



CHILD PROTECTIVE SERVICES SPECIAL AUDIT

PARENTHESIS FAMILY ADVOCATES

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PARENTHESIS FAMILY ADVOCATES
REPORT ON AGREED-UPON PROCEDURES**

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**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**BOARD OF TRUSTEES
AND ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 1998**

NAME	TITLE	TERM
BOARD OF TRUSTEES		
Bryan Drewry	President	January 1 - December 31, 1998
Orman Hall	Vice President	January 1 - December 31, 1998
Richard Coglianese	Treasurer	January 1 - December 31, 1998
Shane Dawson	Member	January 1 - December 31, 1998
David Fogarty	Member	January 1 - December 31, 1998
Tom Haggerty	Member	January 1 - December 31, 1998
Karen Hamill	Member	January 1 - December 31, 1998
Cathy Steffen	Member	January 1 - December 31, 1998
ADMINISTRATIVE PERSONNEL		
John Shannon	Executive Director	March 28, 1994 to Present
Jerome Bayer	Director Behavioral Health	August 8, 1997 to April, 2000
Robin Ingram-Graves	Operations Manager	August 14, 1993 to Present
Lowell Shoaf	Clinical Coordinator	October 17, 1994 to December, 1999
Tami Hall	Financial Administrator	November 4, 1994 to Present

Agency Address
Parenthesis Family Advocates
2242 South Hamilton Road, Suite 200
Columbus, Ohio 43232

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

Independent Accountants' Report

Ms. Jo Ann Davidson, Director
Ohio Department of Job and Family Services
30 East Broad Street
Columbus, Ohio 43266-0423

Dear Ms. Davidson:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services¹ (ODJFS or Department), formerly known as the Ohio Department of Human Services (ODHS), and the Auditor of State (AOS), we have conducted a Child Protective Services/Special Title IV-E Review ("Review") and performed the procedures summarized below for Parenthesis Family Advocates (Parenthesis or Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contract with Franklin County Children Services (FCCS). The applicable laws, regulations and the provisions of its contract are described in the attached *Supplement to Report on Agreed-upon Procedures under Legal Authority*.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. The report on agreed-upon procedures is intended for the information of ODJFS, however, the report will be a matter of public record and its distribution will not be limited. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed are summarized as follows:

1. We performed procedures to determine whether the Placement Agency complied with the terms and conditions of its contractual agreements and provisions of applicable laws and regulations for expenditures during the Period.
2. We scanned all receipts and deposits from the applicable public children services agencies to the Parenthesis Family Advocates for the Period to determine whether receipts were properly deposited and recorded in the accounting records of the Placement Agency.
3. We compared the Placement Agency's per diem paid to the foster parents with the corresponding per diem it received from Franklin County Children Services (FCCS) to determine the ratio of payments for administration and maintenance.

¹ The merger of the Ohio Department of Human Services and the Ohio Bureau of Employment Services to become the Ohio Department of Job and Family Services (ODJFS) took effect July 1, 2000.

4. We inquired, obtained, and documented corroborating information on the Placement Agency's internal control policies and procedures relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.
5. We performed procedures to confirm internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Admin. Code Chapter 5101:2.

On October 11, 2000, we held a exit conference with the following:

<u>Name</u>	<u>Office/Position</u>
John Shannon	Parenthesis Family Advocates Executive Director
Shane M. Dawson	Parenthesis Family Advocates Board President
Robin Ingram-Graves	Parenthesis Family Advocates Operations Manager
Tami Hall	Parenthesis Family Advocates Financial Administrator
Gregory Kelly	Auditor of State Assistant Chief Deputy
Edna Frezgi	Auditor of State Deputy Auditor
Angela Galuska	Auditor of State Assistant Auditor
Sam Long	Auditor of State Assistant Auditor
Hal Whitehurst	ODJFS Audit Supervisor
Michael Mileusech	ODJFS Auditor

Our detailed procedures and the results of applying these procedures are contained in the attached *Supplement to Report on Agreed-upon Procedures*. Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the Placement Agency's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report addresses transactions relating to the above procedures only and does not extend to the financial statements of the Placement Agency, taken as a whole.

This report is intended for the information of the officials of ODJFS and is not intended to and should not be used by anyone other than this specified party. However, this report is a public record, and is available upon specific request.

JIM PETRO
Auditor of State

October 27, 2000

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

BACKGROUND INFORMATION

The challenge of child welfare reform is formidable and we commend ODJFS on its recent efforts to reform the child welfare system. The Department has invited a comprehensive group of stakeholders to participate in its child welfare reform initiative. On April 6, 1999, the Department Director requested that the Auditor of State assist the Department in its efforts to improve the child welfare system by conducting a performance audit of its child welfare program. In collaboration with ODJFS and the stakeholders group, the child welfare performance audit will identify issues that are preventing effective and efficient delivery of high quality services to children and families, and recommend methods to improve the Department's processes. ODJFS should consider the audit findings and recommendations presented in our report as it attempts to bring about needed improvements and reform. The report was released on February 9, 2001.

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform investigations utilizing certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months. This was the seventh report released of the 25 reports to be issued.

LEGAL AUTHORITY

Administration of Title IV-E Funds

Title IV-E of the Social Security Act authorizes the payment of federal funds to states to provide foster care to children who have been removed from their homes through a voluntary placement agreement or judicial determination.² The program is administered at the federal level by the Administration for Children and Families (ACF), United States Department of Health and Human Services.

In the State of Ohio, the Department of Job and Family Services acts as the single state agency to administer federal payments for foster care, and shall adopt rules to implement this authority.³ Within ODJFS, the program is administered by the Office of Child Care and Family Services.

At the local level, each county's public children services agencies (PCSA) or department of human services administers funds provided under Title IV-E of the Social Security Act in accordance with the rules adopted by the state Department of Human Services.⁴

² 94 Stat. 501 (1980), 42 U.S.C. Section 671, as amended.

³ Ohio Rev. Code Section 5101.141 (A). Rules established pursuant to this authority are found at Ohio Admin. Code Chapter 5101:2-47.

⁴ Ohio Rev. Code Section 5153.16 (A) (14).

**PARENTHESIS FAMILY ADVOCATES
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Public Children Services Agency Contractual Requirements

PCSA's are authorized to enter into contracts with PCPAs or PNAs to provide care and services which it deems to be in the best interest of any child who needs or is likely to need public care and services.⁵ PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster homes for certification; accept temporary, permanent and legal custody of children; and place children for foster care or adoption. Franklin County Children Services (FCCS), a PCSA, entered into such an agreement with Parenthesis Family Advocates, a PNA.

Billing Process

The PCPA or PNA submits an invoice monthly to the PCSA. The invoice contains specific information on each child, his or her per diem rate and the number of days in placement. Each month, the PCSA pays the PCPAs and PNAs based on their previous month's invoice, and reports to ODJFS the amount paid for each child and for other services including, but not limited to, case management, transportation for the children, recruiting and training foster parents.⁶

Reports and Records

Not-for-profit PCPAs and PNAs that provide foster care services for children eligible under the Title IV-E program are required to submit cost reports annually to ODJFS.⁷ Costs reported are used to determine a maximum allowable reimbursement rate under the Title IV-E program for foster care maintenance payments and administrative costs. ODJFS requires that the governing body of the PCPA or PNA authorize and review an annual audit with an opinion of the organization's finances by an independent certified or registered public accountant, and asks that⁸ a copy of the last completed audit be submitted with the annual cost report.

"Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report..."⁹

⁵ Ohio Rev. Code Section 5153.16 (C)(2)(a)(v).

⁶ Ohio Admin. Code Section 5101:2-47-11(G). Prior to 5/1/98, these requirements were generally contained in Ohio Admin. Code Section 5101:2-47-65(E).

⁷ Form ODHS 2910 Purchased Family Foster Care Cost Report is applicable to PCPAs and PNAs. Annual filing requirement is found at Ohio Admin. Code Section 5101:2-47-24(D). Prior to 5/1/98, the annual filing requirement was contained in Ohio Admin. Code Section 5101:2-47-20(C)(1).

⁸ Ohio Admin. Code Section 5101:2-5-08(A)(5). Effective 7/1/00, after the audit period, ODJFS amended this rule to provide that for PCPAs and PNAs with an annual gross income of less than \$300,000, it would be sufficient to prepare a written annual financial statement of the PCPA or PNA finances in accordance with generally accepted accounting principles. In addition to having the governing board authorize and review the required financial statements and audits, the amended rule requires agencies to submit them to ODJFS.

⁹ Office of Management and Budget (OMB) Circular A-110 Uniform "Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations": Subpart C Paragraph 53 (b).

**PARENTHESIS FAMILY ADVOCATES
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Cost Principles

Title IV-E foster care maintenance payments are designed to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.¹⁰

Allowable and unallowable cost guidelines for use in completing the cost reports are contained in the Ohio Administrative Code and Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*.

In addition, because the PCPAs and PNAs enjoy federal tax-exempt status, they are directly precluded from assigning any part of their net earnings to the benefit of any private shareholder or individual.¹¹

Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, establishes an audit requirement for federal funds (including Title IV-E funds) administered by state and local governments and non-profit entities, and authorizes auditors to question unallowed costs which appear to have resulted from a violation of law, regulation or other agreement governing the use of such funds, costs which are not supported by adequate documentation, or appear unreasonable.¹²

ODJFS codified the cost principles to which the PCPAs and PNAs are subject to by its promulgation of Ohio Admin. Code Sections 5101:2-47-11(C) and 5101:2-5-08 (G).

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the Office of Management and Budget (OMB) circulars A-87 and A-122."¹³ Specifically, ODJFS considers certain costs to be unallowable for purposes of calculating the rate at which foster care maintenance costs can be reimbursed with federal Title IV-E funds including, but not limited to, contributions, donations, or any outlay of cash with no prospective benefit to the facility or program; entertainment costs for amusements, social activities, and related costs for staff only; and costs of activities prohibited under section 501(c)(3) of the Internal Revenue Code.¹⁴

¹⁰ 42 U.S.C. Section 675 (4) (A).

¹¹ 26 U.S.C. Section 501(c)(3).

¹² Pursuant to her rulemaking authority under the Single Audit Act, 31 U.S.C. Section 7505, the Secretary of the Department of Health and Human Services has promulgated a regulation which provides that state and local governments, as well as recipients and subrecipients that are non-profit organizations, are subject to the audit requirements contained in the Single Audit Act, 31 U.S.C. Sections 7501 et seq., and OMB Circular A-133. See 45 C.F.R. Section 74.26(b) and (a) (1999), respectively.

¹³ Prior to 5/1/98, applicable cost guidelines were contained in Ohio Admin. Code Sections 5101:2-47-63 and 5101:2-47-64.

¹⁴ Ohio Admin. Code 5101:2-47-26. Prior to 5/1/98, these requirements were contained in Ohio Admin. Code Section 5101:2-47-64.

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Ohio Admin. Code Section 5101:2-5-08 (G) states, "A PCPA or PNA shall not permit public funds to be paid or committed to be paid to any corporation, firm, association or business in which any of the members of the governing body of the agency, the executive personnel or their immediate families have any direct or indirect financial interest, or in which any of these persons serve as an officer or employee, unless the services or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA. The PCPA or PNA shall make written disclosure, in the minutes of the board, of any financial transaction of the PCPA or PNA in which a member of the board or his/her immediate family is involved."

The Office of Management and Budget Circular A-110 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations* establishes standards for uniform administrative requirements for Federal grants and agreements with institution of higher education, hospitals, and other nonprofit organizations. Subpart C of Circular A-110 set forth requirements regarding: financial and program management, property and procurement standards, reports and records and termination and enforcement.

Reimbursement Process

The reimbursement process begins early each fiscal year when ODJFS disburses funds to the counties under its state plan for foster care approved by the Secretary of the U.S. Department of Health and Human Services. ODJFS submits quarterly reports to the U.S. Department of Health and Human Services (HHS) for reimbursement of federal financial participation (FFP) in foster care payments¹⁵ made to the PCPAs and PNAs.

In 1998, the FFP was 58% for maintenance payments¹⁶ made and 50% for administrative costs¹⁷ incurred under the Title IV-E program.

Each PCSA negotiates a foster care per diem rate (which includes maintenance and administrative costs) for each foster child placed with a PCPAs or PNAs. Maximum allowable federal reimbursement under Title IV-E for maintenance payments and administrative costs are set by ODJFS. The PCPA/PNA may contract with foster parents at a different foster care per diem rate for each foster child.

Child Welfare Demonstration Project (ProtectOhio)

In October 1997, ODJFS implemented a waiver received from the U.S. Department of Health and Human Services of certain Title IV-E requirements to conduct a Child Welfare Demonstration Project, known as ProtectOhio.¹⁸

¹⁵ Ohio Admin. Code Section 5101:2-47-11 recites the foregoing reporting and reimbursement requirements. Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-20 and 5101:2-47-65.

¹⁶ 45 C.F.R. 1356.60(a)(2) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

¹⁷ 45 C.F.R. 1356.60(c) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

¹⁸ The authority for ODJFS to participate in this project is found in Ohio Rev. Code Section 5101.142.

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The project allows ODJFS to expand the types of services provided and increase the number of children and families served in certain demonstration counties.¹⁹ It is concerned with the flexible use of Title IV-E foster care maintenance payments, and the waiver is applied to funds which are used for that purpose, or would have been used in the absence of this project.²⁰

To implement ProtectOhio, ODJFS entered into contracts with 14 counties, including an agreement on September 2, 1997, with the Franklin County Board of Commissioners and Franklin County Children Services.²¹ Sections III, IV and V of this agreement describe how Title IV-E funds are to be preallocated to Franklin County, rather than reimbursed according to the per diem rates described above. Our Review takes into consideration the change in federal funding methodology during the Period.

Allowable Costs

In addition to the Ohio Administrative Code and Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, the terms and conditions of the contract between FCCS and Parenthesis Family Advocates²² formed the criteria to which we referred during our testing to determine if the expenditures at the Parenthesis Family Advocates were used to provide only the administrative and direct service costs necessary to perform the services outlined in the contract.

Direct and administrative cost services described below are costs deemed to be allowable under the FCCS Placement Services Agreement with the Parenthesis Family Advocates and are presumed to be included in the services and rates contained in the Agreement.²³ The Agreement states that FCCS will reimburse Parenthesis Family Advocates to provide direct services and for the incurred administrative costs associated with providing the necessary services to the foster children in its care.

Direct services are defined as services received by children in placement or foster parents, including, but not limited to: respite, foster parent training, foster parent support services, individual, group or family counseling, mentoring, arrangement for and transportation to and from physical and medical treatment, recreational activities, day care and transportation. It does not include day treatment and alcohol and other drug treatment services.²⁴ Administrative costs are defined as costs associated with the executive functions of the agency, including fiscal, information management and clerical operations and overhead and includes foster parent recruitment when applicable. It does not include direct services to clients or foster parents relating to care of the child(ren), e.g. foster parent training.²⁵

¹⁹ On 2/14/97, Laurence J. Love, Deputy Assistant Secretary for Children and Families, HHS, advised then ODHS Director Arnold R. Tompkins that ODHS' proposed waiver project had been approved, subject to its written acceptance of certain waiver terms. ODHS accepted the terms on March 20, 1997. Specifically waived for the project were the following provisions of the Social Security Act and Program Regulations: 42 U.S.C. Section 672(a), (c) and (e); 42 U.S.C. Section 671(A)(10); and 45 C.F.R. 1356.80(h) (thereby expanding eligibility for services); and 42 U.S.C. 674 Section (a)(3)(E) and 42 U.S.C. Section 677(e)(3) (thereby expanding services).

²⁰ Department of Health and Human Services, Administration for Children and Families, Waiver Terms and Conditions, Ohio Child Welfare Waiver Demonstration Project, Section 2 "Implementation," Paragraph 2.6.

²¹ This agreement is effective by its terms from October 1, 1997, through September 30, 2002.

²² The contract between FCCS and Parenthesis July 1, 1997 through December 31, 1998, is referred therein as the "Placement Services Agreement."

²³ Placement Services Agreement dated July 1, 1997. Article II, Section D, Part 6.

²⁴ Placement Services Agreement, Article I, Section D.

²⁵ Placement Services Agreement, Article I, Section A.

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In its contract with FCCS, Parenthesis Family Advocates agreed to “maintain such case, client, foster parent, service and financial records, books, payrolls, documents, accounting procedures and practices necessary to sufficiently and properly reflect all services provided and all direct and indirect costs of any nature expended in the performance of this Agreement,”²⁶ and to maintain certification stipulated by ODJFS as a requirement for participation in the Title IV-E program.²⁷

The contract further provided: “Such records which are directly pertinent to this Agreement shall be subject to inspection, review, or audit by designated FCCS personnel, or agents.”²⁸ In addition, Parenthesis agreed that “(a)ll records relative to this Agreement including Service Plans, invoices, etc., as applicable, shall be retained for five (5) years....”²⁹

RESOLUTION OF QUESTIONED COSTS

Certain deficiencies identified in our Review may require us to report questioned costs to the U.S. Department of Health and Human Services and ODJFS. OMB Circular A-133 defines questioned costs³⁰ as follows:

“Questioned cost means a cost that is questioned by the auditor because of an audit finding:

1. Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds;
2. Where the costs, at the time of the audit, are not supported by adequate documentation; or
3. Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.”

The foster care program in Ohio is funded by a combination of federal, state and local funds. Historically the percentage of funding has averaged approximately 37% federal, and 10% state reimbursement, and 53% local. During fiscal year 1998 the percentage of funding was 40% federal, and 10% state reimbursement and 50% local funds. These funds are commingled when paid to the Placement Agency to perform the program functions for which it is certified by ODJFS to perform. The accounting systems of the Placement Agencies, in general, are not designed to classify or track expenditures by the source of funds and it is difficult, if not impossible to match expenditures that result in questioned costs with the corresponding source of funds. Therefore when reporting questioned costs in this report we did not attempt to allocate those costs among the entities that provided the funding.

²⁶ Placement Services Agreement, Article III, Section B, Part 2.

²⁷ Placement Services Agreement, Article III, Section B, Part 2.

²⁸ Monitoring and Records, Placement Services Agreement, Article III, Section B, Part 2.

²⁹ Monitoring and Records, Placement Services Agreement, Article III, Section B, Part 1.

³⁰ Office of Management and Budget (OMB) Circular A-133, Subpart A, .105 Definitions.

**PARENTHESIS FAMILY ADVOCATES
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We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with Parenthesis join together to ensure that Parenthesis develops and implements a corrective action plan that will result in fiscal accountability and legal compliance in an expeditious manner. Based on the findings we recommend the following:

1. PCSAs contracting with Parenthesis should determine whether the findings set forth in this report constitutes a breach of their contract, and if so seek appropriate remedy.
2. ODJFS should assist the contracting PCSAs in seeking recovery of misspent funds by providing administrative and technical support as needed.

AGENCY INFORMATION

The Parenthesis Family Advocates is a private noncustodial agency (PNA) that was established in 1983 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Service Code Section 501 (c)(3). Parenthesis Family Advocates is licensed by ODJFS to recommend families to become foster families, place children in foster homes, and recommend children for adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as Parenthesis Family Advocates to place the child. The group of family foster homes (private foster network) utilized by Parenthesis Family Advocates has been in place since 1983. Parenthesis Family Advocates places foster children primarily for FCCS. Parenthesis Family Advocates has provided services to Kent (MI), Ashtabula, Crawford, Fairfield, Franklin, Harding, Licking, Marion and Scioto County public children services agencies during the Period.

The following table shows statistical information about the agency for 1998 taken from the ODHS 2910 Purchased Family Foster Care Cost Report and other documentation provided by the Placement Agency:

**Table I
Parenthesis Family Advocates
Foster Care Statistics**

Characteristic	Statistic
Daily Average Number of Children in Placement	85
Number of Active Licensed Foster Homes	55
Average Per Diem Rate	\$80
Number of PCSA from which Agency Receives Children	9
Required Training for Foster Caregiver Orientation	24-40 hours based on assessed level of care
Required Annual Training for Foster Caregiver	12-30 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	\$2,469,283
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

**PARENTHESIS FAMILY ADVOCATES
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During the Period, the Parenthesis Family Advocates staff consisted of 81 people, 23 of whom provided direct foster care services, including an executive director, financial administrator, operations manager, social workers, and family coordinators to provide the needed counseling and case management services to the foster children and foster parents.

The Parenthesis Family Advocates revenues were comprised primarily of funds from Franklin County Children Services. The total revenue received by Parenthesis Family Advocates from Franklin County Children Services for foster care services during the Period of January 1, 1998 to December 31, 1998 was \$2,729,943.

The following table shows the sources of revenue per the general ledger for the calendar year 1998 and the percentage of total revenue for each source.

**Table II
Parenthesis Family Advocates
Revenue by Source**

	1998	Percent of Total Revenue
Franklin County	\$2,729,943	89
Kent County (Ml.)	41,731	2
Licking County	78,075	3
Fairfield County	41,750	1
Behavioral Health	6,128	0
Other Income	148,803	5
Total Revenue by Source	<u>\$3,046,430</u>	<u>100%</u>

Relevant Individuals and Entities

John Shannon

John Shannon is the Executive Director of Parenthesis Family Advocates. He has served as Executive Director of Parenthesis Family Advocates since 1994.

Robin Ingram-Graves

Robin Ingram-Graves is the Operations Manager of Parenthesis Family Advocates during the Period.

Tami Hall

Tami Hall is the Financial Administrator of Parenthesis Family Advocates during the Period.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 1	TEST OF EXPENDITURES IN ACCORDANCE WITH TERMS OF AGREEMENTS AND APPLICABLE LAWS
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Objective:

To determine whether the Placement Agency's expenditures complied with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes during the Period.

Procedures Performed:

1. We obtained all canceled checks for non-payroll disbursements made by Parenthesis for each month during the Period (See Issue 5 for reconciliation of payroll disbursements).
2. We inspected the details of every canceled check returned by the bank during the Period including vendor, amount, authorizing signature and endorsement for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.
3. For selected disbursements which were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.
4. We examined the supporting document to determine compliance with program requirements for expenditures and for potential self-dealing transactions prohibited by Ohio Admin. Code Section 5101:2-5-08 (G).
5. We discussed with agency management all expenditures (check disbursements) that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined in applicable rules, regulations and/or contract provisions.
6. We obtained all credit card statements paid by Parenthesis for the Period and examined details of each charge including vendor, amount, and authorization for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.
7. For selected credit card expenditures which were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.
8. We discussed with agency management all credit card expenditures that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined by applicable rule regulations and/or contract provisions.
9. We read lease agreements and other documents supporting all car lease payments. We reviewed documentation supporting how the percentage of time the cars were used for business and personal use was determined and whether personal use was properly disclosed on the employees' W-2.

**PARENTHESIS FAMILY ADVOCATES
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10. We read lease agreements and other documentation supporting all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and Parenthesis.

ISSUE 1-1	CHECK AND CREDIT CARD DISBURSEMENTS NOT AUTHORIZED OR WHICH LACKED SUPPORTING DOCUMENTATION REQUIRED UNDER THE FCCS CONTRACT.
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Results:

To be allowable under an award, cost must, among other things be adequately documented.³¹ All expenditures should be supported by sufficient documentation to demonstrate the proper authorization, approval and purpose of the expenditure.

Article III, Section B, Part 2 of the Placement Services Agreement states in pertinent part, that the Parenthesis Family Advocates “shall maintain such case, client, foster parent, service and financial records, books, payrolls, documents, accounting procedures and practices necessary to sufficiently and properly reflect all services provided and all direct and indirect costs of any nature expended in the performance of this Agreement...” Furthermore, Article II, Section D, Part 6 of the contract states that “all direct services and administrative cost services are presumed to be included in the services and rates contained in this Agreement.”³²

The one hundred thirty-three (133) check disbursements examined represented \$81,692 in expenditures. We requested supporting documentation for these expenditures such as invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, an explanation of how the expenditure provided a benefit to program or was necessary to the operation of the foster care program. Parenthesis Family Advocates was unable to provide us with adequate supporting documentation for eleven (11) of those disbursements totaling \$2,233.

We inspected seventeen (17) credit card expenditures totaling \$930. Parenthesis Family Advocates was unable to provide us with adequate documentation for two (2) expenditures totaling \$130. Because the agency was unable to supply us with adequate documentation, these expenditures are not allowable under the FCCS contract and were in direct violation of OMB Circular A-122, Attachment A(2)(g). Undocumented expenditures totaled \$2,363.

³¹ Office of Management and Budget (OMB) Circular A-122 “Cost Principles of Non-Profit Organizations,” Attachment A, Paragraph A (2)(g).

³² Administrative costs and Direct services are defined in the Placement Services Agreement in Article I, Sections A and D.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

In addition, one (1) credit card expenditure in the amount of \$25 for a credit card membership rewards program was unallowed.

**Table III
Parenthesis Family Advocates
Questioned Costs**

Undocumented Expenditures	
Check Disbursements	
Best Buy	\$598
Grocery Charges	69
Green Tree Services	27
Deborah Reinhart	520
Sabina Mitchell	500
Quality Interpreting	51
Payments to Employees	372
Other Expenditures	<u>96</u>
Total Undocumented Check Disbursements	<u>2,233</u>
 Credit Card Disbursements	
Paper Direct	85
Printing Services	<u>45</u>
Total Undocumented Credit Card Disbursements	<u>130</u>
Total Undocumented Expenditures	2,363
 Unallowed Expenditures	
American Express Membership Rewards Program	<u>25</u>
 Total Questioned Costs	 <u><u>\$2,388</u></u>

Federal Questioned Costs: \$2,388

Due to unallowed and inadequately documented expenditures reported on the cost report and charged against the foster care program, Parenthesis Family Advocates was in violation of the Article III, Section B, Part 2 of its contract with FCCS and OMB Circular A-122³³ in the amount of \$2,363. Parenthesis Family Advocates was also in violation of Article II, Section D, Part 6 of its contract with FCCS with respect to the unallowed expenditure in the amount \$25 for a credit card membership rewards program. The federal questioned costs totaled \$2,388.

Management Comment:

Parenthesis Family Advocates did not adhere to the FCCS contract regarding documentation of allowable direct and administrative costs requirements. The Franklin County Children Services should require the agencies for which it contracts for placement services, to obtain and submit to FCCS an annual financial audit performed in accordance with government auditing standards. In addition, to the financial statement opinion, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. FCCS should review these reports and follow up on any exceptions reported.

³³ Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," Attachment A, Paragraph A (2)(g).

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 1-2	EXPENDITURES FOR SERVICES PROHIBITED BY THE FCCS CONTRACT
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Results:

Section 675 (4)(A)³⁴ of the Social Security Act states, in part, that: “foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable with respect to a child's home for visitation. . .”

Ohio Admin. Code Section 5101:2-33-18(A) states,

(A) Whenever a public children services agency purchases foster care and placement services from another public or private provider of such services, the agency shall enter into a purchase of service agreement with the provider. The purchase of service agreement shall specify that foster care maintenance, administrative case planning activities as defined in this rule and related administrative activities are being purchased.

In accordance with Ohio Admin. Code Section 5101:2-33-18(A), FCCS set forth the scope of services it intended to purchase from Parenthesis in its cost reimbursement contracts.³⁵

The scope of services to be provided by Parenthesis and paid for by Franklin County Children Services was set forth in the contract between the two parties. The contract between FCCS and Parenthesis effective July 1, 1997 through December 31, 1998 (Placement Services Agreement) describes the direct services for which FCCS intended to reimburse Parenthesis. The contract states in pertinent part, “Direct Services: services received by children in placement or foster parents, including, but not limited to: respite, foster parent training, foster parent support services, individual, group or family counseling, mentoring, arrangement for and transportation to and from physical and medical treatment, recreational activities, day care and transportation. It does not include day treatment and alcohol and other drug treatment services.”³⁶

During 1998 FCCS provided \$2,729,943 (89%) of the \$3,046,430 total revenue reported on Parenthesis audited financial statements for the year ended December 31, 1998. The \$2,991,984 in funding it received from county agencies in Ohio, for reimbursement of foster care related services provided, represented 98% of the \$3,046,430 in total revenue it reported for the year ended December 31, 1998.

We tested the expenditure of these funds provided primarily by FCCS for foster care related services to determine the allowability of the expenditures under the terms and conditions of the cost reimbursement contract between FCCS and Parenthesis and the federal rules governing the foster care program. We identified \$207,938 in 1998 expenditures related to a drug and alcohol treatment program that appeared to violate the FCCS cost reimbursement contract³⁷ in effect during 1998, as well as federal rules governing the foster care program.

³⁴ 42 U.S.C 675 (4)(A).

³⁵ Letter of Understanding effective through successive amendment from January 1, 1995 through June 30, 1997 and Placement Services Agreement, effective July 1, 1997 through December 31, 1998, Article I, Section D.

³⁶ Placement Services Agreement, Article I, Section D.

³⁷ Placement Services Agreement, Article I, Section D.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

We discussed our concerns about Parenthesis' use of foster care funds in apparent violation of its cost reimbursement contract³⁸ with FCCS, with the management of Parenthesis and FCCS.

In response to our concerns John Shannon, Executive Director of Parenthesis explained his agency's position to John Saros, Executive Director of Franklin County Children Services in a letter dated October 27, 2000. In his letter Mr. Shannon made the assertion that Parenthesis had accumulated an estimated \$640,337 in unrestricted net assets prior to the Placement Services Agreement contract, which were not subject to the contract language prohibiting expenditures for mental health and drug and alcohol services set forth in Placement Services Agreement, effective July 1, 1997 through December 31, 1998.

We read Parenthesis' audited financial statements for the periods ended December 1996, 1997, and 1998 and performed calculations that supported Parenthesis' assertion that is had \$640,337 in unrestricted net assets prior to its Placement Services Contract effective July 1, 1997 through December 31, 1998.

Based on our calculations it appeared, that although is had a cost reimbursement contract with FCCS, to provide foster care related services, Parenthesis was able to generate substantial net earnings in excess of cost ("profits") in the amount of \$679,423 from January 1, 1996 through December 31, 1998. This substantial excess should have been spent for the benefit of the foster care program or returned to FCCS.

To determine whether the expenditures, from net earnings in excess of cost ("profits") accumulated by Parenthesis prior to the Placement Services Agreement, effective July 1, 1997 through December 31, 1998, were allowable, we read the contract in effect prior to that period. We also read the federal regulations that FCCS would have to comply with when seeking federal reimbursement for foster care cost.

The prior contract³⁹ states in pertinent part: "Any portion of the costs of services provided to clients that can be paid from other funding sources, including Federal Medicaid, shall not be billed to, or paid for, by FCCS." It appears the language of the contract and the prevailing practice for providing and funding drug and alcohol treatment services that FCCS did not intend to allow for payment of these services with funds provided under its cost-reimbursement contract with Parenthesis.

Furthermore, even if FCCS had intended to allow such expenditures it would not have had the authority to waive the federal requirements governing the foster care funds. Section 675 (4)(A) of the Social Security Act states, in part, that: "foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable with respect to a child's home for visitation. . ." This definition clearly does not include the cost of drug and alcohol treatment.

In 1998 when Parenthesis established its drug and alcohol treatment program services, reimbursements were handled in the following manner. Alcohol Drug Abuse and Mental Health (ADAMH) Boards contracted with certified providers for treatment services. The certified provider billed the ADAMH Board for the services provided under the contract. The ADAMH Board paid the certified provider for the cost of the services. Then the ADAMH Board allocated its cost against Medicaid and local funds. It charged the Medicaid program at the 58% rate of Federal Financial Participation (reimbursement). The remaining 42% was charged against local ADAMH Board levy funds to meet the Medicaid matching requirements. It should be noted that Parenthesis did not enter into a contract with Franklin County ADAMH Board to provide drug and alcohol treatment services until July 1, 1999.

³⁸ Placement Services Agreement, effective July 1, 1997 through December 31, 1998.

³⁹ Letter of Understanding, effective through successive amendment from January 1, 1995 through June 30, 1997.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

By using funds intended for foster care related services to pay for the cost of drug and alcohol treatment services, which should have been reimbursed with Federal and local funds intended for such purposes, Parenthesis caused FCCS to subsidize its program without FCCS' knowledge or approval. John Saros, Executive Director FCCS clarified FCCS contractual content in a letter to the Auditor of State's office dated February 11, 2001. The letter stated in pertinent part: ". . .(w)e wanted to exclude the cost, whether whole or in part, of Medicaid reimbursable services for children in our custody in the care of Parenthesis. We were unaware of the existence of Parenthesis drug treatment program"

It should be noted that on September 25, 1997 FCCS entered into an agreement with ODJFS that as part of a Federally approved Child Welfare Demonstration Project allows FCCS to waive the eligibility and program requirements of the foster care program. Since obtaining the waiver FCCS has the authority to spend its foster care funding on drug and alcohol treatment services if it so chooses.

Federal Questioned Costs \$207,938

Parenthesis expenditure of foster care funds totaling \$207,938, to start up and operate a drug and alcohol treatment program, without the knowledge or approval of FCCS was contrary to the intent of its contracts with FCCS.⁴⁰ In addition these expenditures are unallowable under Section 675 (4)(A) of the Social Security Act.

Management Comment

FCCS should determine whether the findings in this report constitutes a breach of its contract, and if so seek appropriate remedy. In addition, ODJFS should, by rule, establish an administrative cost cap that while allowing a reasonable amount of administrative funds for ordinary, reasonable and necessary operation of the foster care networks, would prevent the accumulation of substantial net excess earnings (profits) that might be used for unintended purposes in violation of applicable contracts and laws and result in questioned costs.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES
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Objective:

To determine whether all receipts and deposits from the applicable public children services agencies to Parenthesis Family Advocates for the Period were properly deposited and recorded in the accounting records of the Placement Agency.

Procedures Performed:

1. We determined the types of revenue that Parenthesis Family Advocates received during the Period, by scanning the audited financial statements and the supporting general ledger.
2. We identified the sources of receipts received from bank statements and other related records.
3. We tested a sample of 10% of the monthly billings by the Placement Agency to FCCS for foster care placements to determine whether the amounts billed were received, and the receipts were deposited and recorded in the Placement Agency's financial records.
4. We scanned all revenue remittances and the general ledger to determine whether revenue had been recorded in the accounting records of the Placement Agency.

⁴⁰ Letter of Understanding, Article II, Section D, Part 4, and Placement Services Agreement, Article I, Section D.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Results:

We documented the types of revenue that Parenthesis Family Advocates received as program service fees from various counties and investment income. They did not receive Medicaid payments during the Period. We obtained documentation from FCCS to determine the completeness of the receipts to Parenthesis.

Furthermore, we determined that all FCCS disbursements to Parenthesis were receipted, deposited and recorded in its accounting records.

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS
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Objectives:

1. To determine whether Parenthesis's per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.
2. To determine the ratio of the per diem payments used for administration and maintenance.

Procedures Performed:

1. We obtained the monthly billing invoices submitted by Parenthesis for foster care services from FCCS during 1998 and traced them to the 1998 FCCS Vendor Payment History report for Parenthesis detailing FCCS payments.
2. We selected a representative sample of children identified by FCCS as being serviced by Parenthesis some of which were Title IV-E eligible.
3. We found the child's name on the appropriate month's FCCS vendor payment history report. We computed the amount of maintenance that would have been paid for each child.
4. We compared payments received by Parenthesis from FCCS to the corresponding Parenthesis billing in the month selected for each child in the sample.
5. We obtained the contracts or per diem agreements between Parenthesis and the foster parent for each child in the sample.
6. We obtained and compared the authorized schedule of per diem rates to rates paid per the agreements between Parenthesis and FCCS and between Parenthesis and foster caregivers.
7. We compared the Parenthesis's per diem paid to the foster parents with the corresponding per diem it received from FCCS to determine the ratio of payments for administration and maintenance.

ISSUE 3-1	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE
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Results:

We tested the payments from Franklin County Children's Services (FCCS) to the Parenthesis Family Advocates for a sample of 103 foster children. The payments to the Placement Agency for this sample totaled \$251,986. We noted that the Placement Agency received the correct per diem rates noted in the FCCS contract.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

The foster parents in the sample received \$127,999. We noted that these foster parents received the correct per diem rates per the FCCS contract. Of the \$251,986 received from FCCS the Placement Agency made no direct maintenance purchases, and the foster parents received \$127,999 or 51% of the total funds paid to the Placement Agency by FCCS. The remaining \$123,987 or 49% was retained by Parenthesis Family Advocates for administrative costs. The amount retained for administrative costs exceeded the actual administrative cost paid between January 1, 1996 through December 31, 1998 in the amount of \$679,423. As of December 31, 1998 Parenthesis spent \$207,938 of that excesses on purchases unrelated to foster care (see Issue 1-2) and retained the balance.

Management Comment:

ODJFS should establish by administrative rule a cap on the percentage of the private agency's allowable administrative cost. This administrative cost cap should be structured in a manner that maximizes the amounts expended for maintenance and other direct services to children, while allowing a reasonable percentage for necessary administrative costs.

ISSUE 3-2	MANAGING CHANGES TO RATES AND PER DIEM AGREEMENTS
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Results:

The Placement Agency should ensure the proper authorization and timely updating of rate changes and other changes in the per diem agreement between the Placement Agency and the foster caregiver.

Per diem agreements between a Placement Agency and foster parents should represent the agreement of both parties to the terms of the foster care relationship. The Placement Agency should update their per diem agreements with the foster parents when changes occur (increases or decreases in the assessed level of care rate which effects the amount paid to foster parents).

During our review of the family foster files, we noted foster parents working with Parenthesis Family Advocates received a per diem agreement at the initial placement of a child in their home. While changes in the per diem agreements were recorded in the foster parent files, no per diem agreement amendments were prepared for approval by Parenthesis Family Advocates or the individual foster parent. During our testing it appeared that the foster parents were receiving one rate for the care of the child for the entire duration of the child's placement, when in fact there could have been several rate changes during the period.

Management Comment:

We recommend that amendments or new per diem agreements with foster parents should be completed for each subsequent rate change. This would provide assurance, to both the agency and the foster parents that the properly authorized and documented rate would be paid.

ISSUE 4	TEST OF INTERNAL CONTROLS
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Objectives:

1. To identify significant internal control weaknesses in the policies and procedures in place at the Placement Agency.
2. To recommend improvements in the internal control system in efforts to eliminate significant noncompliance, and increase fiscal accountability.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Procedures Performed:

1. We read the Board of Trustees' minutes, personnel records, and organizational chart, to identify potential conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.
2. We completed an internal control questionnaire and identified weaknesses that existed in the accounting cycle.
3. We inquired, documented and obtained corroborating information on the Placement Agency's internal control policies and procedures relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

ISSUE 4-1	AUDIT COMMITTEE
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Results:

The Audit Committee is essential to enhancing the credibility of the Placement Agency's financial reporting by ensuring the reliability of the audit.

Generally accepted auditing standards require that auditors communicate the following information to an audit committee:

- The auditors' professional responsibility under generally accepted auditing standards;
- Selections of accounting standards;
- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Difficulties encountered in performing the audit.

The Parenthesis Family Advocates did not have an audit committee. A well functioning audit committee would better ensure the independence and objectivity of the independent public accountant in addition to making sure the Board of Trustees are aware of significant deficiencies in internal control and noncompliance with laws and regulations.

Management Comment:

We recommend that the Parenthesis Family Advocates establish an audit committee. An audit committee could strengthen board oversight by performing the following functions:

- Periodically review the process used to prepare interim financial information submitted to the Board of Trustees;
- Review and evaluate audit results;
- Assure that audit recommendations are appropriately addressed;
- Assure auditors' independence from management; and
- Serve as liaison between management and independent auditors.

The audit committee should include persons knowledgeable of the Placement Agency's operations and in finance and management. The audit committee should meet regularly (perhaps quarterly) to monitor the Placement Agency's financial reporting and internal control activities, and should meet with its independent auditors before and after each audit.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 4-2	ACCOUNTING POLICES AND PROCEDURES
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Results:

An agency's assets should be safeguarded from unauthorized use or theft. Furthermore, an agency should establish a policy on use of its assets and procedures to safeguard and account for them. Adequately designed accounting policies and procedures enhance the reliability of the Placement Agency financial reports.

The Parenthesis Family Advocates was unable to produce written accounting policies or procedures. Failure to adequately safeguard assets may expose the Placement Agency to the risk that theft, or unauthorized or unallowed expenditures could occur and go undetected.

Lack of written policy notification and guidance in accounting procedures could lead to non-compliance with federal or state requirements under the foster care program and inefficient or improper processing of transactions.

Management Comment:

We recommend the Parenthesis Family Advocates establish written accounting policies and procedures. Accounting policies should clearly establish the intent of the Placement Agency to comply with all federal and state requirements of the foster care program. Accounting procedures should clearly instruct Placement Agency employees on the proper methods of processing and reporting financial transactions.

ISSUE 4-3	BANK RECONCILIATIONS
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Results:

An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; to safeguard the entity's assets against loss; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether operations are achieving management's objectives.

An effective internal control structure requires segregation between the authorization, recording, and custody of assets. It is management's responsibility to implement procedures and devise control activities that effectively segregate employees' job functions and promote the reliability of data through the performance of internal controls and strict adherence to deposit and investment policies. For example, if controls are not placed in operation that provide for a segregation of cash disbursing and receipting activities, theft of cash may occur and not be detected by management. If checks received are not restrictively endorsed and posted daily, the money could be lost or misappropriated. In addition, money may not be available to cover expenditures in a timely manner.

The bank reconciliation was not reviewed until after the year end. It was then reviewed by the agency's independent public accountant. We found that the accountant had to make several adjustments to the cash balance due to manually prepared checks that were not posted and other errors in the reconciliation that should have been detected in a more timely manner by the agency's employees.

A foster care agency's accounting policies should require that bank reconciliations be reviewed by an independent individual on a frequent basis. This will strengthen cash management, and reduce the risk of loss from errors or irregularities.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment:

We recommend that the Parenthesis Family Advocates establish a policy that requires an independent review of the bank reconciliation on a monthly basis to help detect errors in a timely manner. In addition, we recommend Parenthesis Family Advocates issue stop payment and void checks outstanding over one year.

ISSUE 4-4	EMPLOYEE LOANS
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Results:

Any outlay of cash with no prospective benefit to the facility or program is considered an unallowable cost when charged against the foster care program.⁴¹

Per the board minutes dated June 24, 1998 a loan of \$1,000 was authorized for a staff employee to facilitate the purchase of a van from the executive director. The loan was repaid without interest.

The loan resulted in the expenditure or commitment of funds charged against the foster care program and was unreasonable and unallowed and under the circumstances, neither the personal loan nor the staff employee's purchase of the van benefitted the Placement Agency.

Management Comment

The Board of Trustees should establish a policy which prohibits the diversion of funds intended for programs by extending loans. This policy will better ensure that funds received from public agencies are only spent for program purposes.

ISSUE 4-5	FIXED ASSET POLICY
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Results:

A comprehensive written fixed asset policy would increase the Placement Agency's ability to properly account for its fixed assets, and ensure they are adequately safeguarded from loss, theft or unauthorized use.

Per the internal control questionnaire and discussion with the client, the Placement Agency did not have a written fixed asset policy or procedures for the treatment of capital expenditures and repairs, nor did they perform an annual fixed asset inventory. The Placement Agency relied upon its external auditors to calculate the fixed asset balances and related depreciation expense and accumulated depreciation reported in the financial statements.

Failure to complete an annual physical inventory and keep accurate accounting records increases the risk that assets which may have been lost, stolen, or improperly used would go undetected. This could over/under state the fixed assets reported by the entity in its financial statements.

The Placement Agency was not aware of the risk imposed by not taking a physical inventory nor the benefits of having a fixed asset policy.

⁴¹ Ohio Admin. Code Section 5101:2-47-26(A)(6). Prior to 5/1/98, this provision was contained in Ohio Admin. Code Section 5101:2-47-64(F).

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment:

We recommend that Parenthesis develop and implement a fixed asset policy that, at a minimum, provides guidance on the following:

1. The types of fixed asset records to maintain, such as a detailed listing of plant, property and equipment or a current professional appraisal of assets. The list should include beginning balances, additions, deletions (including gains or losses on sales), transfers, ending balances and depreciation expense and accumulated depreciation (where applicable).
2. Categories of fixed assets include land, land improvements, buildings and structures, machinery, equipment, furniture, tools, donated assets and leasehold and leasehold improvements.
3. Basis for valuing assets at either the cost or estimated historical cost and capitalization thresholds which establishes the criteria for when expenditures should be capitalized excluding repairs and maintenance.
4. Depreciation and amortization method, such as straight line over the useful lives of the assets and salvage values, procedures for the depreciation of additions and retirements, and the accounting for fully depreciated assets.
5. Annual fixed asset inventory by visually comparing the asset and the information on the detailed fixed asset listing.
6. Authorized use of its assets, such as a log noting date, person, purpose and location for the use of the asset.

This would promote the consistent treatment of similar assets, safeguard them from theft or misuse and improper and accurate reporting of the fixed assets and related depreciation on the financial statements.

ISSUE 5	TEST OF INTERNAL ADMINISTRATIVE CONTROLS OVER COMPLIANCE WITH REQUIREMENTS OF THE TITLE IV-E PROGRAM AND THE OHIO ADMINISTRATIVE CODE CHAPTER 5101:2
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Objectives:

1. To identify the administrative compliance requirements of the foster care program.
2. To identify significant administrative noncompliance with the provisions of the foster care program.
3. To determine if the Family Foster Home Records, completed and maintained by the PCPA/PNA, were in compliance with applicable sections of the Ohio Administrative Code.
4. To determine whether Title IV-E maintenance funds received by Parenthesis Family Advocates were used in accordance with the Social Security Act.
5. To determine whether the cost reports submitted to ODJFS by Parenthesis Family Advocates were accurate and completed in accordance with ODJFS regulations.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Procedures Performed:

1. We read the Board of Trustees minutes, personnel records, and organizational chart to identify potential for conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.
2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribed in Ohio Admin. Code Chapter 5101:2.
3. We determined whether the PCPA/PNA established a policy on: respite care; alternative care arrangement; residency; training and verification of income and prior childcare experience and if a policy was authorized and documented.
4. We compared wages paid as identified on the ODHS 2910 cost report to wages paid as identified in the payroll records.
5. We traced potential questioned costs to the cost report.

ISSUE 5-1	MONITORING OF THE BUDGET
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Results:

Budgeting is an essential element of the financial planning, control, and evaluation process of the agency. Failure to monitor the budget could impair the governing body's ability to properly allocate resources as needed and manage costs to ensure services are provided in an efficient and effective manner.

Ohio Admin. Code Section 5101:2-5-08 (A), states in pertinent part, "A PCPA or PNA shall have an identifiable governing body responsible for establishing policies and assuring the effectiveness and efficiency of the PCPA or PNA in achieving its purposes. The duties of the governing body shall include, but are not limited to the following: ... (4) Reviewing, approving and monitoring a written annual budget for the PCPA or PNA. Such budget shall ensure funding to provide services relevant to all certified functions and detail anticipated income and expenditures." The Board of Trustees should monitor the budget and compare budget to actual results throughout the year. Monitoring the budget throughout the year provides the governing board a basis for measuring whether operations are achieving management's objectives and goals.

Parenthesis Family Advocates Board of Trustees approved an annual budget, but they did not provide evidence the budget was monitored during the year.

By not monitoring the actual revenue and expenditures against the budget, the Board of Trustees may not be able to make effective governing decisions based on the current financial status of the Placement Agency.

Management Comment:

We recommend that the Board of Trustees review, monitor and compare the budget with the actual revenue and expenditures on a regular basis throughout the year to be in compliance with Ohio Admin. Code Section 5101:2-5-08. This will help ensure the governing body has a basis for measuring whether operations are achieving management's objectives and goals. We further recommend review and monitoring of the budget be noted in the minutes of the Board.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 5-2	REQUIRED DOCUMENTATION FOR FOSTER PARENT FILE
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Results:

Ohio Admin. Code Section 5101:2-5-29(B) requires that all documentation required by Chapters 5101:2-5 and 5101:2-7 of the Ohio Administrative Code be contained in the individual family foster home record.

During our audit, Form 1331 could not be located in one of the 13 foster parent files tested. In another one of the 13 foster parent files tested, we could not locate Form 1348 (Safety Audit of a Family Foster Home) or any evidence of a fire safety inspection, as required by Ohio Admin. Code Section 5101:2-5-30(B).

Failure to comply with Ohio Admin. Code regulations that govern foster parent placement could potentially result in a child being placed in an unsuitable environment, thereby, placing a child at risk.

Per discussion on October 7, 1999, with Robin Ingram, Operations Manager, Parenthesis Family Advocates must have misplaced these forms.

Management Comment:

We recommend Parenthesis Family Advocates ensure all required documentation is within the foster home file and available for inspection.

ISSUE 5-3	CHANGE OF ADDRESS REQUIREMENTS
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Results:

Ohio Admin. Code Section 5101:2-5-30(A) states in pertinent part: "Upon notification of any change in household occupancy of a family foster home, change in marital status, or change in address, the recommending agency shall evaluate the change within thirty days of the agency's receipt of notification to determine if the foster caregiver is capable of providing continued care for foster children, to determine that new household occupants meet any applicable requirements of Chapter 5101:2-5 or Chapter 5101:2-7 of the Administrative Code, or to determine if the new site of the family foster home meets all of the requirements of Chapter 5101:2-7 of the Administrative Code."

The change was documented in the file, but the recommending agency did not provide documentation of the evaluations for 50% of the change of address notifications tested. Failure to comply with this provision could result in an unsuitable placement that does not best meet the needs of the foster child.

Management Comment:

We recommend that Parenthesis Family Advocates develop procedures to ensure timely evaluations upon notification of changes. We recommend ODJFS establish guidelines and standards for PCPAs and PNAs to document their compliance with the administrative rules governing changes in the foster family home.

ISSUE 5-4	COMPLETE AND ACCURATE INFORMATION ON APPLICATIONS
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Results:

Ohio Admin. Code Section 5101:2-5-20 (C)(1) provides: "An agency shall not accept an application for a family foster home certificate and approval for adoptive placement which does not contain complete and accurate information." The Placement Agency must take steps to assure the completeness and accuracy of information on the application.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Our Review found that the Placement Agency did not take adequate measures to ensure the information on family foster home applications submitted were complete and accurate. Foster parent income and employment were not documented as verified in 6 out of 13 family foster home applications that we reviewed.

Failure to verify the completeness and accuracy of information on the Family Foster Home Application increases the risk that unsuitable applicants may be recommended and approved. In addition ODJFS had not established guidelines and standards for Placement Agencies to document their compliance with this requirement.

Management Comment:

We recommend that ODJFS establish guidelines and standards for Placement Agencies to document their compliance with the administrative rules governing the licensing of family foster homes.

ISSUE 5-5	UNRELATED REFERENCES
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Results:

Ohio Admin. Code Section 5101:2-5-20 (G) provides in pertinent part... “An agency shall require that each applicant provide to the agency the names of three persons who are unrelated to the applicant who can be contacted by the agency as references.”

During our audit, it was determined that one of the 13 foster parent files tested had only two unrelated references received prior to the initial recommendation for certification. Failure to comply with Ohio Administrative Code regulations that govern foster parent placement could potentially result in a child being placed in an unsuitable environment, thereby, putting the child at risk.

We found that Parenthesis Family Advocates did not take adequate measures to ensure that all references were unrelated.

Management Comment:

We recommend Parenthesis Family Advocates ensure at least three unrelated references are received prior to its recommendation for certification. This will ensure compliance with Ohio Admin. Code regulations intended to only ensure the licensing of suitable applicants.

ISSUE 5-6	INITIATION OF THE HOMESTUDY PRIOR TO THE RECEIPT OF A COMPLETED APPLICATION
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Results:

Ohio Admin. Code Section 5101:2-5-20 (C) provides: “An agency shall use ODHS 1691 for all initial family foster home applications and for the simultaneous approval of an applicant for adoptive placement.

1. An agency shall not accept an application for a family foster home certificate and approval for adoptive placement which does not contain complete and accurate information.
2. An agency shall require that an application be made in the full name of each adult member of a couple, a single person, or each co-parent.
3. An agency shall not accept more than one application per household.

**PARENTHESIS FAMILY ADVOCATES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

4. An agency shall not begin a family foster home homestudy prior to the receipt of a completed ODHS 1691.”

Without a complete and accurate application, the Placement Agency would not have the information necessary to properly complete a family foster home homestudy.

During our audit it was determined, in eight of the 13 foster parent files tested either references, medical statements, or FBI checks were obtained prior to receipt of a completed ODHS 1691 "Application for Placement" even though they were part of the home study process. Failure to comply with Ohio Admin. Code regulations that govern foster parent placement could potentially result in a child being placed in an unsuitable environment, thereby, putting the child at risk.

The Placement Agency was not aware of the prohibition of beginning the homestudy before the completed application is received.

Management Comment

Parenthesis should comply with ODJFS rules intended to ensure a thorough and complete foster home homestudy is completed prior to licensing. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-7	TITLE IV-E COST REPORT
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Results:

\$2,388 classified as federal questioned costs in Issue 1-1 of this report, was charged against the foster care program, and reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report. Ineligible costs claimed on the cost report could result in overstated per diem rates and therefore overstated federal reimbursement.

\$207,938 classified as federal questioned costs in Issue 1-2 of this report was charged against the foster care program.

ODJFS must determine the amount of over reporting by the Parenthesis and re-compute the Title IV-E per diem reimbursement rate that should have been paid to Parenthesis during the Period and reimburse HHS, ODJFS or the PCSA for any over reimbursement resulting from the overstated costs.⁴² Failure to properly classify program costs could result in federal questioned costs and have an adverse effect on the Title IV-E rate setting process.

The 1998 audited financial statements were submitted along with the 1998 cost reports. ODJFS' failure to implement comprehensive desk reviews and field audits resulted in an unacceptable level of risk that ineligible costs could be reported and the Title IV-E reimbursement overstated.

Management Comment

ODJFS should develop and implement an effective process to detect ineligible costs reported for Title IV-E reimbursement. At a minimum, ODJFS should consider a comprehensive review of all cost reports and comparison of those cost reports to audited financial statements. Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

⁴² Pursuant to Ohio Admin. Code Section 5101:2-47-01(L).

**PARENTHESIS FAMILY ADVOCATES
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SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Undocumented Check Disbursements	1-1	12	\$2,233
Undocumented Credit Card Expenditures	1-1	12	130
Unallowed Membership Cost	1-1	12	<u>25</u>
Total Undocumented or Unallowed Expenditures	1-1	13	2,388
Expenditures for Services Prohibited by the FCCS Contract	1-2	14	<u>207,938</u>
TOTAL FEDERAL QUESTIONED COSTS			<u>\$210,326</u>



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

PARENTHESIS FAMILY ADVOCATES

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 27, 2001**