midland, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department of Family and Protective Services (Department)	2.5
Number of children served	82
Total revenue from the Department	\$629,821
Total revenue from the State's single source continuum contractor	\$28,869
Total revenue for child placing agency services	\$1,008,723
Federal tax filing status	Non-profit
Number of staff at year end	4
^a From January 1, 2013, through December 31, 2013.	

Sources: The Department and State Auditor's Office analyses.

Buckner Children and Family Services, Inc.

The provider appropriately disclosed all related-party transactions on its 2013 cost report, as required by the cost report instructions.

The provider had adequate controls over financial processes.

The provider had implemented certain financial controls, such as performing bank and revenue reconciliations and requiring approvals of payment vouchers. The provider also had adequate controls over information security to help ensure accurate financial record keeping and reporting.

For all 30 revenue transactions tested, the provider received the appropriate amount of revenue from the Department or notified the Department of an error in payment as required. (See Appendix 4 for the 24-hour residential child care daily payment rates.)

The provider substantially followed foster family monitoring requirements; however, it should strengthen its controls over those processes.

The provider performed quarterly monitoring visits for all 34 foster care homes as required by state rules. (See Appendix 2 for requirements for foster parent monitoring.) However, the provider did not consistently document that its monitoring visits complied with all of the Department requirements. Specifically:

- For 19 foster care homes, the provider could not provide documentation showing that it performed visits with both foster parents at least every 6 months.
- For four foster care homes, the provider could not provide documentation showing that it performed visits with all household members at least once annually.
- For three foster care homes, the provider's monitoring forms did not include the required signatures of child placement staff or foster parents.

Inconsistent documentation of monitoring visits occurred because the form the provider used to track its foster care home visits did not identify household members present for each visit or specify that both foster parents must be present for a visit every six months.

For all 30 of the foster family payments tested, the provider properly paid its foster parents the required amounts according to the children's level of care and days of services.

The provider generally complied with background check requirements. However, it should improve its processes to help ensure that it conducts all required checks in a timely manner.

Auditors tested the provider's background checks for 10 employees and volunteers who provided foster care services from January 2013 to June 2014.

Buckner Children and Family Services, Inc.

The provider did not perform any of the required checks for one employee until one month after that employee's hire date. Title 40, Texas Administrative Code, Section 745.625, requires providers to submit an initial request for a background check for each employee required to have a background check at the time each employee is hired.

Title 40, Texas Administrative Code, Section 745.615, describes the types of background checks providers are required to request for each type of individual. Auditors tested the provider's background checks for 178 members of foster families and determined the following as of June 2014:³

- The provider had not performed fingerprint checks for four foster parents.
- The provider had not performed 1 or more of the required background checks for 5 caregivers and 4 household members who were age 14 and older.

In addition, the provider did not perform fingerprint background checks on 52 caregivers prior to allowing them unsupervised access to children. However, according to the Department, caregivers are considered to be frequent visitors, and fingerprint checks are not required for frequent visitors. Therefore, the Department did not require providers to complete fingerprint checks for caregivers prior to allowing caregivers unsupervised access to children. (See Appendix 3 for additional information about background check requirements.)

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 families had misdemeanor or felony convictions that would pose a risk to children in the provider's care.

Recommendations

The provider should:

- Accurately report expenditures and revenues in the appropriate lines on its cost report.
- Maintain complete and accurate documentation that fully supports all expenditures recorded in its general ledger and on its cost report.
- Maintain and approve time sheets for all employees to support time charged for payroll expenditures.
- Improve the monitoring form it uses to track its compliance with quarterly foster care home visits to document all the family members present at the monitoring visits.

³ Foster families consist of foster parents, caregivers, frequent visitors, and household members age 14 and older.

Buckner Children and Family Services, Inc.

- Perform initial and renewal background checks for all employees, volunteers, foster parents, caregivers, and household members age 14 and older in a timely manner as required by the Texas Administrative Code.

Management's Response

Recommendation: *Accurately report expenditures and revenues in the appropriate lines on its cost report.*

Staff responsible for coding revenues in Buckner programs utilizing a SSCC provider agreement have been instructed by Contract Manager and/or their Executive Director or Program Director to use Buckner account code #3450000 – CS Agencies, Non-gvrmt for revenue received from the SSCC.

TDFPS revenue shall be coded to account code #3350000 – CS State.

Additionally, staff has been instructed by the Contract Manager to rebook revenue received during 2014 to insure it reflects the appropriate account code and a correspondingly accurate general ledger.

With regard to expenditures, Buckner Financial Services staff and the Contract Manager will continue to train staff to re-emphasize the need for:

- *Accurate coding;*
- *A full understanding allowable and unallowable costs; and,*
- *Careful review of expenditures to insure required documentation is presented prior to approving.*

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

As stated above, Buckner will continue to train staff to re-emphasize the need for accurate coding, a thorough understanding of allowable/ unallowable costs, and close review of expenditures to insure all required documentation is presented prior to approval.

Additionally, lead program staff will be reminded to review their general ledger each month to insure that revenue and expenses have been properly reflected and in the event of error, corrected.

Senior Accountant (prepares cost report) will attend annual training to insure issues/changes effecting cost reports are managed as per State's instructions.

Recommendation: *Maintain and approve time sheets for all employees to support time charged for payroll expenditures.*

Buckner Children and Family Services, Inc.

Buckner exempt staff, as stated in the SAO's report, have not been required to complete daily time sheets but completed Transaction Records to report time away from work which complies with Wage and Hour Laws. Non-exempt staff clock in and out.

In order to comply with HHSC instructions, Buckner's Human Resources consultant has worked with Contract Manger and will provide support to Executive Directors and HR Representatives to implement a new procedure with regard to exempt staff time sheets. Designated staff will provide the Payroll Manager the names of exempt staff providing services under RCC contracts. These exempt staff shall be set-up in the automated payroll system scheduler so a time sheet can be generated for each pay period, to be electronically approved by staff and supervisor, and retained to insure compliance with the HHSC requirement. This procedure will be tested and fully implemented during the 4th quarter of 2014.

Recommendation: Improve the monitoring form it uses to track its compliance with quarterly foster care home visits to document all the family members present at the monitoring visits.

The Buckner Foster Care Director, Home Developer Supervisor and Contract Manager have revised the quarterly foster home report to include a section that list's the name and topic discussed with each individual met with during a visit. This more clearly delineates each visit and assists Home Developers and Supervisors in assuring family members are interviewed in accordance with Minimum Standards.

Recommendation: Perform initial and renewal background checks for all employees, volunteers, foster parents, caregivers, and household members age 14 and older in a timely manner as required by the Texas Administrative Code.

Buckner Children and Family Services had implemented a corrective action plan in the 3rd quarter of 2013 to address the issue of timely background checks. In addition to those procedures—22 month check cycle and worksheets to manage due dates, Buckner is currently in the process of implementing a new electronic client tracking system. Clients, foster parents, caregivers, household members and staff will all be set-up in the new system, along with workflow schedules to further insure background checks are run in a timely manner.

With regard to volunteers, Ministry Engagement staff has developed background check guidelines that are utilized in Buckner's local facilities. Ministry Engagement Coordinators work with local HR Staff to insure volunteer background checks are run prior to volunteer contact with clients. Background check due dates are recorded in the Volunteer Management System. A quarterly report of volunteers due for a background check is sent from Ministry Engagement to each local designee. The local designee runs

Buckner Children and Family Services, Inc.

the appropriate background check and notifies Ministry Engagement of the date it was run at which time the Ministry Engagement staff updates the Volunteer Management System.

Buckner appreciates the opportunity to respond to the SAO's monitoring report and to fine tune its procedures to insure best practice and the highest ethical values for the children and families our agencies serve.

Children’s Hope Residential Services, Inc. - West

Chapter 3

Children’s Hope Residential Services, Inc. - West

Children’s Hope Residential Services, Inc. – West (provider) accurately reported on its cost report the majority of funds it expended for providing 24-hour residential child care services for 2013. However, the provider should

strengthen certain controls over its financial processes to help ensure that it accurately reports expenditures and that the Department of Family and Protective Services (Department) pays the provider correctly for its services.

The provider generally complied with the Department’s background check requirements. However, it should improve its processes to help ensure that it conducts those checks in a timely manner and as required.

The provider substantially complied with cost report requirements.

The provider accurately reported the majority of its \$2,549,161 in expenditures on its 2013 cost report. However, 7 cost report line items included a total of \$32,583 in expenditures that were misclassified. The provider also misclassified \$67,501 in private pay revenue as Department revenue on its cost report. Additionally, the provider overreported expenditures on its cost report by a net of \$561. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

The provider had adequate supporting documentation for 66 (96 percent) of 69 direct and administrative expenditures tested. However, auditors identified \$702 in expenditures that were unsupported or unallowable and \$250 in expenditures that the provider misclassified in its general ledger.

For 12 (40 percent) of 30 payroll expenditures tested, the provider did not have adequate documentation, such as employee pay rates and time sheets, to support the amounts paid. Additionally, 3 (10 percent) of 30 payroll expenditures tested were for wages earned in 2012 but reported on the 2013 cost report.

The provider should strengthen certain controls over its financial processes.

The provider does not have a documented policy or a consistent process for allocating costs among its four residential child care contracts with the Department. Auditors identified inconsistent allocations to the Children’s Hope Residential Services, Inc. - West contract (the focus of this audit), which could result in an inaccurate representation of costs on the provider’s cost report.

Children’s Hope Residential Services, Inc. - West Background Information ^a	
Location	Levelland, TX
Contract services audited	Residential treatment center
Number of years provider has contracted with the Department of Family and Protective Services (Department)	3
Number of children served	92
Total revenue from the Department	\$2,650,397
Total revenue for residential treatment center services	\$2,870,270
Federal tax filing status	Non-profit
Number of staff at year end	61

^a From January 1, 2013, through December 31, 2013.

Sources: The Department and State Auditor’s Office analyses.

Children's Hope Residential Services, Inc. - West

In addition, the provider does not have an adequate process for identifying incorrect payments from the Department. For 2 (7 percent) of 30 payments tested, the Department did not pay the provider the appropriate amount based on the days and level of service provided, and the provider did not notify the Department of those errors as required by the Department's contract with the provider.

For 8 (29 percent) of 28 hourly payroll expenditures tested, management did not approve supporting time sheets. Additionally, for 9 (14 percent) of 64 non-payroll expenditures tested, the provider did not document management's review and approval. Lack of management review and approval increases the risk that expenditures that are calculated inaccurately or that are not properly supported could go undetected.

The provider had adequate information security controls for the automated systems that house key financial information. Those controls were adequate to help maintain the security and integrity of the provider's financial records.

The provider generally complied with background check requirements. However, it should improve the timeliness of those checks.

Auditors tested the provider's background checks for 149 employees and volunteers who provided foster care services from January 2013 through May 2014. For one employee, the provider did not perform the required background check until five months after the employee's hire date. For another employee, the provider did not have a current background check on file when the employee was released from employment; at that time, the background check was 10 months late. Title 40, Texas Administrative Code, Section 745.625, (1) requires providers to submit an initial request for a background check for each employee required to have a background check at the time the employee is hired and (2) requires a subsequent background check no later than two years from the date of the most recently requested background check on each employee.

Auditors relied on dates of employment recorded in the provider's accounting system to determine whether the provider conducted required background checks in a timely manner. However, the recorded employment dates were not always accurate; therefore, it is possible that auditors did not detect all of the potential errors involving background checks.

Based on the results of Department of Public Safety criminal background checks that auditors conducted, at the time of this audit, none of the provider's employees or volunteers 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.)

Children's Hope Residential Services, Inc. - West

Recommendations

The provider should:

- Maintain complete and accurate documentation that fully supports all financial transactions recorded in its general ledger and on its cost report.
- Accurately report expenditures in the appropriate lines on its cost report.
- Develop and implement a consistent process for allocating costs among its four residential child care contracts with the Department.
- Develop and implement procedures to identify and correct improper payments from the Department.
- Consistently review and approve expenditures to help ensure that staff calculate expenditures accurately and retain proper support for expenditures.
- Perform initial and renewal background checks for all employees and volunteers as required by the Texas Administrative Code.

Management's Response

Criminal Background Check Process:

Children's Hope Residential Services, Criminal Background Check process was reviewed and the following revisions were implemented April 1, 2014:

Background checks are conducted in compliance with, and as required by, DFPS Child Care Licensing Minimum Standards, rules, and other Texas law.

Applicant

As directed by the Administrator / Hiring Manager, the applicant information is entered into the DFPS system for background check by the campus Administrative Assistant or the Human Resources Administrative Assistant.

Results of the background check are received, via email to the C.E.O. The results are forwarded to the campus Administrator / Hiring Manager and the V.P. of Human Resources. The notice of fingerprint requirement is forwarded to the V.P. of Human Resources.

If both the DPS criminal background and the DFPS Central Registry reports are clear the V.P. of Human Resources then forwards the notice of fingerprint requirement to the Administrator / Hiring Manager who will implement the FBI Fingerprint process. If there is a Risk Evaluation submitted, the fingerprint process must be completed as part of this process.

Children's Hope Residential Services, Inc. - West

The Human Resources Administrative Assistant maintains a log of all received reports. Completed reports are maintained in the Personnel file for all individuals hired. Reports of individuals not hired are maintained with the application and other related hiring process documents and destroyed via shredding no earlier than one year from the date of interview.

Upon receipt of clear reports - DPS Criminal background, DFPS Central Registry and FBI Fingerprint - an applicant may be offered a position and scheduled for New Employee Orientation. The completed new hire packet is presented to Staff Development for review of documentation. All background reports must be reviewed and approved before allowing the individual to attend orientation.

Current Staff

Staff information is entered into the DFPS system for background check by the Human Resources Administrative Assistant prior to the annual date of the last report.

If a staff is considered for transfer, the receiving campus must complete a background check prior to the transfer.

DFPS payments:

Children's Hope Residential Services, DFPS payments system was reviewed and the following revisions were implemented March 2014:

On the 5th of each month the Director of Auxiliary Services generates and prints, for the previous month, a night in care report from Extended Reach for every child residing with Children's Hope. This includes residential and foster. This report is then transcribed into an excel spreadsheet. Throughout the month the CEO receives, via US mail, a billing summary report for payments received from TDFPS and he gives them to the Director of Auxiliary Services. The Director of Auxiliary Services then enters all information into the TDPFS excel spreadsheet from the billing summary report from TDFPS. If there is a difference in what Children's Hope's reports states the income should be and what TDPFS paid, the Director of Auxiliary Services will address the difference. If the difference is a level of care issue, the Director of Auxiliary Services will contact the Compliance officer to ensure the Level of care is accurate on the nights in care report. Any other discrepancies, the Director of Auxiliary Services will contact the billing coordinator for that county. All corrections are completed by the last day of each month. The final spreadsheet with all corrections are emailed to the CEO by the 5th of the next month for review. All pending discrepancies will be resolved no later than 90 days.

Children's Hope Residential Services, Inc. - West

Cost Report:

Children's Hope Residential Services, Cost Reporting system was reviewed and the following revisions were implemented March 2014:

The Director of Accounting, and Cost Report Preparer has looked over the misclassified items and will classify those items correctly on future cost reports. The misclassified private pay revenue issue will be corrected through the reconciliation system for DFPS payments that the Director of Auxiliary Services, implemented in March 2014.

Accounts Payable:

Children's Hope Residential Services, Accounts Payable, system was reviewed and the following revisions were implemented March 2014:

The CEO reviews all financial requests. The CEO then gives them to the Director of Auxiliary Services. The Director of Auxiliary Services reconciles and classes the requests to the supporting documentation. All documentation is then attached to an Invoice Payment Request form by class. The Director of Auxiliary Services, submits all completed Invoice Request forms along with supporting documentation to The CEO for review and approval. The CEO signs and dates the Invoice Request form and returns to the Director of Auxiliary Services. The Director of Auxiliary Services then enters the reconciled and approved invoice into Quick Books complete with a date stamp on the Invoice Payment Request form. On the 10th of each month, the CEO, prints, signs and releases checks to the Director of Auxiliary Services for disbursement. The Director of Auxiliary Services then attaches the check stub to the bottom of the Invoice Payment Request form and mails the checks to the appropriate vendor. If a check is issued to an employee, the Director of Auxiliary Services ensures the employees signs for the check or funds. Once the employee makes the purchases all receipts are obtained by the Director of Auxiliary Services and attached to the Invoice Payment Request Form. The Invoice Payment Request form is then placed in the appropriate vendor's financial file with all supporting documentation attached. No Invoice Payment Request form is filed until all supporting documentation is attached.

Expenditures – Percentage allocation:

Children's Hope Residential Services, Percentage allocation system was reviewed and the following revisions were implemented March 2014:

All expenditures that need to be allocated will be reviewed by the Director of Accounting, and the Director of Auxiliary Services. Allocation will be based on percentage of cost per contract, and documentation will be placed in each vendor file.

L'Amor Village Residential Treatment Center

Chapter 4

L'Amor Village Residential Treatment Center

L'Amor Village Residential Treatment Center (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 2013. The provider did not always maintain supporting documentation for expenditures, miscalculated and misclassified expenditures, and inappropriately omitted revenues from its cost report.

The provider generally complied with Department of Family and Protective Services (Department) background check requirements. However, it should improve its processes to help ensure that it conducts those checks as required.

The provider did not consistently follow cost report requirements.

The provider reported \$754,675 in expenditures on its 2013 cost report. The provider misclassified 7 cost report line items that included a total of \$8,331 in expenditures. The provider also inaccurately accounted for 13 expenditure line items, which resulted in a net understatement of \$6,768 in expenditures on its cost report. Additionally, the provider did not include \$131,190 of the revenue it received from the Department on its cost report. (See Appendix 2 for a summary of

requirements for cost reports and financial records.)

The provider did not maintain adequate supporting documentation for 17 (23 percent) of the 74 direct and administrative expenditures tested. The provider made the majority of those expenditures using petty cash, and when it recorded those expenditures in the general ledger, it recorded rounded amounts instead of actual amounts. The provider misclassified on its cost report 30 (41 percent) of the 74 expenditures tested; those expenditures totaled \$14,008. In addition, it reported \$1,496 in unallowable expenditures on its cost report.

The provider did not have adequate time sheet documentation for 18 (60 percent) of 30 payroll expenditures tested. Those errors occurred because the provider does not adequately review time sheets and does not require salaried employees to complete time sheets. Additionally, 5 (17 percent) of the 30 payroll expenditures tested were from 2012 but were reported on the 2013 cost report.

L'Amor Village Residential Treatment Center Background Information ^a	
Location	Houston, TX
Contract services audited	Residential treatment center
Number of years provider has contracted with the Department of Family and Protective Services (Department)	18
Number of children served	54
Total revenue from the Department	\$786,680
Total revenue for residential treatment center services	\$829,259
Federal tax filing status	Non-profit
Number of staff at year end	17
^a From January 1, 2013, through December 31, 2013.	

Sources: The Department and State Auditor's Office analyses.

L'Amor Village Residential Treatment Center

The provider did not appropriately disclose on Schedule B of its 2013 cost report two related-party transactions. Those transactions were personal loans totaling \$2,200 that the executive director made to the provider.

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

The provider relies on an external accountant to prepare its financial records and cost report. However, it does not have a process to review its external accountant's work after that accountant prepares the cost report, which increases the risk that inaccuracies in the cost report could go undetected.

In addition, the provider's external accountant created its general ledger directly from its monthly bank statements and check stubs, instead of based on financial transaction documents such as receipts and invoices. Bank statements and check stubs may not contain sufficient detail for the creation of a general ledger, which increases the risk that inaccuracies in the general ledger and the cost report could go undetected.

The provider also does not have policies and procedures addressing information technology standards for items such as computer security systems, routine backups of data, and anti-virus protection, as required by Title 40, Texas Administrative Code, Section 748.341. Policies and procedures for those standards are important to help ensure that only authorized individuals can access electronic information and to reduce the potential loss of financial data.

The provider generally complied with background check requirements. However, it should improve its process to ensure that it conducts all required checks in a timely manner.

Auditors tested the provider's background checks for 34 employees and contractors who provided foster care services from January 2013 through May 2014 and identified the following:

- For one former employee, the provider did not perform the required central registry check, name-based check, or fingerprint check as required by Title 40, Texas Administrative Code, Section 745.615.
- For three other individuals, the provider did not perform the required fingerprint checks as required by Title 40, Texas Administrative Code, Section 745.616. In addition, for one of those three individuals (a contractor), the provider did not perform the required central registry check and name-based check until more than five months after the individual began work on a contract basis. Title 40, Texas Administrative Code, Section 745.625, requires providers to perform initial background checks at the time they contract with individuals who require a background check.

L'Amor Village Residential Treatment Center

Auditors relied on dates of employment the provider recorded manually to determine whether the provider conducted required background checks in a timely manner. However, the provider did not consistently record dates of employment, and auditors could not verify those dates; therefore, it is possible that auditors did not detect all of the potential errors involving background checks.

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

- Accurately report expenditures and revenues in the appropriate lines on its cost report.
- Maintain complete and accurate documentation that fully supports all revenues and expenditures in its general ledger and on its cost report.
- Review the accuracy of the financial information that its external accountant prepares.
- Consistently maintain and review supporting documentation for all payroll transactions.
- Report all related-party transactions in accordance with the cost report instructions.
- Develop and implement policies and procedures to address information technology standards.
- Perform initial and renewal background checks for employees and contractors as required by the Texas Administrative Code.

Management's Response

Recommendation:

Accurately report revenues and expenditures in the appropriate lines on its cost report.

Management Response:

Agree

L'Amor Village Residential Treatment Center

Implementation Plan of Action:

L'Amor Village will utilize billed units, DFPS provider statements, and direct deposit reimbursements to accurately capture and report revenues. L'Amor Village will submit requisite vendor invoices along with cancelled checks and monthly bank statements to its outside accountants for timely and accurate coding into the financial information for accurate and reliable reporting on the cost report.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Executive Director is tasked with ensuring adequate and accurate revenues and expenditures are reported on the appropriate lines on the cost report. The Executive Director will liaise with the outside accountants and continuously review works submitted.

Recommendation:

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

Management Response:

Agree

Implementation Plan of Action:

L'Amor Village has implemented a filing system by vendor. All disbursements and invoices are retained and filed according to vendor. L'Amor Village has implemented measures to ensure that only reconciled revenues that are accumulated from billed units, DFPS provider statements, and direct deposit reimbursements at the end of the reporting period are captured into the financial information and are submitted to be reported on the cost report.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Office Administrator has the responsibilities together with the billing clerk and with continuous supervision by the Executive Director.

L'Amor Village Residential Treatment Center

Recommendation:

Review the accuracy of the financial information that its external accountant prepares.

Management Response:

Agree

Implementation Plan of Action:

L'Amor Village Executive Director will liaise with the outside accountants and continuously review financial information submitted to ensure that it accurately represents L'Amor Village operations.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Executive Director has the responsibilities to oversee the outside accountants.

Recommendation:

Consistently maintain and review supporting documentation for all payroll transactions.

Management Response:

Agree

Implementation Plan of Action:

L'Amor Village has acquired and maintains Quickbooks payroll software to prepare payroll. Payroll hours are captured from timesheets/timecards approved and signed by immediate supervisors. Timesheets/timecards and payroll check stubs are then filed by pay period.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Payroll Clerk has the responsibilities with continuous supervision by the Executive Director.

L'Amor Village Residential Treatment Center

Recommendation:

Report all related party transactions in accordance with the cost report instructions.

Management Response:

Agree

Implementation Plan of Action:

L'Amor Village will adequately disclose all related party transactions with appropriate documentation to the outside accountants for accurate capture and reporting in the financial information and subsequent cost reporting.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Executive Director and Office Administrator have the responsibilities.

Recommendation:

Develop and implement policies and procedures to address information technology standards.

Management Response:

Agree

Implementation Plan of Action:

L'Amor Village has implemented internal control relevant to information processing through information technology. Appropriate software updates and computer access control will be continuously monitored. Regular files backup and storage in an outside location will be maintained.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Office Administrator has the responsibilities with continuous supervision by the Executive Director.

L'Amor Village Residential Treatment Center

Recommendation:

Perform initial and renewal background checks for employees and contractors as required by the Texas Administrative Code.

Management Response:

Agree

Implementation Plan of Action:

L'Amor Village has implemented policies to ensure timely background checks for ongoing protection of children in care, and in support of federal and state requirements related to safety. Initial background checks will be submitted as required by the Texas Administrative Code. New employees will not be hired until Central Registry, DPS and Fingerprint background checks are cleared. Subsequent background checks will be performed annually in January to ensure that background checks are current.

Implementation Date:

January 1, 2014 retrospectively

Person Responsible for Implementation:

L'Amor Village Office Administrator has the responsibilities with continuous supervision by the Executive Director.

The Open Arms Agency (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 2013. The

The Open Arms Agency Background Information ^a	
Location	Corpus Christi, TX
Contract services audited	Child placing agency
Number of years provider has contracted with the Department of Family and Protective Services (Department)	13
Number of children served	216
Total revenue from the Department	\$1,373,852
Total revenue for child placing agency services	\$1,373,852
Federal tax filing status	Non-profit
Number of staff at year end	6

^a From October 1, 2012, through September 30, 2013.

The provider did not always maintain supporting documentation for expenditures, miscalculated and misclassified expenditures on its cost report, inappropriately omitted revenues from its cost report, and did not properly disclose all related-party transactions on its cost report.

The provider should improve controls over its financial processes to help ensure that an independent accountant reviews its financial records in a timely manner and that it uses the accrual basis of accounting as required.

The provider generally followed the Department of Family and Protective Services' (Department) foster parent monitoring requirements. However, the provider did not consistently follow the Department's background check requirements and should improve its processes to help ensure that it conducts those checks as required.

Sources: The Department and State Auditor's Office analyses.

The provider did not consistently follow cost report requirements.

The provider reported \$1,295,876 in expenditures on its 2013 cost report. However, the provider did not accurately report 21 (53 percent) of its 40 cost report line items. It misclassified expenditures totaling \$12,651; omitted allowable expenditures totaling \$76,577; and inappropriately included expenditures totaling \$25,140. Additionally, depreciation expenses, salary expenses, and lease/rental expenses the provider reported on its cost report did not match its applicable schedules for those items. (See Appendix 2 for a summary of requirements for cost reports and financial records.)

The provider also omitted \$1,373,852 in revenue from its cost report because it did not perform a sufficient review of the cost report.

The provider did not maintain adequate supporting documentation for 57 (70 percent) of 81 direct and administrative expenditures tested; therefore, auditors could not determine whether those expenditures were allowable, correctly classified, or reported on the cost report in the correct year. Those expenditures totaled \$34,874. In addition, 7 (9 percent) of the 81 expenditures tested were misclassified; those 7 expenditures totaled \$1,947. One (1 percent) of the 81 expenditures tested was unallowable; the amount of that expenditure was \$541.

The Open Arms Agency

In addition, for all 35 payroll expenditures tested, the provider did not have support for time charged or the type of care provided (direct or administrative) on time sheets, invoices, or contracts. For 29 (83 percent) of the 35 payroll expenditures tested, the provider did not have adequate documentation for pay rates to support the \$40,623 it paid. In addition, the provider misclassified 12 (34 percent) of the 35 payroll expenditures tested and recorded 1 (3 percent) of the 35 payroll expenditures tested in the wrong year. For 30 (86 percent) of the 35 payroll expenditures tested, the provider did not include the correct amount on the cost report because it used the employees' net pay rather than gross pay; that resulted in the payroll expenditure line item being understated by \$10,514.

The provider did not properly disclose a net \$43,140 in related-party transactions on Schedules B and C of its cost report. Those transactions included compensation to the executive director and the executive director's spouse, loans to the provider, and lease payments that exceeded the payments specified in a lease agreement.

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

The provider used the cash basis of accounting instead of the accrual basis of accounting required by Title 1, Texas Administrative Code, Section 355.102. That resulted in the provider overstating revenue in its general ledger by \$1,055. It also resulted in the provider understating payments to foster parents in its cost report and general ledger; for example, the payments to foster parents that auditors tested were understated by a net \$1,685.

Additionally, the provider created its general ledger based on a direct feed of information from its bank, instead of based on financial transaction documents such as receipts and invoices. As a result, the provider's general ledger used single-entry accounting, rather than double-entry accounting, which increases the risk that transactions could be recorded in the general ledger inaccurately and misclassified on the cost report.

When the provider submitted its 2013 cost report, an independent accountant had not yet reviewed the provider's financial records, as required by Title 40, Texas Administrative Code, Section 749.163. According to the provider, an external accountant typically prepares the provider's general ledger at the end of each fiscal year; however, at the time the 2013 cost report was due, the external accountant had not yet created the provider's fiscal year 2013 general ledger. According to the provider, that was also the cause of some of the issues discussed above.

The provider's documented policies and procedures did not sufficiently address the following areas: information technology security, recording of revenue, reconciliations between bank records and the general ledger, records retention requirements, payroll, and transferring funds. Adequate policies and procedures in those areas are important tools for adequately securing

The Open Arms Agency

electronic data and maintaining consistency in the performance and documentation of key processes.

The provider substantially followed foster family monitoring requirements.

The provider had documentation showing that it performed all quarterly monitoring visits for 29 (97 percent) of the 30 foster care homes tested as required. However, the provider did not maintain documentation showing that it performed all the required quarterly monitoring visits for one of the foster care homes tested.

In addition, for another foster care home tested, the provider could not provide documentation showing that it performed a visit with both foster parents at least every six months as required. (See Appendix 2 for requirements for foster parent monitoring.)

The form the provider used to document its foster care home visits was effective to help ensure that it documented its monitoring visits in accordance with Department rules. However, the provider does not have a documented control to track whether it has conducted all required monitoring visits.

In addition, for all 30 of the foster parent payments tested, the provider properly paid 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 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 19 employees, contractors, and volunteers who provided services from October 2012 to May 2014. For four employees, the provider did not perform one or more of the required checks.

Title 40, Texas Administrative Code, Section 745.615, describes the types of background checks providers are required to request for each type of individual. Auditors tested the provider's background checks for 168 members of foster families⁴ and determined that, as of June 2014, the provider had not performed 1 or more of the required background checks for 17 percent of foster family members, including 18 foster parents, 5 household members, 4 frequent visitors, and 1 caregiver.

In addition, the provider did not perform fingerprint background checks on seven caregivers prior to allowing them unsupervised access to children. However, according to the Department, caregivers are considered to be frequent visitors, and fingerprint checks are not required for frequent visitors. Therefore, the Department did not require providers to complete fingerprint

⁴ Foster families consist of foster parents, caregivers, frequent visitors, and household members age 14 and older.

The Open Arms Agency

checks for caregivers prior to allowing the caregivers unsupervised access to children.

The spreadsheets the provider used to track background checks for employees and foster families were not effective to help ensure that it had current background checks for those individuals. For example, the provider omitted 1 (20 percent) of the 5 employees tested from the spreadsheet. In addition, it recorded the wrong due date for the next background checks for 2 (10 percent) of the 21 foster family members tested. The provider had current background checks for all three individuals for whom auditors identified the issues discussed above. However the weaknesses in its spreadsheets could affect the provider's future compliance with background check requirements.

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 families had misdemeanor or felony convictions that would pose a risk to children in the provider's care. However, one caregiver had been charged with a crime that prohibits contact with children under care pending the outcome of a risk evaluation performed by the Department. The provider was not aware of the caregiver's arrest because the arrest occurred after the most recent background check, and the caregiver's next required background check was due in April 2015. The provider asserts that the caregiver no longer works for the foster family. (See Appendix 3 for additional information about background check requirements.)

Recommendations

The provider should:

- Accurately report expenditures and revenues in the appropriate lines on its cost report.
- Maintain complete and accurate documentation that fully supports all financial transactions in its general ledger and on its cost report.
- Consistently maintain and review supporting documentation for all payroll transactions.
- Report all related-party transactions in accordance with the cost report instructions.
- Ensure that an independent accountant reviews its financial records, as required by the Texas Administrative Code.
- Use the accrual basis of accounting, and prepare its general ledger based on receipts and invoices.

The Open Arms Agency

- Develop and implement written policies and procedures for information technology security, recording of revenue, reconciliations between bank records and its general ledger, records retention requirements, payroll, and transferring funds.
- Improve its controls over foster parent monitoring and background checks to help ensure that it performs all required monitoring and background checks as required.
- Perform initial and renewal background checks for all employees, contractors, foster parents, caregivers, frequent visitors, and household members 14 years of age or older as required by the Texas Administrative Code.

Management's Response

1. **Recommendation:**

Accurately report expenditures and revenues in the appropriate lines on the cost report.

Response:

Policies and procedures are in place, as they have been for more than 10 years, to ensure that the expenditures and revenues are reported accurately on the cost report. A lack of adherence to these policies and procedures by the accounting firm employed by The Open Arms Agency in January and February of 2014 resulted in the lack of production of appropriate categorization of many of the expenditures for the fiscal year 2013-2014.

Improved and strengthened policies and procedures between The Open Arms Agency and the accounting firm developed by the Executive Director will prevent this from occurring again.

2. **Recommendation:**

Maintain complete and accurate documentation that fully supports all financial transactions in its general ledger and cost report.

Response:

Policies and procedures have been created and implemented by the Executive Director that require a higher degree of documentation of all transactions related to The Open Arms Agency.

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3. Recommendation:

Consistently maintain and review supporting documentation for all payroll transactions.

Response:

The Open Arms Agency created and implemented more detailed written documentation of salary negotiations and agreements in employee files to satisfy the need identified by the audit.

4. Recommendation:

Report all related-party transactions in accordance with the cost report instructions.

Response:

As in #1, policies and procedures were strengthened by The Open Arms Agency Executive Director to ensure that a repeat of the incident with the accounting firm this last fiscal year is not repeated. This was the cause of the discrepancy with regards to the related-party transactions being miscategorized.

5. Recommendation:

Ensure that an independent accountant reviews its financial records, as required by the Texas Administrative Code.

Response:

The Open Arms Agency Executive Director is establishing protocols to ensure this audit is conducted in accordance with Texas Administrative Code.

6. Recommendation:

Use the accrual basis of accounting, and prepare its general ledger based on receipts and invoices.

Response:

As in #1, this issue the result of an isolated issue with the accounting firm used not preparing a general ledger that was timely and in compliance with the policies and procedures of The Open Arms Agency, creating a situation that forced The Open Arms Agency to prepare the 2013-2014 Cost Report based on the cash basis rather than the accrual method required. This is a situation that was isolated and has already been resolved with the accounting firm.

The Open Arms Agency

7. Recommendation:

Develop and implement written policies and procedures for information technology security, recording of revenue, reconciliations between bank and its general ledger, records retention requirements, payroll, and transferring funds.

Response:

The Open Arms Agency Executive Director is establishing upgraded policies and procedures to accommodate the requirements in the areas indicated. These will be in place prior to the end of October 2014.

8. Recommendation:

Improve its controls of foster parent monitoring and background checks to help ensure that it performs all required monitoring and background checks as required.

Response:

The Open Arms Agency has developed and implemented a more robust set of policies and procedures to ensure that all background checks are as required. Interpretations of Texas Administrative Code requirements identified by the State Auditor's Office were different than interpretations of the same rules by Residential Child Care Licensing and Residential Care Contracts. Therefore, The Open Arms Agency is adopting the more stringent interpretation noted by the State Auditor's Office.

9. Recommendation:

Perform initial and renewal background checks for all employees, contractors, foster parents, caregivers, frequent visitors, and household members 14 years of age or older as required by the Texas Administrative Code.

Response:

The Open Arms Agency has developed and implemented policies and procedures that increase the monitoring, and cross-checking of all background checks required by Texas Administrative Code as well as the more stringent interpretation of those rules by the State Auditor's Office.

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 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 scope of this audit included the 2013 cost reporting period for five residential foster care contractors (providers) that provided services to the Department.

Methodology

The audit methodology included judgmentally 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:

- Avalon Center, Inc.
- Buckner Children and Family Services, Inc.
- Children's Hope Residential Services, Inc. – West.
- L'Amor Village Residential Treatment Center.
- The Open Arms Agency.

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:

- All five providers had financial data that was sufficiently reliable to perform audit procedures related to revenues, foster parent payments, payroll, and non-payroll expenditures.
- Two (40 percent) of the five providers (Children’s Hope Residential Services, Inc. – West and L’Amor Village Residential Treatment Center) provided auditors with employment dates that were not consistently reliable for the purposes of detecting all the potential errors involving background checks.

Auditors selected non-statistical samples for tests of compliance and controls for revenue, foster parent monitoring, foster parent payments, payroll, and non-payroll expenditures. Auditors selected those samples primarily through random selection designed to be representative of the population. Auditors did not extrapolate results to the entire population. In some cases, auditors used professional judgment to select samples, including any additional sample items for compliance testing. Those sample items generally are not representative of the population and, therefore, it would be inappropriate to extrapolate test results to the population.

Information collected and reviewed included the following:

- Information from interviews with the Department’s residential child care program management and staff.
- Department program monitoring and licensing reports for the providers.
- Contracts between the Department and the providers.
- Providers’ cost reports and supporting documentation.
- Providers’ financial records and supporting documentation, including records and supporting documentation for payroll, non-payroll expenditures, and revenues from the Department.
- Providers’ personnel files.
- Providers’ files, monitoring plans, 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, contractors, volunteers, foster parents, family members, frequent visitors, 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 the criminal history background checks that providers performed on employees, contractors, volunteers, foster parents, family members, frequent visitors, and caregivers.
- Reviewing Department of Public Safety background check results.

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 2013 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 2014 through July 2014. 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:

- Kendra Shelton, CPA (Project Manager)
- Hillary Eckford, CIA (Assistant Project Manager)
- Matthew Byrnes, CIA, CIDA
- Joey Fredrick, MAcy
- Johann A. Hajek, II
- Anna Howe
- Michael Karnes, MBA
- Eric Ladejo, MPA
- Bianca F. Pineda
- Quang Tran
- Sarah Vela
- Jessica Volkmann
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Kristin Alexander, CIA, CFE (Audit Manager)

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 the Completion of the 2013 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 2013 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, timecards, 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, 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.

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

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

- **Name-based Criminal History Checks.** Checks conducted by the Department of Public Safety for crimes committed in Texas.
- **Fingerprint-based Criminal History Checks.** Checks conducted by the Department of Public Safety and the Federal Bureau of Investigation for crimes committed in Texas and crimes committed anywhere in the United States, respectively.
- **Central Registry Checks.** Checks conducted by the Department of Family and Protective Services. The central registry is a database of people whom the Department of Family and Protective Services' Child Protective Services unit, Adult Protective Services unit, or Licensing unit have found to have abused or neglected a child.
- **Out-of-state Central Registry Checks.** Checks conducted by the Department of Family and Protective Services of another state's database of persons who have been found to have abused or neglected a child.

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. According to the Department of Family and Protective Services, caregivers are considered to be frequent visitors, and fingerprint checks are not required for frequent visitors. Therefore, the Department of Family and Protective Services did not require providers to complete fingerprint checks for caregivers prior to allowing the caregivers unsupervised access to children.

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 charts⁵ that specify whether a

⁵ 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.

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:

- Title 4, Section 15.031 (criminal solicitation of a minor).
- Title 5 (offenses against the person). Examples of those offenses include criminal homicide, kidnapping and unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (offenses against the family). Examples of those offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order or magistrate's order, and sale or purchase of a child.
- Title 7 (offenses against property). Examples of those offenses include arson, robbery, forgery, credit card and debit card abuse, breach of computer security, and online solicitation of a minor.
- Title 8 (offenses against administration). Examples of those offenses include impersonating a public servant, failure to stop or report aggravated sexual assault of a child, and violations of the civil rights of a person in custody.
- Title 9 (disorderly conduct and related offenses.) Examples of those offenses include stalking, animal abuse, dog fighting, prostitution-type offenses, obscene displays, and sexual performance by a child.
- Title 10 (offenses against public health, safety, and morals). Examples of those offenses include making a firearm accessible to a child and intoxication-related offenses.
- Title 11 (organized crime).
- 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:

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

The Department of Family and Protective Services is required to notify the providers in writing regarding which of the above actions they must take.

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 year 2014.

Table 1

24-hour Residential Child Care Daily Payment Rates Fiscal Year 2013			
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 Residential Treatment Center 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
^a Emergency shelter services are also provided at the daily rate of \$115.44.			

Source: The Department of Family and Protective Services.

Table 2

24-hour Residential Child Care Daily Payment Rates Fiscal Year 2014			
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 Residential Treatment Center 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
^a Emergency shelter services are also provided at the rate of \$122.20.			

Source: The Department of Family and Protective Services.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
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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