



CHILD PROTECTIVE SERVICES SPECIAL AUDIT

MARYCREST

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**MARYCREST
REPORT ON AGREED-UPON PROCEDURES**

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**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL

AS OF DECEMBER 31, 1998

NAME	TITLE	TERM EXPIRATION
BOARD OF TRUSTEES		
Mary Harvey	President	Board Meeting 10/00
Thomas Woll	Vice President	Board Meeting 10/99
Sister Louise McCoy	Secretary	Board Meeting 10/01
Mary Anderson	Treasurer	Board Meeting 10/99
Kevin Cooney	Trustee	Board Meeting 10/01
Scott King	Trustee	Board Meeting 10/01
Sister Elise Kramer	Trustee	Board Meeting 10/99
Amy Rose	Trustee	Board Meeting 10/00
ADMINISTRATIVE PERSONNEL		
Sister Monica Nowak	Executive Director	June 1, 1997 to present
Scott Dann	Business Director	August 31, 1998 to present

Agency Address

Marycrest
8010 Brookside Road
Independence, Ohio 44131

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Independent Accountants' Report

Thomas J. Hayes, Director
Ohio Department of Job and Family Services
30 East Broad Street
Columbus, Ohio 43266-0423

Dear Director Hayes:

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 Marycrest (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 Cuyahoga County Department of Children and Family Services (CCDCFS). 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 Marycrest 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 Cuyahoga County Department of Children and Family Services Agency (CCDCFS) 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 documented information, obtained through inquiry and observation, 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.
6. We performed procedures to determine if Medicaid expenses were properly billed to the program.
7. We performed procedures to determine if there was proper monitoring of the Medicaid counseling.

On September 26, 2001, we held an informational meeting prior to the finalization of the report. Based on the information presented the Placement Agency waived a post audit conference. The meeting was held with the following:

<u>Name</u>	<u>Office/Position</u>
Sister Monica Nowak	Marycrest Executive Director
Scott Dann	Marycrest Business Director
Mary Ann Gehringer	Bick.Fredman & Co. CPA
Carolyn Edwards	Auditor of State Auditor in Charge
Samuel Long	Auditor of State Assistant Auditor
John Benson	Auditor of State Assistant 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 11, 2001

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

BACKGROUND INFORMATION

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 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 is the thirteenth 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 Children and Families.

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

Public Children Services Agency Contractual Requirements

Public Children Services Agencies (PCSAs) are authorized to enter into contracts with a private child placing agency (PCPA) or a private noncustodial agency (PNA) 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. Cuyahoga County Department of Children and Family Services (CCDCFS), a PCSA, entered into such an agreement with Marycrest, a PNA.⁶

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 in Ohio Admin. Code Chapter 5101:2-47.

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

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

⁶ Cuyahoga County Department of Children and Family Services Vendor Agreement for Foster Care, Residential Care, Emergency Shelter, Independent Living, Group Homes and Day Treatment Services, between CCDCFS and Marycrest originally dated April 3, 1998 for the period January 1, 1998 through December 31, 1998.

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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.⁷

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.⁸ 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,⁹ and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report. Circular A-110 provides in pertinent part, "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 . . ." ¹⁰

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.¹¹

Allowable and unallowable cost guidelines for use in completing the cost reports are contained in the Ohio Administrative Code and in the 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..."¹²

⁷ 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).

⁸ Form ODHS 2910 Purchased Family Foster Care Cost Report is applicable to PCPAs and PNAs. Annual filing requirement is found in 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).

⁹ 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. Ohio Admin. Code Section 5101:2-47-26.2(A)(1), effective 12-01-01, requires that each PCPA or PNA engage an independent public accountant to conduct an annual audit of its financial statements and its Title IV-E cost report.

¹⁰ 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).

¹¹ 42 U.S.C. Section 675(4)(A).

¹² 26 U.S.C. Section 501(c)(3).

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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.¹³

ODJFS codified the cost principles to which the PCPAs and PNAs are subject to by promulgation of the 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."¹⁴ 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.¹⁵

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 a written disclosure, in the minutes of the board, of any financial transaction of the 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 institutions 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 (HHS). ODJFS submits quarterly reports to the HHS for reimbursement of federal financial participation (FFP) in foster care payments¹⁶ made to the PCPAs or PNAs.

¹³ 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) (2001), respectively.

¹⁴ Prior to 5/1/98, applicable cost guidelines were contained in Ohio Admin. Code Sections 5101:2-47-63 and 5101:2-47-64.

¹⁵ 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.

¹⁶ 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.

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In 1998, the FFP was 58% for maintenance payments¹⁷ made and 50% for administrative costs¹⁸ 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 PCPA or PNA. 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.

Allowable Costs

In addition to the Ohio Administrative Code and the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, which govern allowable costs, Marycrest is bound by the terms of a purchase of service agreement it entered with CCDCFS to provide specialized foster care, residential treatment of children with severe behavioral and emotional problems, and independent living services (hereinafter referred to as "The Agreement"). These services are set forth in Section 4 of the Agreement.

The Agreement provides that CCDCFS will reimburse Marycrest at the stipulated per diem rate for the services delineated in Section 4 and described in Exhibit 1 of the Agreement. The Agreement also provides that Marycrest will provide foster care maintenance, administrative case management, case planning activities and related administrative activities as set forth in Exhibit 3 of the Agreement.¹⁹

Exhibit 3 of the Agreement is a complete copy of Ohio Admin. Code Section 5101:2-33-18, which is titled "Purchase of Service Agreements for Foster Care and Placement Services." That Ohio Administrative Code section describes foster care maintenance activities' as, "direct care and indirect management activities associated with room and board, daily supervision and care, and health-related services provided to children who are under the care and responsibility of a children services agency."²⁰

Further, Ohio Admin. Code Section 5101:2-33-18(C), provides that, "Administrative case management and case planning activities" are, among other things, assistance from the providers of services, to the placement worker, under the purchase of services agreement, in activities such as: preparation for and participation in the judicial determination and review process, arranging for discharge and aftercare services, development of case plans and coordinating the provider's role in carrying out those plans.²¹

In addition to setting forth the services which are deemed allowable costs for foster care providers, the Purchase of Services Agreement establishes inspection and retention requirements for financial records:

17 45 C.F.R. Section 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.

18 45 C.F.R. Section 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.

19 Section 4 of the Purchase of Service Agreement, dated 4/3/98, pg. 23.

20 Ohio Admin. Code Section 5101:2-33-18(B).

21 Ohio Admin. Code Section 5101:2-33-18(C).

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In Section 15 of the Agreement, Marycrest agreed that it would “maintain and preserve all records related to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years.”²²

Administration of Medicaid Services

Marycrest also receives Medicaid receipts for reimbursement of medical counseling services provided by Marycrest to the foster children.

Administrative rules promulgated by the Ohio Department of Job and Family Services, Medicaid Division, place certain requirements on applications for reimbursement by providers.

Ohio Admin. Code Section 5101:3-4-02 generally provides for reimbursement of an eligible provider for certain services provided by non-physicians under the direct or general supervision of a physician, including services provided by social workers for the diagnosis and treatment of mental and emotional disorders as outlined in Ohio Admin. Code Section 5101:3-4-29.

Pursuant to Ohio Admin. Code Section 5101:3-4-29(D), reimbursements for such services under the Medicaid program go to the employing or contracting physician or clinic.

Ohio Admin. Code Section 5101:3-4-29(G) requires that these services, performed by a licensed social worker or CSW, must be billed using the following procedure codes:

H5010 Therapy, individual, by social worker, per hour.

H5020 Psychotherapy, group (maximum eight persons per group), by non-physician, forty-five to fifty minutes, per person, per session.

H5025 Psychotherapy, group (maximum eight persons per group), by non-physician, ninety minutes, per person, per session.

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 costs 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.”²³

²² Section 15, Availability and Retention of Records, Purchase of Service Agreement, dated 4/3/98, pg. 23.

²³ Office of Management and Budget (OMB) Circular A-133, Subpart A, .105 Definitions.

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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.

We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with Marycrest. join together to ensure Marycrest. develops and implements a corrective action plan that will result in fiscal accountability²⁴ and legal compliance²⁵ in an expeditious manner. Based on the findings we recommend the following:

- (1) The PCSAs purchasing services from Marycrest should determine whether the findings set forth in this report constitute a breach of their contract, and if so seek an 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 Sisters of the Good Shepherd of the City of Cleveland (SGSCC) is a nonprofit corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3). The SGSCC registered Marycrest as a trade name in 1998 to handle foster care services. Marycrest provided Treatment Foster Care options to emotionally-troubled, medically-fragile infants and children. Marycrest is licensed by the ODJFS to recommend families to become foster families, place children in foster homes, operate a children's residential center, operate a parent's residential facility and recommend children for adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as Marycrest to place the child. The group of foster family homes (private foster network) utilized by Marycrest has been in place since 1997. Marycrest places foster children only for CCDCFS.

²⁴ In Ohio Admin. Code Section 5101:2-33-19, Penalties for Failure to Comply with Fiscal Accountability Procedures, effective 12-1-01, ODJFS has set forth the penalties that ODJFS may enforce against PCSAs, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability.

²⁵ In Ohio Admin. Code Section 5101:2-47-23.1, Title IV-E Agency Contracting and Contract Monitoring Requirements, effective 12-1-01, ODJFS has set forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services.

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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
Marycrest
Foster Care Statistics**

Characteristic	Statistic
Daily Average Number of Children in Placement	18
Number of Active Licensed Foster Homes	19
Average Per Diem Rate	\$62
Number of PCSA's from Which Agency Receives Children	1
Required Training for Foster Caregiver Orientation	12 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	\$ 316,871
Required Annual Training for Foster Caregiver	12 Hours
Characteristics of Children Placed by Agency	Specialized level of care

During the Period, Marycrest's staff consisted of 4 employees, that provided foster care services, including a foster care coordinator, foster care clinical assistant, assessor trainer and a social worker to provide the needed counseling and case management services to the foster children and foster parents.

Marycrest's revenues were comprised primarily of funds from CCDCFS. The total foster care and residential care revenues Marycrest received during the period was \$1,663,787.

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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
Marycrest
Revenue by Source**

	1998	Percent of Total Revenue
Cuyahoga County	\$1,663,787	51
Medicaid	918,141	28
Donations/Private Grants	373,768	12
United Way	191,105	6
Other Counties	39,010	1
Other Revenues	76,358	2
Totals	\$3,262,169	100%

Relevant Individuals

Sister Monica Nowak

Sister Monica Nowak was the Executive Director of Marycrest during the Period. She has served as the Executive Director since June 1997.

Mr. Scott Dann

Mr. Dann has been the Business Director for Marycrest since August 31, 1998. He replaced Mr. John Horvath who had been Marycrest's Business Director since 1996.

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 Marycrest for each month during the Period. (See Issue 5 for the reconciliation of payroll disbursements).

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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 did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or payments that appeared to be contrary to policy, we requested supporting documentation, such as invoices.
4. We inspected the supporting documentation 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 Marycrest for the Period and inspected 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 did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or expenditures that appeared to be 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.
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 the Placement Agency.

ISSUE 1-1	CREDIT CARD AND CHECK DISBURSEMENTS NOT ALLOWED OR WHICH LACK SUPPORTING DOCUMENTATION REQUIRED UNDER THE CCDCFS CONTRACT.
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Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable, it must, among other factors be reasonable and adequately documented.²⁶

²⁶ OMB Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (2)(a) and (g).

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The Circular further provides: "...The question of reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions which receive the preponderance of their support from awards. In determining the reasonableness of a given cost, consideration shall be given to: a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award, b) the restraints or requirements imposed by such factors are generally accepted sound business practices, arms length bargaining . . . c) whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large." ²⁷

The Purchase of Services Agreement establishes inspection and retention requirements for financial records. It states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."²⁸ The agreement further states that "the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."²⁹ In addition, under Section 1 of the Agreement, Marycrest was to provide those services delineated in Section 4 of the Agreement.³⁰

We inspected four hundred twenty (420) credit card expenditures totaling \$41,247 in charges. We requested supporting documentation for these expenditures such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Marycrest was unable to provide us with the above types of supporting documentation for fifty-two (52) transactions totaling \$3,133 and was in direct violation of section 14 and 15 of its contract with CCDCFS and OMB Circular A-122²⁶.

We inspected ninety-five (97) check disbursements examined totaling \$269,091 in charges. We requested supporting documentation for these disbursements such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Marycrest was unable to provide us with supporting documentation for fourteen (14) disbursements totaling \$16,483. For these 14 transactions, Marycrest provided us with canceled checks but no invoices, receipts or other documentation to support these expenditures.

Additionally, nineteen (19) credit card expenditures totaling \$1,084 and five check disbursements totaling \$266 were not an allowable foster care maintenance, administrative case management, case planning activities, and related administrative activities as well as being unallowable cost under the CCDCFS contract as well as OMB Circular A-122. These improper expenditures consisted of gift certificates, food purchases for employees, a membership to the chamber of commerce, parking tickets, late fees, and finance charges. Unallowed expenditures totaled \$1,350. They were as follows:

²⁷ OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

²⁸ Section 14, Financial Records. Purchase of Services Agreement, dated 4/3/98, pg. 23.

²⁹ Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 4/3/98, pg.23.

³⁰ See detailed discussion of these agreed-upon services in the "Allowable Costs" Section of this report.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

1. Four credit card transactions totaling \$200 for gift certificates for staff were in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." The agency's reporting of these expenditures on the 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7), which disallows the reporting of "(e)ntertainment costs for amusements, social activities, and related costs for staff only."²⁷ Unallowed expenditures for personal use totaled \$200.
2. One check disbursement totaling \$150 for a membership to the Independence Chamber of Commerce was unallowable under OMB Circular A-122, Attachment B, Paragraph 30 (d), which states: "Costs of membership in any civic or community organization are allowable with prior approval by the Federal cognizant agency." Unallowed expenditures for memberships totaled \$150.
3. Two check disbursements totaling \$41 for parking tickets were unallowable under OMB Circular A-122, Attachment B, Paragraph 16 which states, "Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of an award or instructions in writing from the awarding agency." The agency's reporting of these expenditures on its 2910 Purchased Family Foster Care Cost Report is also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(8), which disallows the reporting of "(f)ines or penalties resulting from violations of, or failure to comply with, laws and regulations."²⁸ Unallowed expenditures for fines and penalties totaled \$41.
4. Two check disbursements totaling \$75 and 10 credit card transactions totaling \$884 for interest and late fees were unallowable under OMB Circular A-122, Attachment B, Paragraph 23 (a), which states in pertinent part: "Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable . . ." The agency's reporting of these expenditures on its 2910 Purchased Family Foster Care Cost Report is also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(9), which generally disallows the reporting of "(c)osts incurred for interest on borrowed capital...."²⁹ Unallowed interest and fees totaled \$959.

²⁷ Prior to 5/1/98, the rule was stated at Ohio Admin. Code section 5101:2-47-64(G).

²⁸ Prior to 5/1/98, the rule was stated at Ohio Admin. Code Section 5101:2-47-64(H).

²⁹ Prior to 5/1/98, Ohio Admin. Code Section 5101:2-47-64(I) prohibited, among other things, "interest on borrowings."

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Table III
Marycrest
Questioned Costs**

Undocumented Credit Card Expenditures	
Outback Steakhouse	\$50
Eddies Creekside	40
Harry's Steakhouse	17
TWA	159
Office Max	871
Office Depot	155
Computer Solutions	231
Value City	223
Tri-Com Computer	195
Peachtree Software	149
Plumbers Pipe & Supply	107
Bin Bindertek	91
Independence Florists	90
Flowers by Anello	80
Springmaid Wamsutta	72
MEC Panasonic	69
Roadrunners	66
Other Miscellaneous Charges	<u>468</u>
Total Undocumented Credit Card Expenditures	<u>\$ 3,133</u>
Undocumented Check Expenditures	
DIO Services	\$ 5,992
MPI Inc	3,525
Lake Business Products	1,288
BCL Capital	2,606
Central Purchasing	533
Abacus Services	509
Ohio Boy's Town	500
Other Miscellaneous	<u>1,530</u>
Undocumented Check Disbursements	<u>\$ 16,483</u>
Total Undocumented Check Disbursements	<u>\$ 19,616</u>
Unallowable Expenditures	
Unallowable Costs for Personal Use	
Reider gift certificates for employees	\$100
Red Lobster gift certificates for employees	<u>100</u>
Total Unallowable Costs for Personal Use-Credit Card Expenditures	200
Unallowable Membership Costs-Check Disbursements	
Membership to Independence Chamber of Commerce	\$150
Unallowable Costs of Fines & Penalties-Check Disbursements	
Parking Tickets	\$41
Unallowable Costs for Interest	
Interest and Late Fees	<u>959</u>
Unallowable Check and Credit Card Expenditures	<u>\$ 1,350</u>
Total Questioned Costs	<u>\$ 20,966</u>

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Federal Questioned Cost: \$20,966

Due to unallowed and inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program, Marycrest was in violation of Section 14 and 15 of its contract with CCDCFS and OMB Circular A-122³¹ in the amount of \$19,61. Marycrest was also in violation of OMB Circular A-122 Attachment B, Paragraphs 16, 18, 23(a), and 30(d) and Ohio Admin. Code Section 5101:2-47-26(A)(7)³² -(A)(9) with respect to the unallowed expenditures in the amount \$1,350 as described above in numbered Paragraphs 1-4. The undocumented federal questioned cost equaled \$19,616. The total federal questioned cost equaled \$20,966.

Management Comment:

Marycrest did not adhere to the CCDCFS contract regarding documentation of allowable direct and administrative cost requirements and financial records retention in the amount of \$21,115. Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to obtain and submit to CCDCFS an annual financial audit performed in accordance with government auditing standards.³³ In addition to the independent auditor's report on the financial statements, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. CCDCFS should review these reports and follow up on any exceptions reported. CCDCFS did not have such requirements and as a result, annual audited financial statements and a report on internal controls were not submitted to CCDCFS during the Period.

ISSUE 1-2	IMPROPER POSTING
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Results:

OMB Circular A-122 , Attachment A, Paragraph (A)(4)(a) provides: "A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (1) Is incurred specifically for the award; (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown."

During our test of expenditures we noted Marycrest made four (4) payments to St. Vincent Charity Hospital to cover the cost of providing meals to children totaling \$26,423. These payments were related to a grant that Marycrest had received from the Ohio Department of Youth Services and were also charged to the 1998 ODHS 2909 Residential Child Care Cost Report. The \$26,423 in charges were allocable to other programs and incorrectly reported under the Title IV-E foster care cost report.

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

³² Prior to 5/1/98, the rule was stated at Ohio Admin. Code Section 5101:2-47-64(G).

³³ In Ohio Admin. Code Section 5101:2-47-26.2, Audits of PCSAs, PCPAs and PNAs, effective 12-1-01, ODJFS has set forth the annual audit requirements.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Federal Questioned Cost: \$26,423

The \$26,423 of grant expenditures were reported on the cost report and charged against the foster care program, in violation of OMB Circular A-122(A)(4). The total unallowable federal questioned cost was \$26,423.

Management Comment

We recommend the agency establish accounting policies and procedures that ensure that program costs are properly allocated. We further recommend that the agency should take measures to ensure the accuracy of the information reported on the 2909 Residential Child Care Cost Report and the 2910 Purchased Family Foster Care Cost Report.

ISSUE 1-3	FAILURE TO REPORT INCOME AND WITHHOLD FEDERAL TAXES
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Results:

Federal tax laws require employers to report wages paid to an employee during a calendar year on a form W-2 and to withhold taxes from wages consistent with tables or computational procedures prescribed by the Secretary of the Treasury.³⁴

During our review of Marycrest expenditures, we found Marycrest paid \$2,725 directly to, Sherry Cindric, Registered Nurse and \$362 to John Horvath, Director of Finance, in lieu of contributing to the employees' 403B contribution plan. These payments were not reported as income on the employees' W-2 forms and no federal, state, and local taxes were withheld on these payments.

Failure to comply with IRS rules and regulations that govern reporting of compensation and withholding of taxes could result in substantial interest and penalties and increase administrative costs to the Placement Agency. Disruption to PCPA/PNAs' operations could effect CCDCFS's ability to administer its foster care program.

Management Comment:

Marycrest should immediately comply with IRS rules that govern reporting of compensation and withholding of taxes. We recommend that Marycrest take immediate steps to issue amended Forms W-2 to Sherry Cindric and John Horvath and submit copies of those amended Forms W-2 to the Internal Revenue Service.

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 Marycrest 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 Marycrest received during the Period, by scanning the audited financial statements and the supporting general ledger.

³⁴ 26 U.S.C. Section 3402 (a)(1); 26 U.S.C. Section 6051(a); 26 C.F.R. Section 1.6041-2 (2001).

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

2. We identified the sources of receipts received from bank statements and other related records.
3. We obtained documentation from the Cuyahoga County Auditor to determine the completeness of receipts received and deposited for fees for services and Medicaid.
4. We tested a sample of 10% of the monthly billings by the Placement Agency to CCDCFS 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.
5. We scanned all revenue remittances and the general ledger to determine whether revenue had been recorded in the accounting records of the Placement Agency.

Results:

We documented the types of revenue that Marycrest received as: program service fees from various counties, gifts, investment income and grants. Marycrest received Medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from CCDCFS.

Furthermore, we determined that all CCDCFS disbursements to the Marycrest 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 Title IV-E maintenance funds received by Marycrest were used in accordance with the Social Security Act.
2. To determine whether Marycrest's per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.
3. To determine the ratio of the per diem payments used for administration and maintenance.

Procedures Performed:

1. We obtained from Cuyahoga County Department of Children and Family Services the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to Cuyahoga County Department of Children and Family Services for the months of January 1998 to December 1998 for foster care services. We also obtained from the Cuyahoga County Auditor a vendor payment history report for Marycrest for the same period and traced these payments to the invoices submitted by Marycrest.
2. We selected a representative sample of children identified by CCDCFS as Title IV-E eligible children being serviced by Marycrest . Federal maintenance payments to these children totaled \$12,981 or 25% of the sample.
3. We found the child's name on the appropriate month's ODHS Title IV-E Disbursement Journal. We documented the amount of federal maintenance reimbursement that would have been paid for each child.
4. We compared payments received by Marycrest from CCDCFS to the corresponding Marycrest billing in the month selected for each child in the sample.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

5. We determined whether the total amount of the federal reimbursement for maintenance (58%) was used for the care of the foster child.
6. We determined whether the total amount of the county's required match to the federal reimbursement for maintenance (42%) was used for the care of the foster child.
7. We obtained the contracts or per diem agreements between Marycrest and the foster parent for each child in the sample.
8. We obtained and compared the authorized schedule of per diem rates to rates paid per the agreements between Marycrest and CCDCFS and between Marycrest and foster caregivers.
9. We compared Marycrest's per diem paid to the foster parents with the corresponding per diem it received from CCDCFS to determine the ratio of payments for administration and maintenance.

ISSUE 3-1	ODJFS SYSTEMIC MISCLASSIFICATION OF COSTS RESULTS IN OVER PAYMENT OF THE TITLE IV-E MAINTENANCE REIMBURSEMENT
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Results:

Payments for foster care maintenance are intended 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.³⁵

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 payments³⁶ made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments³⁷ made and 50% for administrative costs³⁸ incurred under the Title IV-E program.

We selected a sample of 15 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and CCDCFS submitted \$22,381 to ODJFS for reimbursement. ODJFS did not require the Placement Agency to specifically identify the amounts for maintenance and administration. ODJFS then requested FFP for foster care maintenance costs of \$22,381 and received \$12,981 at the 58% FFP reimbursement rate, however the Placement Agency, only made maintenance payments to foster parents totaling \$13,211. The remaining \$9,170 was retained by Marycrest and used for administrative costs or other purposes.

The table below documents the amount of federal questioned costs and overpayment of the Title IV-E federal maintenance reimbursement.

³⁵ 42 U.S.C. Section 675 (4)(A)

³⁶ 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.

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

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

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment

These questioned costs are a result of systemic problems in the ODJFS cost reporting, rate setting, and cost reimbursement processes. We recommend ODJFS redesign those processes to ensure costs are properly classified and reimbursements accurately claimed.⁴⁰ We further recommend that an adjustment to correct the overpayment of the Title IV-E maintenance reimbursement be made with the U.S. Department of Health and Human Services.

ISSUE 3-2	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE
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Results:

We tested the payments from Cuyahoga County Department of Children and Family Services (CCDCFS) to Marycrest for a sample of 31 foster children. The payments to the Placement Agency for this sample totaled \$52,128. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

The foster parents in the sample received \$27,907, we noted that these foster parents received the correct per diem rates per the CCDCFS contract. The foster parents received \$27,907 or 53.5% of the total funds paid to the Placement Agency by CCDCFS. The remaining \$24,221 or 46.5% was retained by Marycrest and used for administrative costs, other direct services to children, or other purposes.

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 3-3	LACK OF PER DIEM AGREEMENTS WITH FOSTER PARENTS
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Results:

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 occurred (increases or decreases in the assessed level of care rate which effects the amount paid to foster parents).

Marycrest did not prepare written per diem agreements which documented amounts to be paid and would reflect any changes as they occurred with its foster parents. While changes in the per diem were recorded in the foster parent files, no agreement or amendment was prepared for approval by the Board of Director of Marycrest or the foster parent.

By not securing contractual agreements, incorrect amounts could be paid to the foster parent(s). Also, the lack of an effective system of contracting and contract monitoring impairs the Marycrest's ability to manage costs and ensure it receives the level and quality of services needed.

The agency did not realize the effect of not having and updating individual child care contracts.

⁴⁰ In Ohio Admin. Code Section 5101:2-47-26.1, Procedures to Monitor Cost Reports submitted by PCSAs, PCPAs, and PNAs, effective 12-1-01, ODJFS has set forth the cost report monitoring requirements.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment:

The per diem agreement between the Placement Agency and the foster parent should be completed for placement and subsequent rate change. This would provide greater assurance to both the Placement Agency and the foster parent that the properly authorized and documented rate would be paid.

ISSUE 4	TEST OF INTERNAL CONTROLS
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Objectives:

1. To identify 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 noncompliance, and increase fiscal accountability.

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 a review of internal controls and identified weaknesses that existed in the accounting cycle.
3. We documented information, obtained through inquiry and observation, 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	SEGREGATION OF DUTIES
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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, monitoring, 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 account reconciliations.

During our review of Marycrest's internal controls, we noted the Director of Business prepares bank reconciliations. No individual independent of the Director of Business reviews or approves the bank reconciliations for completeness and accuracy.

If controls are not placed in operation that provide for a segregation of duties over the cash reconciliation cycle there is a possibility for the misappropriation of assets or errors in the accounting system, which could go undetected.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment

We recommend that Marycrest establish a policy requiring an individual independent of the Director of Business review and approve all monthly bank reconciliations. This will improve the effectiveness of the internal controls.

ISSUE 4-2	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.

Based on inquiry and observation, 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 maintain 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.

Management Comment:

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

- 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).
- Categories of fixed asset include land, land improvements, buildings and structures, machinery, equipment, furniture, tools, donated assets and leasehold and leasehold improvements.
- 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.
- 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.
- Annual fixed asset inventory by visually comparing the asset and the information on the detailed fixed asset listing.
- Authorized use of its assets, such as a log noting date, person, purpose and location for the use of the asset.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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

ISSUE 4-3	SAFEGUARDING OF THE ASSETS
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Results:

An agency's assets should be safeguarded from unauthorized use or theft. Furthermore, an agency should establish policies on the use of its assets and procedures to safeguard and account for them.

During the Period we noted that Marycrest did not have a policy on safeguarding and accountability of assets.

Failure to adequately control all checks and company credit cards exposes the Agency to the risk that theft or unauthorized or unallowable expenditures could occur and go undetected.

Management Comment:

Marycrest should develop a policy on the safeguarding and accountability of assets, such as fixed assets and agency credit cards. Development and communication of this policy would reduce the risk of unauthorized or unallowable expenditures or theft of agency assets. The policy should require that agency assets be kept secure and accounted for regularly.

ISSUE 4-4	LACK OF OVERVIEW OR MONITORING IN EXPENDITURE CONTROLS
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Results;

Sound business practices dictate that all expenditures should be reviewed and approved by a responsible official before a check is prepared. Furthermore, Marycrest's policy and procedures manual states that the director of finance would be responsible for approving invoices for payment, and authorized check signers which would be designated by the board.

During our review the following was noted:

- The Board designated Sister Monica Nowak, Executive Director, Ms. Marie Badaracco, Assistant Executive Director, and Sister Louise McCoy, Board Secretary, as the authorized check signers for Marycrest.
- There were ninety-seven (97) expenditure transactions reviewed representing \$269,091 in check disbursements, sixty-one (61) invoices totaling \$151,369 were not properly authorized,
- Fourteen transactions lacked supporting documentation totaling \$16,483, see Issue 1-1,
- Four (4) checks were not signed totaling \$8,250. All four of these checks were honored by the bank.
- There were fifteen transactions for unallowable expenditures totaling \$1,350, see Issue 1-1.

Failure to comply with procedures designed to ensure the proper authorization of expenditures increases the risk that unauthorized or unallowable transactions may occur. .

Management Comment:

We recommend that the Director of Finance/Chief Fiscal Officer initial or sign all approved invoices and checks to indicate the expenditure was allowable and approved in accordance with the Marycrest policy manual.

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 4-5	VENDOR DISCOUNTS
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Results:

Sound business practices dictate that when discounts are offered by a vendor for prompt payment the invoice should be processed in a manner that will ensure that the discount will be taken. Also, when a vendor's invoice indicates that a penalty will be charged every effort should be made to pay the invoice as penalties are not allowable expenditures⁴¹

During our review of expenditures, we noted two instances in which Marycrest could have taken advantage of vendor discounts or failed to make payments on credit card bills by the required due date. One instance involved an early payment of automobile insurance which would have saved the agency \$2,483. In another instance the agency could have saved \$55.40 on the early payment of a preventative maintenance agreement on a fire alarm system. Failure to make timely payments on credit card bills and vendor invoices resulted in \$959 in late fees and finance charges (see Issue 1-1). Per discussion with the Business Director the agency was not able to make the early payment on the insurance due to a weak cash flow situation.

Management Comment:

We recommend Marycrest establish policies to ensure prompt payment of all invoices or liabilities. Furthermore, Marycrest should take advantage of all vendor discounts.

ISSUE 5	TEST OF INTERNAL ADMINISTRATIVE CONTROLS OVER COMPLIANCE WITH REQUIREMENTS OF THE TITLE IV-E PROGRAM AND THE OHIO ADMIN. 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 Marycrest were used in accordance with the Social Security Act.
5. To determine whether the ODHS 2910 Purchased Family Foster Care Cost Report(s) submitted to ODJFS by Marycrest was accurate and completed in accordance with ODJFS regulations.

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.

⁴¹ Ohio Admin. Code Section 5101:2-47-26(A)(8). Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-67(H).

**MARYCREST
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 arrangements; 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 Purchased Family Foster Care Cost Report(s) to wages paid as identified on the Placement Agency's quarterly 941s or W-3 report.
5. We traced potential questioned costs to the cost report.

ISSUE 5-1	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.

Our review found that Marycrest did not take adequate measures to ensure the information on the family foster home applications submitted were complete and accurate. Proof of foster parent income and employment was not obtained and documented in six out of ten family foster home applications files 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 5-2	ODHS 1317 RECOMMENDATION FOR CERTIFICATION/RECERTIFICATION OF A FAMILY FOSTER HOME
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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."

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Any change in foster family circumstances which would result in a change to the face of a family foster home certificate requires the PCPA or PNA to submit a ODHS 1317 "Recommendation for Certification/Recertification of a Family Foster Home" within 30 days of the agencies receipt of notification.⁴² Among the changes requiring recertification is a change in address.

One of the ten foster home files reviewed contained a change in address and was not evaluated within thirty days of the receipt of notification.

By not documenting the recertification of a family foster home after a change in address, foster children could continue to be placed in homes which may no longer suitable for them.

Management Comment

We recommend Marycrest 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 5-3	APPROVAL OF A FOSTER CAREGIVER PRIOR TO THE RESULTS OF THE CRIMINAL RECORDS CHECK
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Results:

The Ohio Admin. Code Section 5101:2-5-20(C)(6) states: "An agency shall not approve a prospective foster caregiver on a conditional basis awaiting the results of the criminal records check required by paragraph (L) of this rule. The required criminal records check must be completed prior to an agency recommending a prospective foster caregiver for certification."

One of ten foster home files reviewed revealed that the results of the criminal background checks were received after the date the Agency recommended the family foster home for certification to ODJFS.

Approving prospective foster caregivers prior to receiving a criminal records check increases the risk that an unsuitable foster home could be licensed.

Management Comment

Marycrest should establish procedures to ensure compliance with ODJFS rules intended to ensure that criminal background checks are obtained prior to recommending a foster home for licensing. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

⁴² Ohio Admin. Code Section 5101:2-5-30 (C).

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ISSUE 5-4	FBI CRIMINAL RECORDS CHECKS FOR PROSPECTIVE FOSTER PARENTS WITHOUT FIVE-YEARS PROOF OF RESIDENCY
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Results:

Ohio Admin. Code 5101:2-5-20(C)(6) states: “An agency shall not approve a prospective foster care giver on a conditional basis awaiting the results of the criminal records check required by paragraph (L) of rule 5101:2-07–02 of the Administrative Code. The required criminal records check must be completed prior to the agency recommending a prospective foster care giver for certification.

Ohio Admin. Code Section 5101:2-5-091(I) states: “The agency shall request that the Bureau of Criminal Identification and Investigation (BCII) obtain information from the Federal Bureau of Investigation (FBI) as a part of the criminal records check for the person if 1) The person does not present proof of residency in Ohio for the five-year period immediately prior to the date upon which the criminal records check is requested; or 2) The person [seeking certification as a foster caregiver] does not provide evidence that within that five-year period, BCII has requested information about the person from the FBI in a criminal records check.”

Five out of ten family foster home files tested did not contain documentation or evidence that the Placement Agency determined whether the foster parents recommended for licensing had resided in Ohio for the five-year period immediately prior to the date of the application seeking to become certified as a foster caregiver.

We determined that the Placement Agency did not document procedures to ensure documentation of proof of residency or previous criminal records check were on file, and did not obtain an FBI criminal records check when such documentation was not provided.

By not assuring that criminal record checks are performed for persons seeking certification as foster caregivers or other adult members of the caregiver’s household increases the risk that individuals with criminal histories, which would make them unsuitable as foster caregivers, could be certified and have children placed in their homes.

Management Comment:

We recommend that the Marycrest request and retain documentation of proof of residency in the State of Ohio to determine whether FBI criminal records checks are required. We also recommend that ODJFS establish guidelines and standards for Placement Agencies to document their compliance with the administrative rules governing criminal records checks.

ISSUE 5-5	CONTACT OF REFERENCES GIVEN BY APPLICANT
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Results:

Ohio Admin. Code Section 5101:2-5-20(H) states: “Prior to making an initial recommendation for certification of a family foster home, an agency shall contact all references given by the applicant, including any other agency or organization with which the applicant has been previously certified as a foster caregiver, or has provided care and supervision of children. All contacts with references shall be documented in the narrative section of the ODHS 1349 “Family Foster Home Homestudy”.

One of ten family foster homes reviewed revealed that the agency’s caseworker did not document the interviews held with references in the narrative section of the ODHS 1349.

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Failure to contact and document interviews held with references could result in the licensing of an unsuitable foster caregiver.

Management Comment:

We recommend Marycrest establish procedures to ensure compliance with ODJFS rules intended to ensure that the ODHS 1349 is properly completed.

ISSUE 5-6	PLACEMENTS MADE CONTRARY TO AGREED UPON USAGE OF HOME
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Results:

Ohio Admin. Code 5101:2-5-21(G) states: "The determination of the specific number, age, and sex of children to be placed in a family foster home is a joint responsibility of the foster caregiver and the recommending agency based on the agency's assessment of the foster caregiver's capability and physical facilities as required by Chapter 5101:2-7 of the Administrative Code."

Furthermore, Ohio Admin. Code Section 5101:2-5-21 (H) states: "All placements in a family foster home shall conform with the provisions of paragraph (G) of this rule and with the provisions of rule 5101:2-5-32 of the Administrative Code."

One out of ten foster home files reviewed revealed two instances in which a child, under the age agreed upon by the foster caregiver and Marycrest, was placed in the home. One of these children placed in the home was also a male. In both instances, the foster caregiver and Marycrest had agreed to and was licensed to place only female children between the ages of three and eighteen.

By not adhering to the established determinations, caregivers may not be able to adequately care for placements in their home or become overburdened when the agreed upon usage of the home is not followed. Additionally, a foster child and the placement agency may be subject to unwarranted risk.

Management Comment:

We recommend Marycrest ensure proper placement of children based on the assessments made by the agency. If additional placements are deemed reasonable, the new determination should be agreed upon by both parties and a revised ODHS form 1317 depicting the number, age, and sex of children to be placed in the family foster home should be submitted to ODJFS.

ISSUE 5-7	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.

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

The criminal record check is a required part of the homestudy process, which should not be started until the completion of a ODHS 1691, the application for a family foster home certificate.

Five out of ten foster home files reviewed documented that criminal records checks from the Bureau of Criminal Identification and Investigation (BCII) and the Federal Bureau of Investigation (FBI) were received prior to the completion of an application for certification as a family foster home.

Management Comment

Marycrest 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 5-8	TITLE IV-E COST REPORT
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Results:

\$47,389 detailed as a federal questioned cost in Issue 1-1 through 1-3 of this report, was charged against the foster care program, and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

ODJFS should determine the amount of over reporting by Marycrest, and re-compute the Title IV-E per diem reimbursement rate that should have been paid to Marycrest during the Period and reimburse HHS, ODJFS, or the PCSA for any over reimbursement resulting from the overstated costs.⁴³ 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' inadequacy 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

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews⁴⁴ of all cost reports.⁴⁵ Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

⁴³ Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-03(H).

⁴⁴ In July 2000 ODJFS implemented a Comprehensive Desk Review process which examines costs reported on the cost report to determine whether the costs are: (1) allowable and presented fairly in accordance with department rules, (2) reasonable, (3) related to foster care and, (4) appropriately classified.

⁴⁵ In June 2000 ODJFS conducted cost report training for providers and implemented Comprehensive Cost Reporting Requirements which requires the provider to submit new information with the cost report, such as related party schedules, Internal Revenue Service (IRS) Form 990, W-2s for reported salaries, foster parent payment listing, and census logs.

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ISSUE 6	TEST OF MEDICAID BILLING
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Objective:

To determine if Medicaid billings at Marycrest were properly billed to the program.

Procedures Performed:

1. We determined if billings were submitted in the correct manner to the Medicaid program by analyzing a sample of payments in ODJFS's Medicaid Management Information System (MMIS) for calendar year 1998.
2. We determined if Marycrest received medicaid reimbursement in compliance with Ohio Admin. Code Sections 5101:3-4-02, 5101:3-4-29(D) and 5101:3-4-29(G).

Results:

During the test of Medicaid billings we found that: medicaid billings had adequate supporting documentation; procedures codes used for billing were correct; Medicaid reimbursements were paid to the employing or contracting physician or clinic. We found no exceptions during our review of compliance with applicable laws and regulations.

ISSUE 7	TEST OF MEDICAID SERVICES
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Objective:

To ascertain if there was proper documentation of the monitoring of the Medicaid counseling.

Procedures Performed:

1. We determined if Marycrest performed the required monitoring in compliance with Ohio Admin. Code 5101:3-4-02.
2. We determined if services were being performed on the dates billed for by Marycrest.
3. We determined if qualified personnel were providing the required service.
4. We determined if the required Medicaid reports were being signed by the required individual.

Results:

We found that Medicaid reimbursed services were: provided by eligible providers or services provided by non-physicians were under the direct or general supervision of a physician; and services billed and reported were adequately documented.

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SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Undocumented and Unallowed Expenditures	1-1	11	\$20,966
Grant Expenditures on Cost Report	1-2	15	26,423
ODJFS Systemic Overpayment of Title IV-E Maintenance ⁴⁶	3-1	18	<u>7,135</u>
TOTAL FEDERAL QUESTIONED COST			<u>\$54,524</u>

⁴⁶

This Federal Questioned Cost resulted from the overstatement by ODJFS of maintenance claimed by county agencies.



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MARYCREST

CUYAHOGA 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
FEBRUARY 12, 2002**