AUDITOR OF STATE

STATE OF OHIO

CHILD PROTECTIVE SERVICES

YOUTH SERVICES NETWORK OF SOUTHWEST OHIO, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

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

YOUTH SERVICES NETWORK
REPORT ON AGREED-UPON PROCEDURES

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YOUTH SERVICES NETWORK
REPORT ON AGREED-UPON PROCEDURES

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

NAME	TITLE	TERM
	BOARD OF TRUSTEES	
Joseph A. Schenk	President	December 1997 - December 1999
Christiane A. Zurbuchen	Vice President	December 1996 - December 1998
Brenda Whitney	Secretary	December 1996 - December 1998
Eddie Rhodman Sr.	Treasurer	December 1996 - December 1998
Rita M. Howard (McManus)	Member	December 1996 - December 1998
Kenneth Murray	Member	December 1997 - December 1999
D. Cory Kinnison	Member	December 1997 - December 1999
John O. Martin	Member/Legal Counsel	December 1997 - December 1999
Michael P. Dring	Member	December 1996 - December 1998
	ADMINISTRATIVE PERSONNEL	
Michael P. Dring	Executive Director	February 1996 - Present
Tom Oxley	Administrative Assistant	March 1997 - Present

Agency Address:

Youth Services Network of SW Ohio, Inc.
3817 Wilmington Pike
Kettering, Ohio 45429

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STATE OF OHIO
OFFICE OF THE AUDITOR

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Independent Accountants' Report

Jacqueline Romer-Sensky, Director
Ohio Department of Job and Family Services
30 East Broad Street
Columbus, Ohio 43266-0423

Dear Director Sensky:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services[1] (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 Youth Services Network (YSN 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). The applicable laws and regulations 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 examined all expenditures made by the Placement Agency in the Period for compliance with terms and conditions of its contractual agreements and provisions of applicable laws and regulations.

2. We scanned all receipts and deposits from the applicable public children services agencies to the Youth Services Network 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 Montgomery County Children Services Agency (MCCSA) to determine the ratio of payments for administration and maintenance.

4. We documented and tested 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; 6) fixed assets.

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[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.

5. We tested internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Administrative Code Chapter 5101:2

On September 15, 2000, we held an exit conference with the following:

Name	Office/Position
Michael Dring	Youth Services Network Executive Director
Christiane A. Zurbuchen	Youth Services Network Board Member
Cory Kinnison	Youth Services Network Board Member
Michael Booth	Youth Services Network Legal Counsel
Mary Anne Cole	Youth Services Network Office Manager
Hal Whitehurst	ODJFS Audit Supervisor
Dan Shook	ODJFS Internal Auditor 3
Arthur Stackhouse	ODJFS Chief Inspector
Gregory W. Kelly	Auditor of State Assistant Chief Deputy Auditor
Edna Frezgi	Auditor of State Deputy Auditor
Carolyn Curry	Auditor of State Assistant Auditor 3

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

August 16, 2000

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 will be released in the winter of 2000.

The results of our Child Protective Services performance audit of Montgomery County Children Services Agency and the special audit of Searchlight C.A.R.E. Inc., released February 10, 2000 and June 3, 1999 respectively, identified the need for significant improvement of the child welfare system. In each of these audits the Auditor of State made recommendations directed at increasing and improving fiscal accountability and compliance with applicable laws and regulations.

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 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.

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 (formerly ODHS) 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 administer 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]

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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).

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. Butler County Children Services Board (BCCSB), a PCSA, entered into such an agreement with Youth Services Network, a PNA. During the period of this engagement BCCSB was under going a separate performance review conducted by the AOS. To avoid placing unnecessary administrative burden on BCCSB we selected Montgomery County Children Services (MCCSA) records for testing for Issues 2 and 3. MCCSA did not enter into such an agreement with Youth Services Network (See Issue 5-1).

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 [8] and asks that 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]

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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).

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).

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]

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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 at 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.

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 payments[15] made to the PCPAs and PNAs.

In 1998, the FFP was 58% for maintenance payments[16] made and 50% for administrative costs[17] 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.

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 BCCSB and Youth Services Network formed the criteria to which we referred during our testing to determine if the expenditures at the Youth Services Network were used to provide only the foster care maintenance and administrative case management and planning activities necessary to perform the services outlined in the contract.

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[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.

The Agreement states that BCCSB will reimburse Youth Services Network to provide substitute care services to the foster children in its care. Foster care maintenance activities and administrative case management and planning activities are services deemed to be allowable under the BCCSB Purchase of Services Agreement with Youth Services Network and are purchased based upon a per diem agreement.

“Foster care maintenance activities are defined as direct care and indirect management activities associated with room and board, daily supervision and care and health-related services.” [18]

“Case management is defined as helping the BCCSB worker through preparation for the participation, when necessary, in judicial determination and case review process. Case management also includes referral monitoring of services provided, arranging for and participating in case conferences, helping BCCSB worker in arranging for discharge and after care services. Case planning services involve working with the BCCSB worker in the development of the case plan and coordinating the provider’s role in carrying out the plans when directed by BCCSB.” [19]

In its contract with BCCSB, Youth Services Network agreed that “all records relating to the service provided and supporting documentation for invoices submitted to BCCSB by the Provider will be retained and made available by the Provider for audit by BCCSB, the State of Ohio (including, but not limited to, ODJFS, the Auditor of the State of Ohio, Inspector General or duly appointed law enforcement official) and agencies of the United States Government for a minimum of three years after payment under this agreement...”[20], and to maintain certification stipulated by ODJFS as a requirement for participation in the placement of children.[21]

ODJFS OVERSIGHT RESPONSIBILITY

In our Child Protective Services Performance Audit, Montgomery County Children Services Agency audit issued February 10, 2000 we stated:

“Ohio’s system of state supervised, county administered foster care has significant gaps in monitoring and oversight. As a result, it is ineffective in protecting children and providing permanent placement and inefficient in the cost and quality of services delivered. The general lack of written agreements that clearly identify the duties and responsibilities of the contracting parties and remedies for breach contributed to the inefficiencies.”

In its role as the single state agency[22] responsible for the administration of foster care, ODJFS must take the necessary measures to close the significant gaps in monitoring and oversight indicated in that audit and corroborated in this report of agreed upon procedures of the Youth Services Network and other private agencies.

The above statement reflects a systemic weakness identified in the foster care engagements, however it should be noted BCCSB did enter into a written agreement with YSN.

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18 Foster Care Maintenance Activities, Purchase of Services Agreement, dated 8/11/98, p.1.

19 Administrative Case Management and Case Planning Activities, Purchase of Services Agreement, dated 8/11/98, p.2.

20 Availability and Retention of Records, Purchase of Services Agreement, dated 8/11/98, p.13.

21 Certificate/Licensing/Insurance, Purchase of Services Agreement, dated 8/11/98, p.11.

22 Ohio Rev. Code Section 5101.141(A).

To close that gap, we recommend ODJFS do the following:

1. Establish through rule a standard contracting requirement for PCSAs using the services of private agencies that effectively sets forth all applicable compliance requirements, fiscal accountability standards and allowable cost.

2. Design and implement an effective system of program monitoring of public and private agencies to ensure fiscal accountability and program compliance that includes desk reviews of all cost reports and periodic site visits at public and private agencies.

3. Design and implement a cost reimbursement system that properly classifies and allocates cost in a manner that ensures claims are properly submitted in accordance with applicable rules and regulations.

4. Establish guidance that sets forth the minimum standards for public and private agencies to document their fiscal accountability and legal compliance to ODJFS, the Auditor of State or their designated representative during an audit or review.

5. 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.

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[23] 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 with 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.

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

When reporting questioned costs we did not attempt to allocate those cost among the entities that provided the funding. However, we do recommend that as part of its resolution of our findings that ODJFS, in addition to requiring the Placement Agency to submit a corrective action plan, do the following:

(1) Seek full recovery of questioned cost resulting from the Placement Agency's actions, through payment or adjustment.

(2) Take measures to rationally allocate the recovered costs among the entities that provided the funding.

(3) Reimburse the funding entities by payment or adjustment based on the allocation.

AGENCY INFORMATION

Youth Services Network is a private noncustodial agency (PNA) that was established on June 18, 1982 as a not-for-profit organization for the purpose of providing placement alternatives for abused, neglected youth temporarily removed from their homes due to inappropriate and/or inadequate care and supervision, including placement and care of youth who have had minimal involvement with the juvenile justice system.[24] Youth Services Network is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3), and 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 service agency needs a home for a foster child, it can contact agencies such as Youth Services Network to place the child. The group of family foster homes (private foster network) utilized by Youth Services Network has been in place since 1982. Youth Services Network places foster children primarily for BCCSB. Youth Services Network has provided services to Butler, Montgomery, Clark, Clermont, Darke, Licking, Miami, Preble, Warren, and Greene County children services agencies' during the Period.

In November 1998, Youth Services Network purchased a building at 3817 Wilmington Pike in Kettering, Ohio to conduct its operations. The total acquisition cost of the building amounted to $241,560 and was financed, in part, through a mortgage with Fifth-Third Bank in the amount of $196,000.[25]

[24] Youth Services Network December 1998 and 1997 audited financial statements, note 1.

[25] Youth Services Network December 1998 and 1997 audited financial statements, note 4.

YOUTH SERVICES NETWORK
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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
Youth Services Network
Foster Care Statistics

Characteristic	Statistic
Daily Average Number of Children in Placement	65
Number of Active Licensed Foster Homes	64
Average Per Diem Rate	$56
Number of PCSA from Which Agency Receives Children	10
Required Training for Foster Caregiver Orientation	12 hours
Required Annual Training for Foster Caregiver	12 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	$1,048,126
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

During the Period, Youth Services Network staff consisted of 14 employees, including an executive director, assistant director, manager of clinical operations, business manager, secretary, foster parent licensor, social workers supervisor transporters and caseworkers to provide the needed counseling and case management services to the foster children and foster parents.

The Youth Services Network's revenues were comprised primarily of funds from Butler County Children Services Board. The total revenues received by Youth Services Network from Butler County Children Services Board for foster care services during the Period of January 1, 1998 to December 31, 1998 was $768,325.

YOUTH SERVICES NETWORK
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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
Youth Services Network
Revenue by Source

	1998	Percent of Total Revenue
Butler County[26]	$ 768,325	68
Montgomery County	153,655	14
Licking County	25,146	2
Warren County	39,303	3
All other Counties	129,606	12
Interest Income	15,028	1
Totals	$1,131,074	100%

Relevant Individuals

Michael Dring

Michael Dring is the Executive Director and current statutory agent of Youth Services Network. He has served as Executive Director since 1996. He is the son of Rita Howard (McManus), who was the former Executive Director.

Rita Howard (McManus)

Rita Howard (McManus), was the founder and original statutory agent of Youth Services Network. Ms. Howard served as the Executive Director of Youth Services Network from its inception in 1982 to 1996 when Michael Dring, her son, became Executive Director. Upon her retirement in 1996 she was appointed as a voting member of the board of trustees for an indefinite period of time and as a paid consultant to Youth Services Network's management and its Board through June 1999.

Warren Howard

Warren Howard is the husband of Rita Howard (McManus). Mr. Howard was reimbursed out of pocket expenses for installation of a computer and software. YSN also paid for travel expenses incurred by Mr. Howard when accompanying his wife, a paid consultant for YSN, during the Period.

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26 During the period of this engagement BCCSB was undergoing a separate performance review conducted by the AOS. To avoid placing unnecessary administrative burden on BCCSB we selected Montgomery County Children Services records for testing for Issues 2 and 3.

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

Objective:

To examine all expenditures for compliance with contractual agreements, applicable laws and regulations, and proper business purposes at Youth Services Network.

Procedures Performed:

1. We obtained all canceled checks for non-payroll disbursements made by Youth Services Network for each month during the Period (See Issue 5 for test of payroll disbursements).

2. We examined details of every canceled check returned by the bank during the Period including vendor, amount, authorizing signature and endorsement.

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 improper authorization, 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 documented concerns about undocumented or questionable expenditures and interviewed the executive director or designated personnel concerning the expenditures for which supporting documents were not provided.

6. We obtained all credit card statements paid by Youth Services Network for the Period and examined details of each charge including vendor, amount, and authorization.

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; checks payable to the staff or foster parents or improper authorization, we requested supporting documentation, such as invoices.

8. We documented concerns about undocumented or questionable credit card expenditures and interviewed the executive director or designated personnel concerning the expenditures for which supporting documents were not provided.

9. We examined all car lease payments, determined the percentage of time the cars were used for business and whether personal use was properly disclosed on the employees' W-2.

10. We examined all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and Youth Services Network.

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

Results:

To be allowable under an award, cost must, among other things be adequately documented.[27] All expenditures should be supported by sufficient documentation to demonstrate the proper authorization, approval and purpose of the expenditure.

The BCCSB contract provides, in pertinent part: "All records relating to the service provided and supporting documentation for invoices submitted to BCCSB by the Provider will be retained and made available by the Provider for audit by BCCSB, the State of Ohio (including, but not limited to, ODJFS, the Auditor of the State of Ohio, Inspector General or duly appointed law enforcement official) and agencies of the United States Government for a minimum of three years after payment under this agreement..."[28] The contract also requires that the provider furnish to BCCSB a copy of the ODJFS issued certificate that specifies which functions it is certified to perform.[29]

The one hundred eighty-nine (189) credit card expenditures examined represented $20,973 in charges. We requested supporting documentation for these expenditure 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. Youth Services Network was unable to provide us with supporting documentation for 13 transactions totaling $354, which were not an allowable direct service or administrative cost under the BCCSB contract.

Of the two hundred twenty-five (225) check disbursements examined representing $226,437 in charges, Youth Services Network was unable to provide us with supporting documentation for five (5) disbursements totaling $675.

Additionally, two expenditures totaling $405 for a staff Christmas party and secretaries' day meals were considered entertainment costs for amusement, social activities and a related cost for staff only[30] and unallowed cost for use in completing the ODHS 2910 cost report.

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27 Office of Management and Budget (OMB) Circular A-*122 "Cost Principles for Non-Profit orga*nizations" Attachment A, Paragraph A(2)(g).

28 Availability and Retention of Records, Purchase of Services Agreement, dated 8/11/98, p.13.

29 Certificate/Licensing/Insurance, Purchase of Services Agreement, dated 8/11/98, p.11

30 Ohio Admin. Code Section 5101:2-47-26(A)(7). Prior to 5/1/98 this provision was contained in Oho Admin. Code Section 5101:2-47-64(L).

Table III
Youth Services Network
Questioned Costs

Expenditures without adequate supporting documentation	
Restaurant and grocery charges	$354
Board Luncheon expenditures	675
Total Undocumented Expenditures	1,029
Unallowable Expenditures	
Christmas party and secretaries' day meals	405.
Total Questioned Costs	$1,434.

Federal Questioned Costs: $1,434

Due to inadequately documented expenditures reported on the cost report and charged against the foster care program, the Youth Services Network was in violation of its contract with BCCSB and OMB Circular A-122[31] in the amount of $1,029. The unallowed federal questioned cost totaled $405.

Management Comment:

Youth Services Network did not adhere to the BCCSB contract regarding documentation of allowable direct and administrative costs requirements. The Butler County Children Services Board should require the agencies for which it contracts for placement services, to submit to BCCSB a copy of the required 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. BCCSB should review these reports and follow up on any exceptions reported.

ISSUE 1-2	DISTRIBUTION OF EARNINGS IN EXCESS OF COST (NET EARNINGS)

Results:

When determining the allowability of cost, Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment B, Paragraph 7(d) states in pertinent part: "Certain conditions require special consideration and possible limitations in determining costs under Federal awards where amounts or types of compensation appear unreasonable. Among such considerations are, (1) Compensation to members of non-profit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

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

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. [32]

In a resolution dated November 30, 1994, the Board resolved that the corporation (Youth Service Network) "pay to Rita M. McManus [Howard], President of this Corporation, in addition to her yearly salary, the additional sum of $200,000, for services previously rendered by her to the Corporation during which periods [1982 - 1994] she was not adequately compensated. The sum of $75,000 will be paid on December 19, 1994, the sum of $75,000 will be paid on January 2, 1995 and the sum of $50,000 will be paid on January 1, 1996. These sums were to be paid in addition to salaries and all other amounts paid to Rita M. McManus [Howard] during the years 1994, 1995 and 1996".

According to YSN, Ms. McManus [Howard] had been paid a total of $359,250 for the years 1982 through 1994. In 1995 she received an annual salary of $60,000 and retired with Board approved benefits in 1996.

We requested documentation to determine whether the additional compensation of $200,000 had been reported to the IRS, the Executive Director stated $75,000 of the income had been reported on the 1994 W-2 issued to Ms. McManus [Howard]. The balance of $125,00 was deposited into a Schwab Value Advantage Money Fund Account in March, 1995 and subsequently withdrawn in April 1996.

The Board's rationale for compensating Ms. McManus [Howard] for her past services is documented in the November 30, 1994 resolution: "From 1982 thorough 1994 Ms. McManus [Howard] has been continuously active in organizing, developing and growing the activities of this Corporation and maintaining it on a positive basis. Her services, which were beyond any chief operating officers normal or expected duties have been of great value to this Corporation. Much of the financial success of this Corporation has been due to Ms. McManus [Howard] taking no compensation and very little in the first few years of the life of this Corporation."

However, IRS regulations provide that to establish tax-exempt status pursuant to 26 U.S.C. 501 (c)(3), an organization must establish that it is "not organized and operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders, of the organization, or persons controlled, directly or indirectly, by such private interests." [33]

Federal Questioned Cost: $200,000

We believe the payment of $200,000, as a result of the resolution, was in effect a distribution of earnings in excess of costs (net earnings) and in violation of 26 U.S.C. Section 501(c)(3). The expenditures were charged to the foster care program, provided no prospective benefit to the facility or program, nor were they reasonable for the performance of the award as required by OMB Circular A-122, Attachment A, Paragraph A(2)(a). This payment in the amount of $200,000 has been classified as a questioned cost.

Management Comment:

YSN should contact the IRS to negociate the settlement of any prior year's tax liabilities resulting from the payment of additional compensation to Rita McManus [Howard] that was not reported. We further recommend that ODJFS follow up on the federal questioned cost of $200,000 that was inappropriately charged to the foster care program.

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[32] 26 U.S.C. Section 501(c)(3)

[33] 26 C.F.R. Section 1.501(c)(3)-1(d)(ii) (2000)

ISSUE 1-3	PAYMENTS AND DISTRIBUTIONS TO THE FOUNDER AND FORMER EXECUTIVE DIRECTOR OF YSN

Results:

To be allowable under an award, cost must, among other things be adequately documented.[34] All expenditures should be supported by sufficient documentation to demonstrate the proper authorization, approval and purpose of the expenditure.

"Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the organization, are allowable. . . In determining the allowability of costs in a particular case. . . the adequacy of the contractual agreement for service, description of the service, estimate of time required, rate of compensation, and termination provisions. . ." [35]

When determining the allowability of cost, Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," Attachment B, Paragraph 7(d) states in pertinent part: "Certain conditions require special consideration and possible limitations in determining costs under Federal awards where amounts or types of compensation appear unreasonable. Among such considerations are, (1) Compensation to members of non-profit organizations, trustees, directors, associates, officers, or the immediate families thereof.

Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

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. [36]

Rita McManus [Howard] retired as Executive Director and President of YSN and her post-retirement relationship with YSN was set forth in a board resolution passed on January 9, 1996. The resolution noted in pertinent part: "Regarding the retirement of Rita M. McManus [Howard] from Youth Services Network of Southwest Ohio, Inc. (YSN) to be effective February 1, 1996, the Board of Directors of YSN resolves that:

1. Rita M. McManus shall be a voting member of the YSN Board of Directors for an indefinite period of time;
2. Rita M. McManus will serve as a consultant to the management of YSN and to the Board of Directors during the period from February 1, 1996 through January 31, 1997. . . for $2,600 per month plus expenses;
3. Rita M. McManus will receive a profit sharing contribution as a contract employee during her consulting engagement... based upon her compensation of $2,600 per month;
4. Rita M. McManus will be provided the use of the company leased vehicle through the end of the lease term (June 1997);
5. The following office furniture will be retired on February 1, 1996 and may be retained by Rita McManus: Executive desk; chair and credenza;

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

[35] Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment B, Paragraph 39 (a)(8).

[36] 26 U.S.C. Section 501(c)(3)

6. Rita M. McManus will be provided a retirement stipend as provided for in Board Resolution dated October 4, 1995 ($2,600 per month for sixty months). Payments of this stipend will begin in February 1996 and will continue through January 2001. This stipend is over and above any consulting fees she may otherwise earn."

The Board of Trustees authorized the consultant agreement during the three-year period of 1996 through 1999 after Ms. McManus' [Howard] retirement. Michael Dring, YSN Executive Director approved all payments to Rita McManus [Howard], without Board review. Profit sharing contributions, approved by Board resolution, were not made on behalf of Ms. McManus [Howard].

Purpose of Expenditure	**1998** [37]	**1997**[38]	**1996**[39]	**Total**
Consultant Fees	$36,000	$33,025	$30,776	$99,801
Retirement Stipend	31,200	31,200	30,000	$92,400
Total	$67,200	$64,225	$60,776	$192,201

The consulting agreement dated January 9, 1996 between YSN and R. M. McManus and Associates, Inc. included the description of services in pertinent part as, "Transition support as required by the Director, YSN and/or the Chairman, YSN Board of Directors. In the absence of specifically assigned tasks, McManus may perform research and attend seminars on subjects of importance or potential importance to YSN."

We requested documentation to support the payments made by YSN for consulting services, such as: invoices; detailed billing statements noting services rendered or time spent or activities worked on; or a project status report.

YSN was not able to provide adequate documentation, to support the consulting fees of $99,801 paid to Ms. McManus [Howard] and reported on the ODHS 2910 Purchased Family Foster Care Cost Reports for the 3 year period. However, Youth Services Network did provide a list of tasks to which, Michael Dring asserted, Mrs. McManus [Howard] had performed.

Below is the list as provided, no other supporting documentation was presented:

- E-mailed per diem rates,
- Editing of "Director's Notebook" written by Executive Director, Michael Dring and included in the newsletter,
- Prepared an "interview check off sheet" for the executive director,
- Advised on job descriptions for staff,
- Advised on hiring of new personnel,
- Advised on selecting the new office site,
- Submitted floor plan ideas for the Wilmington Pike office,
- Floor plan on office suites on Woodman Bldg -comments on value,
- Advised on issues at staff retreat at Camp Kern in conflict resolution, problem solving, team building, professionalism and communication style,
- Notes on the Kansas Meetings regarding Managed Care,

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[37] Youth Services Network of Southwest Ohio, Inc. Financial Statements December 31, 1998 and 1997, pp 6-7.

[38] Youth Services Network of Southwest Ohio, Inc. Financial Statements December 31, 1998 and 1997, pp 6-7.

[39] Youth Services Network of Southwest Ohio, Inc. Financial Statements December 31, 1997 and 1996, p 6.

- Notes to Foster Parents on training and activity participation needs,
- Advised in the creation of Youth Services Network of Southwest Ohio, Inc.'s adoption program,
- Advised on providing wraparound services and innovative incentive programs for staff,
- Prepared Adoption Brochure,
- Notes to foster parent on training and activity participation needs,
- Advised with Butler County Children Services Board in the creation of a Purchase of Service Agreement with Youth Services Network of Southwest Ohio, Inc., and
- Created a website for Youth Services Network of Southwest Ohio, Inc.

Based on the review of the invoices, Youth Services Network may have paid other vendors for what appears to be the same responsibilities or tasks it asserted Ms. McManus [Howard] performed, such as: J.M. Interiors $2,925 for interior designs in 1998; Commercial Interior Design, which is a local company, $8,322 for architectural fees in 1998; K-Tech $2,060 for computer networking fees in 1998, and Youth Services Network paid Warren Howard, husband of Rita McManus [Howard] $2,090 for the creation of a website and Internet software, in addition to his travel expenses when accompanying his wife, a paid consultant for YSN, during the Period.

We asked for documentation that would enable us to determine that the $2,600 monthly retirement stipend paid to Ms McManus [Howard] was an allowable charge to the program. We determined that the payments which totaled $92,400 during the 3 year period were not disbursed from an established pension plan approved by the IRS. We found that the payments were made directly to Ms. McManus [Howard] by YSN from the net earnings of YSN in violation of 26 U.S.C. Section 501(c)(3).

In addition we inquired whether YSN reported the payments to Ms. McManus [Howard] to the IRS as compensation. We were told no W-2s or 1099s associated with those payments had been filed with the IRS for 1996 -1998.

Federal Questioned Cost: $ 192,201

Expenditures in the amount of $192,201, were reported on the cost report and charged against the foster care program, in violation OMB Circular A-122[40]. The consulting fees of $99,801 represent costs at the time of the audit that were not supported by adequate documentation. The retirement stipend of $92,400 represent an outlay of cash with no prospective benefit to the facility or program and a distribution of earnings in excess of costs. Federal questioned costs totaled $192,201.

Management Comment

YSN should contact the IRS to negociate the settlement of any prior year's tax liabilities resulting from the payment of the consulting fees and retirement stipend to Rita McManus [Howard] that were not reported. ODJFS should strengthen its policies and procedures regarding the identification and evaluation of related party transactions to reduce the risk of potential questioned cost resulting from violation of federal and state laws and regulations.

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

ISSUE 1-4	FAILURE TO REPORT INCOME AND WITHHOLD FEDERAL TAXES

Results:

Federal tax laws generally 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. 26 U.S.C. Section 3402 (a) (1); 26 U.S.C. Section 6051(a); 26 C.F.R. Section 1.6041-2 (2000). Employers are also required to report on an informational return (form 1099) remuneration paid in excess of $600 per calendar year to independent contractors. 26 U.S.C. Section 6041A(a); 26 C.F.R. Section 1.6041-1 (2000).

26 U.S.C. Section 3402 (s) generally provides that vehicle fringe benefits are to be reported as income from which taxes are to be deducted and withheld unless the employer fulfills certain notification requirements to the employee.

YSN provided a vehicle to Michael Dring, YSN Executive Director, for personal and agency transportation in lieu of mileage reimbursement. It did not show the value of the fringe benefit on the W-2 of the employee. The Placement Agency also did not withhold the Federal income, Medicare or Social Security taxes on the value of the fringe benefit.

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 BCCSB's ability to administer its foster care program.

Management Comment:

YSN should immediately comply with IRS rules that govern reporting of compensation and withholding of taxes. We further recommend that the YSN contact the IRS to negociate the settlement of any prior year tax liabilities resulting from their noncompliance.

ISSUE 1-5	PERSONAL USE OF ORGANIZATION FURNISHED AUTOMOBILES

Results:

The cost of organization furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees....[41]

YSN provided a leased vehicle to Michael Dring, YSN Executive Director, for personal and agency transportation in lieu of mileage reimbursement. It did not show the value of the fringe benefit on the W-2 of the employee contrary to 26 U.S.C. Section 3402(s)(2). YSN did not maintain documentation to allocate or itemize personal use versus the business costs of transportation. In addition, YSN improperly reported transportation costs, charged against the foster care program, which included unallowable amounts for personal use on the ODHS 2910 Purchased Family Care Cost Report. That portion which relates to personal use is unallowed and considered an undetermined federal questioned cost.

[41] Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations:, Attachment (B)(7)(g), Compensation for Personal Services, Organization-furnished automobiles.

Management Comment

We recommend the Placement Agency establish accounting policies and procedures that ensure that program cost are properly classified and reported. We further recommend that ODJFS establish a system of monitoring the personal use of organization furnished automobiles to ensure continuous compliance and determine the amount of federal questioned cost.

ISSUE 1-6	UNALLOWABLE MEMBERSHIP FEES

Results:

Costs of membership in any country club or social or dining club or organization are unallowable.[42]

Any outlay of cash with no prospective benefit to the facility or program is considered an unallowable cost for use in completing ODHS 2910 Purchased Family Foster Care Cost Report.[43]

We identified expenditures made by YSN for a membership to the "Racquet Club", which was purchased in the name of the Executive Director, Michael Dring. Youth Services Network held its monthly board meetings at the club and purchased meals for the board members, total expenditures were $2,197, including the membership cost of $915.

The outlay of cash for memberships did not provide prospective benefits to the facility or program and are considered unallowable cost for use in completing ODHS 2910 Purchased Family Care Cost Report.

Federal Questioned Cost: $915

The costs incurred which were charged to the foster care program and reported on the ODHS 2910 Cost Report by Youth Services Network for the memberships were not allowable.

Management Comment

We recommend that Youth Services Network establish policies and procedures relating to memberships and meals in accordance with Ohio Administrative Cod and Office of Management and Budget Circular A-122.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES

Objective:

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

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42 Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations:, Attachment B, Pargraph (30)(e)

43 Ohio Admin. Code Section 5101:2-47-26

Procedures Performed:

1. We determined the types of revenue that Youth Service Network 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 MCCSA 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.

Results:

We documented the types of revenue that Youth Services Network received as: program service fees from various counties and investment income. They did not receive medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from the MCCSA. Furthermore, we determined that all MCCSA disbursements to the Youth Services Network of Southwest Ohio, Inc were receipted, deposited and recorded in its accounting records.

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS

Objectives:

1. To determine whether Title IV-E maintenance funds received by Youth Services Network were used in accordance with Social Security Act.

2. To determine whether Youth Services Network'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 Montgomery County Children Services the ODJFS Title IV-E Disbursement Journals detailing the federal reimbursement to Montgomery County Children Services for the months of January 1998 to December 1998 for foster care services. We also obtained from the Montgomery County Auditor a vendor payment history report for Youth Services Network for the same period and traced these payments to the invoices submitted by Youth Services Network.

2. We selected a representative sample of children identified by MCCSA as Title IV-E eligible children being serviced by Youth Services Network of Southwest Ohio, Inc. Federal maintenance payments for these children totaled $17,305 or 70% of the sample.

3. We found the child's name on the appropriate month's ODJFS 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 Youth Services Network from MCCSA to the corresponding Youth Services Network billing in the month selected for each child in the sample.

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 per diem agreements between the Youth Services Network 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 the Youth Services Network and MCCSA and between Youth Services Network and the foster caregivers.

9. We compared the Youth Services Network's per diem paid to the foster parents with the corresponding per diem it received from MCCSA to determine the ratio of payments for administration and maintenance.

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

RESULTS

Payments for foster care maintenance 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.[44]

We selected a sample of 24 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and MCCSA submitted $24,2629 to ODJFS for reimbursement. ODJFS then requested federal financial participation for foster care maintenance costs of $17,305, however the Placement Agency only made maintenance payments to foster parents totaling $8, 905. The remaining $8,400 was retained by Youth Services Network and used for administrative costs or other purposes were not used to cover the cost of maintaining children in the foster home as required.

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

Table IV
Overpayment of Title IV-E Maintenance Reimbursement

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	$10,037
Required PCSA Match for Federal Financial Participation	7,268
Total Title IV-E Maintenance Claimed by ODJFS	17,305
Amount Paid by PNA to Foster Parents for Maintenance	(8,905)
Federal Questioned Cost	$8,400

44 42 U.S.C. Section 675 (4)(A)

Projected Questioned Cost:

We specifically identified $8,400 of questioned costs in our sample. In order to evaluate the potential effect of questioned costs caused by systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned cost. We used the ratio approach, as illustrated below:

Dollar Amount of Error : Dollar Amount of Sample	$8,400/$17,305	48.55%
X Dollar Amount of Population		$377,220
Questioned Cost		$183,140

Federal Questioned Cost: $183,140

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in section 675 of the Social Security Act. In our sample, we found that the maintenance cost claimed for federal reimbursement was overstated by $8,400, and when using the ratio approach resulted in questioned cost of $183,140.

ODJFS should determine the amount of over reporting by the PCSA and re-compute the Title IV-E per diem reimbursement rate that should have been paid to the Placement Agency during the Period and reimburse HHS, ODJFS or the PCSA for the overstated costs.[45]

Management Comment

This questioned cost is a result of systemic problems in the ODJFS cost reporting, rate setting, and cost reimbursement processes. We recommend ODJFS redesign those processes to ensure cost are properly classified and reimbursements accurately claimed. 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

Results:

We tested the payments from Montgomery County Children Services Agency (MCCSA) to YSN for a sample of 30 foster children. The payments to the Placement Agency for this sample totaled $30,757. We noted that the Placement Agency received the correct per diem rates noted in the MCCSA contract.

The foster parents in the sample received $11,080 we noted that these foster parents received the correct per diem rates per the MCCSA contract. The foster parents received $11,080 or 36 % of the total funds paid to the Placement Agency by MCCSA. The remaining $19,677 or 64% was retained by YSN and used for administrative costs, other direct services to children or other purposes.

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

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	AMENDED PER DIEM AGREEMENTS WITH FOSTER PARENTS

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 affects the amount paid to foster parents).

Foster parents working with Youth Services Network 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 Youth Services Network 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:

New per diem agreements with the foster parent should be completed for each subsequent rate change within a reasonable period of time. 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

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.

Procedures Performed:

1. We examined the board of trustees minutes, personnel records, organizational chart and used this information to identify 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 significant weaknesses that existed in the accounting cycle.

3. We documented and tested 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; 6) fixed assets.

ISSUE 4-1	AUDIT COMMITTEE

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 Youth Services Network 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 is aware of significant deficiencies in internal control and noncompliance with laws and regulations.

Management Comment:

We recommend that the YSN 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.

ISSUE 4-2	SEGREGATION OF DUTIES

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 account reconciliations.

During the period, Michael Dring, Executive Director, exercised near complete control of the cash receipting and disbursing cycles. In addition the Placement Agency's credit cards were issued in Michael Dring's name and the monthly statements were mailed to his home address. At the end of each month the agency's accountant prepared the monthly financial statements based on the records provided, and at year-end another independent public accountant performed an audit.

If controls are not placed in operation that provide for a segregation of duties over the disbursement and cash receipts cycles there is a possibility for the misappropriation of assets, which could go undetected.

Management Comment

We recommend that the YSN segregate cash handling and accounting activities in order to eliminate conflicting duties being performed by one person. This will improve the effectiveness of the internal controls. Furthermore, we recommend that checks received by YSN be endorsed (for deposit only) and posted daily by different individuals which will promote the segregation of duties. This will reduce the chance of monies being lost or misappropriated.

ISSUE 4-3	FIXED ASSET POLICY

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 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 it's financial statements. The agency was not aware of the risk imposed by not performing an annual physical inventory nor the benefits of having a fixed asset policy.

Management Comment:

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

- The types of fixed asset records to maintain.
- Categories of fixed assets
- Capitalization thresholds
- Retirements and transfers
- Depreciation
- Fixed Asset Inventories
- Authorized use of its assets

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.

Furthermore, we recommend the completion of an annual physical inventory to ensure accurate accounting records and decrease the risk that assets which may have been lost, stolen, or improperly used would go undetected.

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

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 Youth Services Network were used in accordance with Social Security Act.

5. To determine whether the cost reports submitted to ODJFS by Youth Services Network were accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We examined the board of trustees minutes, listing, and organizational chart and used this information to check for conflicts of interest and self dealing transactions prohibited by compliance 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 prescribe 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 they were authorized and documented.

4. We compared wages paid as identified on the ODHS 2910 cost report to wages paid as identified on the payroll records.

5. We traced potential questioned cost to the cost report.

ISSUE 5-1	CONTRACT AGREEMENTS

Results:

The Ohio Administrative Code requires that public children services agencies enter into purchase of service agreements with providers of purchased family foster care. The agreement must specify that foster care maintenance, administrative case management, and case planning and related administrative activities are being purchased.[46] In addition, sound business practices and public policy dictate that contracts between parties stipulate issues of fiscal accountability, compliance, and record retention among other responsibilities of the contracting parties.

Youth Services Network did not enter into a purchase of service agreement with MCCSA. Individual childcare agreements for each child were executed.[47]

The lack of an effective system of contracting and contract monitoring impairs the PCSA's ability to manage costs and increases the risk that requested services may not be provided or that improper amounts may be billed.

Management Comment

ODJFS should establish through rule a standard contracting requirement for PCSAs using the services of private agencies that effectively sets forth all applicable compliance requirements, fiscal accountability standards and allowable cost.

ISSUE 5-2	RESPITE CARE POLICY

Results:

Foster care agencies should ensure that a child is placed in a safe environment with a minimal risk of physical and emotional harm. This assurance should be extended to include respite care.

The agency routinely granted and documented respite to its foster parents, however, there was no written policy on how to authorize or approve respite care.

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

47 Ohio Admin. C ode Section 5101:2-44-90 (I). Prior to 7-1-00, the requirement for individual written childcare agreements was contained in Ohio Admin. Code Section 5101:2-42-91(A).

Without the aid of a respite policy, which clearly details the qualifications of a respite provider and the procedures for requesting, granting and the documentation of respite care, the following could occur:

1. The child could be placed in the care of a person who has not been adequately screened,
2. Abuse or misuse of respite,
3. Inadequate or incomplete information collected and placed in the foster parent(s) files regarding the child's placement,
4. Inconsistency in granting and use of respite,
5. Duplicate or errors in payments, (wrong foster parent(s) could be paid for wrong number of days in placement.

Management Comment

ODJFS should establish through rule the requirement for each Placement Agency's board to establish a respite care policy. Those rules should set forth minimum standards to ensure the safety and well being of the children placed in respite care.

ISSUE 5-3	CHANGE OF MARITAL STATUS

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 evaluation for the one change of marital status notification during our review of 10 foster family home files Failure to comply with this provision could result in an unsuitable placement that does not best meet the needs of the foster child.

Failure to comply with this provision could result in an unsuitable placement that does not best meet the needs of the child.

Management Comment

We recommend that Youth Services Network 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	INITIATION OF THE HOMESTUDY PRIOR TO THE RECEIPT OF A COMPLETED APPLICATION

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.
(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.

Seventy percent of the foster home files reviewed documented that the Bureau of Criminal Identification (BCII) and the Federal Bureau of Investigation (FBI) checks were requested prior to the completion of an application for certification as a family foster home.

Management Comment

Youth Services Network 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 5-5	INCOME SUFFICIENT TO MEET THE BASIC NEEDS

Results:

Ohio Admin. Code 5101:2-7-02 (D) provides: "A foster caregiver shall have income sufficient to meet the basic needs of the household and to make timely payment of shelter costs, utility bills and other debts."

In addition, 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 Youth Services Network did not document the applicant's income was sufficient to meet the basic needs of the household in 1 of the 10 foster home files reviewed, nor did that the Placement Agency provide evidence that it took adequate measures to ensure the information on family foster home applications submitted was complete and accurate. In addition, foster parent income and employment was not documented as verified in 5 out of 10 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 5-6	CHILD PLACEMENT LOGS

Results:

Ohio Admin. Code Section 5101:2-5-29 (C) states, in pertinent part: "An agency shall maintain in each family foster home record a log of all children placed in the family foster home. The log shall contain, at a minimum: (1) The name of the foster child; (2) The child's date of birth; (3) The date of placement in the family foster home; (4) The date of discharge/removal form the family foster home..."

Child placement logs maintained in the family foster home files, did not always reflect the correct or accurate information. We found inconsistencies in placement dates, and the child's date of birth in two of the ten files reviewed.

Improper record keeping could result in erroneous payments to foster parent(s), or a placement inconsistent with occupancy limitations.

Management Comment

Youth Services Network should establish procedures that ensure that child placement logs are updated with information as required by the Ohio Administrative Code. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-7	IMPROPER REPORTING OF WAGES ON THE COST REPORT

Results:

Ohio Admin. Code Section 5101:2-47-25(J)[48] defines salaries for allowable cost-reporting to include, "all remuneration, paid currently or accrued, for services rendered during the period of the cost report or budget... Payroll must be further supported by time and attendance or equivalent records for individual employees. Salaries of employees chargeable to more than one program or cost centers will be supported by appropriate time distribution record. The method used should produce an equitable distribution of time and effort ... "

During our review we compared wages paid as identified on the ODHS 2910 Purchased Family Foster Care Report to wages paid as identified on the payroll records for our audit period. There were two employees at the agency whose time worked was allocated between more than one program such as foster care and adoption.

We discovered that the two employees spent time working in the adoption program; however, their salaries were reported at 100% on the Title IV-E foster care cost reports. The amount of their salaries allocated to other programs and incorrectly reported under Title IV-E foster care cost report was $10,393.

[48] Ohio Admin. Code 5101:2-47-25. Prior to 5/1/98, this provision appeared at Ohio Admin. Code Section 5101:2-47-63.

Federal Questioned Cost: $10,393

The overstatement of the costs is in violation of Ohio Admin. Code Section 5101:2-47–63 and could adversely effect the Title IV-E rate setting process and resulted in federal questioned costs of $10,393. ODJFS should adjust the reported cost by the amount overstated, recalculate the Title IV-E reimbursement rate and determine if the cost resulted in an over reimbursement.

Management Comment

We recommend the agency establish accounting policies and procedures that ensure that program cost are properly allocated, as well as take measures to ensure the accuracy of the information reported on the Title IV-E foster care cost report.

ISSUE 5-8	TITLE IV-E COST REPORT

Results:

$79,94 classified as federal questioned cost in Issue 1-1, 1-3, 1-6, and 5-7 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. In addition, an undetermined amount of federal questioned costs related to personal use of organization furnished automobiles was charged against the foster care program and reported on the cost report, see Issue 1-5. Ineligible costs claimed on the cost report could result in overstated Title IV-E reimbursement per diem rates and therefore overstated federal reimbursement.

$325,001 classified as federal questioned cost in Issue 1-2 and 1-3 of this report, was charged against the foster care program, and reported as allowable costs on the ODHS 2910 Purchased Family Foster Care Cost Reports for 1994 through 1997.

ODJFS must determine the amount of over reporting by the YSN and re-compute the Title IV-E per diem reimbursement rate that should have been paid to YSN during the Period and reimburse HHS, ODJFS or the PCSA for any over reimbursement resulting from the overstated costs.[49] 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.

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

YOUTH SERVICES NETWORK
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Credit Card Expenditures without Documentation	1-1	13	$354
Expenditures By Check without Documentation	1-1	13	1,080
Distribution of Earnings in Excess of Cost (Net Earnings)	1-2	14	200,000[50]
Payments and Distributions to the Founder and Former Executive Director	1-3	16	192,201[51]
Personal Use of Organization Furnished Automobile	1-5	19	Undetermined
Membership Fees	1-6	20	915
Systemic Overpayment of Title IV-E Maintenance Reimbursement	3-1	22	183,140
Improper Reporting of Wages on Cost Report	5-7	32	$10,393
TOTAL FEDERAL QUESTIONED COST			**$588,083**

50 Payments were made during 1994 and 1995.

51 Payments were made during 1998, 1997 and 1996.

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YOUTH SERVICES NETWORK OF SW OHIO, INC.

MONTGOMERY 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
NOVEMBER 28, 2000