CHILD PROTECTIVE SERVICES

HOMES WITH A HEART, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1996 THROUGH OCTOBER 31, 1999

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**HOMES WITH A HEART, INC.**
**REPORT ON AGREED-UPON PROCEDURES**

## TABLE OF CONTENTS

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**BOARD OF TRUSTEES**
**AND ADMINISTRATIVE PERSONNEL**
**AS OF OCTOBER 31, 1999**

| NAME | TITLE | TERM |
|---|---|---|
| | **BOARD OF TRUSTEES** | |
| Kevin M Brown | President | [1] |
| James R. Robinson | Vice President | [1] |
| Agnes Fisher | Secretary/Treasurer | [1] |
| Michael Hayes | Member | [1] |
| | **ADMINISTRATIVE PERSONNEL** | |
| Gary A. Edwards, Sr. | Chief of Operations | [2] |
| Abdul-Basir Ali Rhaim[3] | Administrative Director | [2] |
| Jo-Lynn White | Chief Office Administrator | [2] |
| Cassandra Quinn | Personal Service Director | [2] |
| Angela Rayford | Office Manager | [2] |

Agency Address
Homes With A Heart
3323 Monroe Street
Toledo, Ohio 43606

1 Terms of Office for the Board of Trustees were not provided by the Placement Agency.

2 Dates of Employment for the Administrative Personnel were not provided by the Placement Agency.

3 Resigned from the Board of Trustees on November 16, 1995 and was appointed as Administrative Director effective January 1, 1996.

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

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**Independent Accountants' Report**

Thomas J. Hayes, Director
Ohio Department of Jobs 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 Jobs and Family Services [4] (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 Homes With A Heart Children's Home (Homes With A Heart or Placement Agency) for the period January 1, 1996 through October 31, 1999 ("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 and Lucas County Children Services (LCCS).

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 Homes With A Heart 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 Lucas County Children Services (LCCS) to determine the ratio of payments for administration and maintenance.

[4] The merger of the Ohio Department of Human Services and the Ohio Bureau of Employment Services to become the Ohio Department of Jobs 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.

We mailed letters to the last known address of each board member and called to confirm the post audit conference when telephone numbers were available. We spoke with Gary Edwards, Sr. and Agnes Fisher concerning the scheduling of the post audit conference to held on April 16, 2002. Mr. Edwards agreed to assist us in notifying the other members of the Board of Trustees of the post audit date. Only one letter was returned as undeliverable, we received no other responses and no one showed up for the meeting. Letters were sent to the following individuals:

| Name | Office/Position |
| --- | --- |
| Kevin Brown | President of the Board |
| James Robinson | Vice President of the Board |
| Michael Hayes | Board Member |
| Agnes Fisher | Board Member |
| Gary Edwards, Sr. | Chief of Operations |

Foster parent complaints about late payments and IRS sanctions caused LCCS to first give notice in December 1998 that it would no longer place children with the agency. On June 16, 1999 LCCS gave final notice of its intent to remove children from all foster homes with Homes With A Heart beginning on July 14, 1999.

On November 5, 1999 the Board President notified ODJFS that the agency would cease operations effective November 12, 1999. On November 8, 1999 staff members of the Auditor of State and ODJFS met first with the ODJFS licensing specialist for the agency, then Board of Trustees President, Vice President and financial consultant for Homes With A Heart, and finally with the Director and other staff members of the Lucas County Children Services.

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...[5] Additionally, OMB Circular A-110 requires 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 . . .If any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken." [6] In addition the ODJFS instruction for the completion of the ODHS 2910 Purchased Family Foster Care Cost Report stated in part "Records used in support of costs reported on the ODHS 2910 Cost Report must be retained for a minimum of five years from the end of the rate year for which the report is applicable." We started the agreed upon procedures on November 22, 1999 within the required period for record retention.

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

[6] 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," Subpart C Paragraph 53 (b).

**HOMES WITH A HEART, INC.**
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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

March 29, 2002

## 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 (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform investigations utilizing certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months. This is the twenty-first 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.[7] 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 Jobs and Family Services acts as the single state agency to administer federal payments for foster care, and shall adopt rules to implement this authority.[8] 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.[9]

### 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.[10] 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. Lucas County Children Services (LCCS), a PCSA, did not enter into such an agreement with Homes With A Heart a PNA (See issue 5-1).

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7 94 Stat. 501 (1980), 42 U.S.C. Section 671, as amended.

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

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

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

**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.[11]

**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.[12] 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,[13] and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report.

OMB 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 . . . "[14]

In addition, PCPAs and PNAs which enjoy federal tax-exempt status, are directly precluded from assigning any part of their net earnings "to the benefit of any private shareholder or individual . . . "[15]

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11 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).

12 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).

13 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.), 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.

14 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).

15 26 U.S.C. Section 501(c)(3).

## 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.[16] Allowable administrative costs do not include the costs of social services provided to the child, the child's family or foster families which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.[17]

Furthermore, 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*.

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.[18]

ODJFS codified the cost principles to which the PCPAs and PNAs are subject 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 Purchased Family Foster Care Cost Report 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." [19] 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.[20]

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16 42 U.S.C. Section 675(4)(A).

17 45 C.F.R. Section 1356.60(c)(3) (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 Pursuant to the 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.

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

20 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.

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 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 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 payments[21] made to the PCPAs or PNAs.

In 1998, the FFP was 58% for maintenance payments[22] made and 50% for administrative costs[23] 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**

The Ohio Administrative Code and the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, which govern allowable costs, formed the criteria to which we referred during our testing to determine if the expenditures at Homes With A Heart were used to provide the administrative and direct service costs necessary to perform the services.

**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.

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21 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.

22 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.

23 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.

OMB Circular A-133 defines questioned costs[24] as follows:

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

(1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds;

(2) Where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances."

The foster care program in Ohio is funded by a combination of federal, state and local funds. Historically the percentage of funding has averaged approximately 37% federal, and 10% state reimbursement, and 53% local. During fiscal year 1998 the percentage of funding was 40% federal, and 10% state reimbursement and 50% local funds. These funds are commingled when paid to the Placement Agency to perform the program functions for which it is certified by ODJFS to perform. The accounting systems of the Placement Agencies, in general, are not designed to classify or track expenditures by the source of funds and it is difficult, if possible 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 The Placement Agency join together to ensure that The Placement Agency develops and implements a corrective action plan that will result in fiscal accountability[25] and legal compliance[26] in an expeditious manner. Based on the findings we recommend the following:

(1) The PCSAs contracting with Homes With A Heart should determine whether the findings set forth in this report constitutes 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.

(3) If the principals and key employees of the agency, formerly known as Homes With A Heart, apply for certification ODJFS should consider the significance of the findings set forth in this report in making their determination of whether the agency should be certified in the State of Ohio consistent with the provisions of Ohio Admin. Code Section 5101:2-5-07.

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

25 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 they may enforce against PCSAs, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability.

26 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.

## AGENCY INFORMATION

Homes With A Heart was a private noncustodial agency (PNA) that was incorporated on August 3, 1992 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Service Section 501 (c)(3). Homes With A Heart was licensed by ODJFS until November 12, 1999, to recommend foster homes for certification and place children in foster homes. When a county children service agency needs a home for a foster child, it can contact agencies such as Homes With A Heart to place the child. The group of foster family homes (private foster network) utilized by Homes With A Heart was placed into operation in 1992. During the Period, Homes With A Heart placed foster children primarily for LCCS. The Placement Agency also provided services to Summit County's children service agency during the Period.

In a letter to ODJFS, dated November 5, 1999 the president of Homes With A Heart stated that effective November 12, 1999, Homes With A Heart, Inc. would cease all operations and relinquish its certification and license (See issue 4-1).

Significant Related Party Transactions[31] with Individuals

Jo-Lynn White

Jo-Lynn White, the daughter of Gary Edwards, Sr. the Chief of Operations, was the Chief Office Administrator for Homes With A Heart. In addition Jo-Lynn and Michael T. White owned JAM Properties, Inc. of Toledo.

JAM Properties, Inc. of Toledo

JAM Properties, a corporation for profit was incorporated on January 1, 1999 and owned by Jo-Lynn and Michael T. White. The organization's purpose as listed in the articles of incorporation was to provide housing for low-income individuals and transitional housing for individuals coming out of the care of the county or court systems. Homes With A Heart made payments to JAM in 1999.

Rhonda Stoner

Rhonda Stoner, a former employee of Homes With A Heart was the sister of Robin Reece, Manager of Placements for LCCS. Homes With A Heart placed foster children almost exclusively for Lucas County Children Services.

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31 Per FASB Statement of Standards, Appendix B, related party transactions are transactions between principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

**HOMES WITH A HEART, INC.**
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

The following table shows statistical information about the agency for 1996 through 1998 taken from the ODHS 2910 Purchased Family Foster Care Cost Report and other documentation provided by the Placement Agency:

**Table I**
**Homes With A Heart**
**Foster Care Statistics**

| Characteristic | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| Daily Average Number of Children in Placement | 46 | 41 | 30 | 34 |
| Number of Active Licensed Foster Homes | 16 | 17 | 26 | 34 |
| Average Per Diem Rate | $40 | $45 | $45 | $42 |
| Number of PCSA's from Which Agency Receives Children | 2 | 2 | 2 | 2 |
| Required Training for Foster Caregiver Orientation** | | | | |
| Required Annual Training for Foster Caregiver** | | | | |
| Expenditures Reported per the Title IV-E [32] Purchased Family Foster Care Cost Report | $652,678 | $615,353 | $558,091 | - - |
| Characteristics of Children Placed by Agency** | | | | |

During the Period, Homes With A Heart's staff consisted of eight (8) employees including a chief of operations, administrative director, personal service director, chief office administrator, office manager, field staff, secretary, and receptionist to provide the needed counseling and case management services to the foster children and foster parents.

Homes With A Heart's revenues were comprised primarily of funds from Lucas County Children Services. The total revenues received by Homes With A Heart from Lucas County Children Services for foster care services during the Period of January 1, 1996 to October 31, 1999 was $1,782,085.

[32] Financial statements and cost reports were not prepared for 1999, therefore this information was not available.

** This information was not obtained, since family foster homes were not reviewed as part of our audit.

## HOMES WITH A HEART, INC.
## SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

The following table shows the sources of revenue per the general ledger for the calendar years 1996-1999 and the percentage of total revenue for each source.

**Table II**
**Homes With A Heart**
**Revenue by Source**

| | 1996 | Percent of Total Revenue | 1997 | Percent of Total Revenue | 1998 | Percent of Total Revenue | 1999 | Percent of Total Revenue |
|---|---|---|---|---|---|---|---|---|
| Lucas County | $635,828 | 95 | $560,004 | 97 | $399,249 | 80 | $187,004 | 64 |
| Summit County | 17,151 | 3 | 12,775 | 2 | 18,685 | 4 | 17,066 | 6 |
| Other Income[33] | 12,554 | 2 | 5,795 | 1 | 78,503 | 16 | 87,371 | 30 |
| Totals | $665,533 | 100% | $578,574 | 100% | $496,437 | 100% | $291,441 | 100% |

**Relevant Individuals**[34]

Gary A. Edwards, Sr.

Gary Edwards, Sr. served as Chief of Operations from the formation of Homes With A Heart until his resignation on August 5, 1999.

Abdul-Basir Ali Rhaim

Abdul-Basir Ali Rhaim resigned from the Board of Trustees on November 16, 1995 and was appointed as Administrative Director effective January 1, 1996. As the Administrative Director according to his job description he was responsible for all fiscal matters of the agency, and for insuring implementation of any and all board approved programs.

Agnes Fisher

Agnes Fisher was noted as one of the original trustees of Homes With A Heart in its articles of incorporation. Ms. Fisher stated she was not aware that she was noted as board member even though she had been asked to serve as one when the agency was started. In addition she stated she had a sister and niece who were employed by the agency.

33 Does not include any private sources of revenues.

34 Terms of Office for the Board of Trustees were not provided by the Placement Agency.

**HOMES WITH A HEART, INC.**
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Kevin Brown

Kevin Brown was President of the Board of Trustees for Homes With A Heart on November 12, 1999, the effective date the agency closed.

James Robinson

James Robinson was Vice President of the Board of Trustees for Homes With A Heart on November 12, 1999, the effective date the agency closed.

Michael Hayes

Michael Hayes was as a member of the Board of Trustees for Homes With A Heart on November 12, 1999, the effective date the agency closed. Mr. Hayes was also the former President of the Board of Trustees for Homes With A Heart.

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

**Objective:**

To determine whether the Placement Agency's expenditures complied with 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 The Placement Agency for each month during the Period. (See Issue 5 for the reconciliation of payroll disbursements).

2. We inspected the details of every canceled check returned by the bank during the Period including vendor, amount, authorizing signature and endorsement for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.

3. For selected disbursements which 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 The Placement Agency 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** | CHECK AND CREDIT CARD DISBURSEMENTS NOT ALLOWED OR WHICH LACKED SUPPORTING DOCUMENTATION |

**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.[35]

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." [36]

We inspected one thousand nine hundred and ninety-four (1,994) check expenditures totaling $2,028,546, occurring between January 1, 1996 through October 31, 1999. 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. The Placement Agency was unable to provide us with the requested supporting documentation for 421 disbursements totaling $393,338. Because the agency was unable to supply us with adequate documentation, of the type requested, these expenditures were in direct violation of OMB Circular A-122, Attachment A(2)(g).[37] These undocumented expenditures consisted of checks issued for cash, undocumented payments to board members and key employees.

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

[36] OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

[37] Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment A, Paragraph (A)(2)(g) states in pertinent part, "To be allowable under an award, costs must meet the following general criteria:...Be adequately documented."

In addition, in a meeting on December 15, 1999 with the Board President and Vice President we were informed that the wife of Gary Edwards, Sr. once worked at the Champion Credit Union. We reviewed checks written to cash and endorsed by Gary Edwards, Sr. totaling $74,133 of which $24,986 (14%) were cashed at the Champion Credit Union.

Additionally there were $2,064 in costs for non-sufficient fund fees which 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..." Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(6) states in pertinent part, " . . . any outlay of cash with no prospective benefit to the facility or program" are considered unallowable."

**Table III**
**Homes With A Heart**
**Questioned Costs**

| | |
|---|---|
| **Expenditures without adequate supporting documentation** | |
| **Checks Issued for Cash** | |
| Checks for cash endorsed by Abdul-Basir Ali Rahim - Administrative Director | $5,471 |
| Checks for cash endorsed by Cassandra Quinn - Personal Service Director | 7,342 |
| Checks for cash endorsed by Danyell Merriweather - Field Staff | 24,909 |
| Checks for cash endorsed by Gary Edwards - Chief of Operations | 74,133 |
| Checks for cash endorsed by Jannell Ector | 1,150 |
| Checks for cash endorsed by Jo-Lynn White - Chief Office Administrator | 3,192 |
| Checks for cash endorsed by Michele Hereford - Personal Service Staff | 5,725 |
| Checks for cash endorsed by Angela Rayford - Office Manager | 3,430 |
| Checks for cash endorsed by Lana Hinton - Secretary | 770 |
| Checks for cash endorsed by Michael Hayes - Board President | 474 |
| Checks for cash with no endorsement | 15,863 |
| | 142,459 |
| **Checks issued for Petty Cash** | |
| Checks for Petty Cash endorsed by Danyell Merriweather -Field Staff | 4,932 |
| Checks for Petty Cash endorsed by Gary Edwards - Chief of Operations | 6,802 |
| Checks for Petty Cash endorsed by Abdul-Basir Ali Rahim - Administrative Director | 340 |
| Checks for Petty Cash endorsed by Michelle Hereford - Personal Service Staff | 800 |
| Checks for Petty Cash endorsed by Jo-Lynn White - Chief Office Administrator | 1,000 |
| Checks for Petty Cash endorsed by Angela Rayford - Office Manager | 600 |
| Checks for Petty Cash endorsed by Kevin Brown - Board Vice-President | 200 |
| Checks for Petty Cash endorsed by Rinae Birchfield - Receptionist | 160 |
| Checks for Petty Cash with no endorsement | 30 |
| | 14,864 |
| **Undocumented Payments to Board Members/Key Employees** | |
| Undocumented payments made to Kevin Brown - Board Vice-President | 342 |
| Undocumented payments made to Jo-Lynn White - Chief Office Administrator | 1,100 |
| Undocumented payments made to Michael Hayes - Board President | 570 |
| Undocumented payments made to Abul-Basir Ali Rhaim - Administrative Director | 1,750 |
| Undocumented payments made to Danyelle Merriweather - Field Staff | 2,628 |
| Undocumented payments made to Cassandra Quinn - Personal Service Director | 1,341 |
| Undocumented payments made to Angela Rayford - Office Manager | 120 |
| | 7,851 |

## HOMES WITH A HEART, INC.
## SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

**Table III**
**Homes With A Heart**
**Questioned Costs**

| | |
|---|---|
| **Undocumented Payments made to foster parents** | 7,578 |
| **Undocumented Payments to Employees** | |
| Undocumented payments made to Rinae Birchfield - | 738 |
| Undocumented payments made to Carla Legree - | 650 |
| Undocumented payments made to Deena Matthews | 400 |
| Undocumented payments made to Rhonda Stoner | 1,134 |
| Undocumented payments made to Michele Hereford - Personal Service Staff | 1,000 |
| Undocumented payments made to Rene Washington | 100 |
| | 4,022 |
| **Undocumented Payments to Other Individuals** | |
| Undocumented payments made to Jessie Lumpkin | 1,920 |
| Undocumented payments made to Kenny Brown | 65 |
| Undocumented payments made to Lacretia Gaston | 270 |
| Undocumented payments made to Kim Phillips | 100 |
| Undocumented payments made to Laurance Edwards | 1,050 |
| Undocumented payments made Patsy Bolden | 19,200 |
| Undocumented payments made Michael White | 2,600 |
| Undocumented payments made Louis Jones | 1,050 |
| Undocumented payments made to Juanita Davis | 2,000 |
| Undocumented payments made to Louise Jones | 600 |
| Undocumented payments made to George Schlumbough | 1,400 |
| | 30,255 |
| **Undocumented Payments for Miscellaneous Items** | |
| Undocumented payments made to Ameritech | 1,283 |
| Undocumented payments made to Jam Properties | 1,300 |
| Undocumented payments made for baby-sitting | 260 |
| Undocumented payments made to Life of Virginia | 7,844 |
| Undocumented payments made for Bonus | 1,000 |
| Undocumented payments for maintenance | 524 |
| Undocumented payments for Mary Kay | 353 |
| Undocumented payments for gifts | 141 |
| Miscellaneous Undocumented | 14,183 |
| | 26,888 |
| **Checks issued - cancelled checks not available for Review** [38] | 159,421 |
| **Total Undocumented Expenditures** | $393,338 |

[38] We saw evidence that the checks cleared the bank, however the physical check and supporting documentation was not provided for review.

**Table III**
**Homes With A Heart**
**Questioned Costs**

| | |
|---|---|
| **Unallowed Expenditures** | |
| Non-Sufficient Fund Fees | 2,064 |
| **Total Questioned Costs** | $395,402 |

**Federal Questioned Costs: $395,402**

The reimbursement claims submitted on the ODHS 1925 "(Title IV-E) Monthly FCM Invoice" by PCSAs contracting with Homes With A Heart for foster care services included the $395,402 in expenditures detailed in Table III. Homes With A Heart was unable to provide documentation to adequately demonstrate the programmatic purposes of $393,338 of those expenditures as required by OMB Circular A-122, Attachment A, Paragraph A(2)(a) and (g), (A)(3)(a) through (c), and Ohio Admin. Code 5101:2-47-26(A)(6). The remaining $2,064 in expenditures were unallowable costs as a result of violating OMB Circular A-122, Attachment B, Paragraph 23(a), and Ohio Admin. Code Section 5101:2-47-26(A)(6). Homes With A Heart ceased operations effective November 12, 1999. The Placement Agency did not file the required ODHS 2910 Purchased Family Foster Care Cost Report for expenditures it made January 1, 1998 through November 12, 1999. Federal questioned costs totaled $395,402.

**Management Comment:**

The Lucas County Children Services (LCCS) should enter into contractual agreements with all agencies it uses to provide foster care services (see Issue 5-1). Furthermore it should require the agencies with which it contracts for placement services, to obtain and submit to LCCS an annual financial audit performed in accordance with government auditing standards. 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. LCCS should review these reports and follow up on any exceptions reported.

Furthermore, LCCS should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with Homes With A Heart and if so seek appropriate remedy. ODJFS should assist LCCS in seeking recovery of the misspent funds by providing administrative and technical support as needed. This report will be referred by the Auditor of State's Office to the Internal Revenue Service for its consideration.

| | |
|---|---|
| **ISSUE 1-2** | PAYMENTS TO OR ON BEHALF OF THE FOUNDER/ CHIEF OF OPERATIONS OF HOMES WITH A HEART AND FAILURE TO REPORT INCOME AND WITHHOLD FEDERAL TAXES |

**Results:**

Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 18 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."

Office of Management and Budget (OMB) Circular 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.[39] 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 . . . ” [40]

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 (2001). Employers are also required to report on an informational return (form 1099)for remuneration paid in excess of $600 per calendar year to independent contractors.[41]

The cost of an organization-furnished automobile that relates to personal use by employees (including transportation to and from work) is unallowable as a fringe benefit or as indirect costs regardless of whether the cost is reported as taxable income to the employees . . . [42]

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.

Finally, an organization is not considered tax-exempt for purposes of 26 U.S.C. 501(c)(3) if it is 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. [43]

Homes With A Heart made payments for a vehicle leased in the name of Gary Edwards, Sr. The Placement Agency was unable to provide us with documentation to allow us to determine the allocation between personal and business use of the vehicle.

On September 19, 1995 Gary Edwards, Sr. personally leased a new 1996 Ford Econoline van for which the Placement Agency made payments. The lease agreement noted the vehicle use as personal. During the Period we identified eleven (11) transactions totaling $9,754 paid to Ford Motor Corporation in conjunction with this lease. On September 21, 1998 a court order and notice of garnishment was filed against Gary Edwards, Sr. for default on the lease. Mr. Edwards incurred court costs associated with the lease in the amount of $374 which was also paid by the Placement Agency.

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39 OMB Circular A-122, Attachment A, Paragraph (A)(2)(a) and (g).

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

41 26 U.S.C. Section 6041(a); 26 C.F.R. Section 1.6041-1 (2001).

42 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.

43 26 C.F.R. Section 1.501(c)(3)-1(d)(1)(ii) (2001).

During our Review it came to our attention that Gary Edwards was paid $85,444 during the Period for which no supporting documentation was presented. Of this amount we identified six (6) transactions totaling $6,232 paid to Gary Edwards, Sr. which were noted as payment for vacations. The payment amounts ranged from $1,000 to $4,000 and were not consistent with normal payroll expenditures. We asked for supporting documentation for these expenditures such as W-2's, expense reports, time sheets to allow us to determine if these were allowable expenditures. Homes With A Heart was unable to provide us with the types of supporting documentation requested.

The Placement Agency failed to provide the documentation, such as: a invoices; time sheets; mileage statements, W-2's showing benefit as requested, therefore we are issuing questioned costs for the full amount.

**Federal Questioned Costs: $95,572**

The reimbursement claims submitted on the ODHS 1925 "(Title IV-E) Monthly FCM Invoice" by PCSAs contracting with Homes With A Heart for foster care services included the $95,572 in expenditures. The Placement Agency did not clearly demonstrate that the payment for the leased vehicle and the court cost associated with the vehicle, and payments to Gary Edwards, Sr. provided a benefit to the program or were necessary to the operation of the foster care program. Therefore, these expenditures were unreasonable and inadequately documented and were in violation of OMB Circular A-122 Attachment A, Paragraph A, (2)(a) and (g), (3)(a) through (c), OMB Circular A-122 Attachment B Paragraph 7(g) and 18, and could raise issues of private inurement as defined in 26 C.F.R. §1.501(c)(3)-1(d)(1)(ii)(2001), 26 C.F. R. Section 1.6041-2(2001). Homes With A Heart ceased operations effective November 12, 1999. The Placement Agency did not file the required ODHS 2910 Purchased Family Foster Care Cost Report for expenditures it made January 1, 1998 through November 12, 1999. The total federal questioned costs totaled $95,572.

**Management Comment:**

Furthermore, LCCS should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with Homes With A Heart and if so seek appropriate remedy. ODJFS should assist LCCS in seeking recovery of the misspent funds by providing administrative and technical support as needed. This report will be referred by the Auditor of State's Office to the Internal Revenue Service for its consideration.

| **ISSUE 1-3** | INTEREST FREE LOAN |
|---|---|

**Results:**

OMB Circular A-122 "Cost Principles of Non-Profit Organizations," Attachment A, Paragraph A (3)(a)-(c) states " . . . 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 . . . "

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]

Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(6) states that " . . . any outlay of cash with no prospective benefit to the facility or program" is considered unallowable.

We noted Homes With A Heart made an interest-free loan to LaMaree A. Miller (relationship to the agency was unknown). Mr. Miller attempted to repay the loan, however the check was returned due to non-sufficient funds. No other attempts were made to collect the loan and it was still outstanding on November 12, 1999 when the agency ceased operations.

**Federal Questioned Costs: $2,000**

The reimbursement claims submitted on the ODHS 1925 "(Title IV-E) Monthly FCM Invoice" by PCSAs contracting with Homes With A Heart for foster care services included the $2,000 in expenditures. Homes With A Heart did not clearly demonstrate that the interest free loan provided a benefit to the program or was necessary to the operation of the foster care program. Therefore, this expenditure was in violation of OMB Circular A-122 Attachment A, Paragraph A (2)(a) and (g) and (3)(a) through (c), and Ohio Admin. Code Section 5101:2-47-26(A)(6) and is considered a questioned cost. Homes With A Heart ceased operations effective November 12, 1999. The Placement Agency did not file the required ODHS 2910 Purchased Family Foster Care Cost Report for expenditures it made January 1, 1998 through November 12, 1999. Federal questioned costs totaled $2,000.

**Management Comment:**

Furthermore, LCCS should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with Homes With A Heart and if so seek appropriate remedy. ODJFS should assist LCCS in seeking recovery of the misspent funds by providing administrative and technical support as needed.

| **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 Placement Agency 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 the Placement Agency 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 obtained documentation from the Lucas County Auditor to determine the completeness of receipts received and deposited for fees for services.

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

4. We tested a sample of 10% of the monthly billings by the Placement Agency to LCCS 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 the Placement Agency received as program service fees from various counties and investment income. The Placement did not receive medicaid payments during the Period. We obtained documentation from LCCS to determine the completeness of the receipts to The Placement Agency.

Furthermore, we determined that all LCCS disbursements to The Placement Agency 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 The Placement Agency were used in accordance with the Social Security Act.

2. To determine whether The Placement Agency'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 Lucas County Children Services (LCCS) the ODJFS Title IV-E Disbursement Journals detailing the federal reimbursement to Lucas County Children Services for the months of January 1998 to October 1999 for foster care services. We also obtained from the Lucas County Auditor a vendor payment history report for the Placement Agency for the same period and traced these payments to the invoices submitted by The Placement Agency.

2. We selected a representative sample of children identified by LCCS as Title IV-E eligible children being serviced by the Placement Agency. Federal maintenance payments for these children totaled $66,164 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 the Placement Agency from LCCS to the corresponding Placement Agency 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 contracts of per diem agreements between the Placement Agency 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 Placement Agency and LCCS and between the Placement Agency and the foster caregivers.

9. We compared the Placement Agency's per diem paid to the foster parents with the corresponding per diem it received from LCCS 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 |

**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.[27]

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[28] made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments[29] made and 50% for administrative costs[30] incurred under the Title IV-E program.

We selected a sample of 110 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and LCCS submitted $100,199 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 $82,901 and received $48,610 at the 58% FFP reimbursement rate, however the Placement Agency only made maintenance payments to foster parents totaling $42,023. The remaining $40,878 was retained by The Placement Agency and used for administrative costs or other purposes.

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27 42 U.S.C. Section 675 (4)(A)

28 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.

29 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.

30 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.

The table below documents the amount of federal questioned costs 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) | $48,610 |
| Required PCSA Match for Federal Financial Participation | 34,291 |
| Total Title IV-E Maintenance Claimed by ODJFS | 82,901 |
| Amount Paid by PNA to Foster Parents for Maintenance | (42,023) |
| Overstatement of Maintenance Claim | $40,878 |

**Projected Questioned Costs:**

We specifically identified $40,878 of maintenance overclaimed in our sample. In order to evaluate the potential effect caused by these systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned costs.

We used the ratio approach, as illustrated below:

| | | |
|---|---|---|
| Dollar Amount of Error: / Dollar Amount of Sample | $40,878/82,901 | 49.31% |
| Dollar Amount of Population | | X $772,150 |
| Projected Overstatement of Maintenance Funding | | $380,747 |
| Projected Overstatement of Maintenance Claim (58% reimbursement rate x $380,747) | | $220,833 |
| Allowable Administrative Reimbursement Claim (50% reimbursement rate x $380,747) | | ($190,374) |
| Overpayment of Maintenance Claim | | $30,459 |

**Federal Questioned Costs: $30,459**

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 costs claimed for federal reimbursement were not received by the foster parents and was overstated by $40,878, and when extended to the population using the ratio approach resulted in questioned costs of $30,459.

ODJFS should take the federal questioned costs over reported to the County and recompute 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.[31]

[31] 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).

**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.[32] 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.[33]

| | |
|---|---|
| **ISSUE 3-2** | RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE |

**Results:**

We tested the payments from Lucas County Children Services (LCCS) to The Placement Agency for a sample of 112 foster children. The payments to the Placement Agency for this sample totaled $100,199.[34] We noted that the Placement Agency received the correct per diem rates.

The foster parents in the sample received $42,023, and we noted that these foster parents received the correct per diem rates. Of the $100,199 received from LCCS by the Placement Agency the foster parents received $42,023 or 42% of the total funds paid to the Placement Agency by LCCS. The remaining $58,179 or 58% was retained by Homes With A Heart 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** | PER DIEM AGREEMENTS AND AMENDMENTS TO 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 did not update its 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).

No agreements existed between the Placement Agency and the foster parents. The foster parents were given a policy manual which outlined the procedures for payment and were required to sign stating that they had read the material. A payment request form was submitted to the agency once a month stating the number of days the child was in the foster parent(s) care.

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32 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.

33 ODJFS repaid HHS $3,324,425 on May 25, 2000 to settle a statewide finding resulting from the systematic misclassification of cost. Final resolution of this issue will be made after the completion of the 25 foster care audits being performed by the Auditor of State.

34 Out of the 112 foster children tested, the invoices for 20 or 18% of the foster children tested could not be located.

The lack of an effective system of contracting and contract monitoring impairs the agency's ability to manage costs and to ensure that it receives the level and quality of services needed and allows for inconsistencies in the per diem rate authorized to the actual per diem amounts paid to foster parent(s).

| **ISSUE 4** | TEST OF INTERNAL CONTROLS |
|---|---|

**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.

4. We contacted ODJFS concerning the closing of the Placement Agency.

5. We obtained and reviewed documents received from ODJFS relating to the closure of the Placement Agency.

| **ISSUE 4-1** | INDICATORS OF FISCAL INSOLVENCY |
|---|---|

**Results:**

Ohio Admin. Code Section 5101:2-5-07 (A) allows ODJFS[35] to revoke an agency's certificate or to deny an application for a certificate for any of the following reasons:

(1) "An agency has failed to comply with any applicable requirement of Chapter 5101:2-5 of the Administrative Code or any requirement of any other applicable chapter of the Administrative Code relevant to the intended or certified functions of the agency. (Emphasis added)

(2) An agency has failed to comply with an approved corrective action plan for previously cited areas of noncompliance.

(3) An agency is found to have furnished or made misleading or false statements or reports to the Ohio Department of Human Services (ODHS) in order to obtain initial certification or recertification.

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

(4) An agency refuses or fails to submit reports requested by ODHS within required timeframes.

(5) An agency has refused to admit onto its premises any person performing duties required by Chapter 5101:2-5 of the Administrative Code or other applicable chapters of the Administrative Code relevant to the intended or authorized functions of the agency, state, or federal law or regulations or municipal ordinance."

Dating back as far as 1996 Homes With A Heart may have displayed indicators that fiscal mismanagement and fiscal irresponsibility could ultimately lead to the agency's fiscal insolvency.

The following events occurred prior to the voluntary surrender of its license:

1. ODJFS had issued the agency a temporary license in 1994, 1996, 1998 and 1999.

2. ODJFS and LCCS received complaints from the foster parents of being paid late.

3. The agency failed to file an audit with an opinion for the year ended December 31, 1996 within the required timeframe for its recertification. ODJFS granted two extensions. ODJFS received the qualified audit report for December 31, 1996 and 1997 on October 5, 1998.

4. The qualified audit report disclosed numerous internal control weaknesses such as insufficient documentation of petty cash/loan expenditures of $57,563 and $23,822 in 1996 and 1997 respectively, deficits of $16,309 and $32,988 in 1995 and 1997 respectively; and questioned the agency's ability to continue operation.

   In addition, the audit report noted a IRS investigation of the payments to subcontractors for years 1995 through 1998. Individuals who were incorrectly classified as sub-contractors were paid $100,096 and $40,672 in 1996 and 1997 respectively.

5. The board of trustee did not review or acknowledge the qualified audit report in a timely manner. ODJFS requested on October 7, 1998, December 16, 1998 and on February 5, 1999 that the board acknowledge reviewing the report. The Board of Trustees responded on April 21, 1999.

6. In a Notice of Levy dated May 12, 1999 Lucas County Children Services was directed by the Internal Revenue Service (IRS ) to pay $32,094 directly to the IRS. According to the management at LCCS the foster parents would be paid and the balance due to Homes With A Heart would be forwarded to the IRS until the unpaid taxes were paid in full.

7. ODJFS issued the agency a temporary license in 1999 due to fiscal difficulties that were disclosed in the most recent audit; the resignation of the agency's administrator; and the board noncompliance with requests made by ODJFS to acknowledge its review of the agency's independent auditor's report for December 31, 1996 and 1997.

8. On June 16, 1999 LCCS sent the agency a 10 day notice of its intent to remove children from Homes With A Heart family foster homes beginning July 14, 1999.

9. After August 31, 1999 no children remained in the care of Homes With A Heart. Many of the children remained in the same family foster homes because the family foster homes transferred to LCCS or other foster care agencies.

10. At a time when Homes With A Heart was in jeopardy of fiscal insolvency and revocation of its license, it sent a letter requesting the voluntary surrender of its license to ODJFS. The letter notified ODJFS that it would cease operations effective November 12, 1999.

Upon inquiry with the Ohio Secretary of State, we found that the Kevin Brown and James Robinson incorporated five other companies. Ambassadors N & B, Inc., Homes With A Heart, LTD, Homes With Hope, LTD, and Beacon of Light, LTD were all incorporated on November 8, 1999 as adult living facilities. Thrust Forth Ministries, Inc. was incorporated on December 14, 1999 to provide temporary feeding shelters, clothing, and counseling of unwed pregnant teenagers. We made inquiries with ODJFS and the Ohio Department of Mental Retard/Developmental Disabilities internal audit department to determine whether these organizations received funding. As of March 29, 2002 no funding has been provided from either Department.

**Management Comment:**

ODJFS should establish policies and procedures to ensure timely intervention and assessment when it receives indications of fiscal insolvency and/or fiscal irresponsibility on the part of a PCPA/PNA. There should be a closeout audit conducted in a timely manner of the PCPA/PNA that voluntarily surrenders its license or has it revoked. This closeout audit should resolve any questioned costs or contract violations. If the nonprofit PCPA/PNA is dissolving as a nonprofit organization the Charitable Laws Section of the Attorney General's office should be notified to possibly monitor and ensure the proper disposition of the net assets of the organization.

| **ISSUE 4-2** | AUDIT COMMITTEE |
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**Results:**

An 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 Placement Agency did not have an audit committee. A well functioning audit committee better ensures the independence and objectivity of the independent public accountant in addition to making sure the Board of Trustees are aware of significant deficiencies in internal control and noncompliance with laws and regulations.

| **ISSUE 4-3** | ACCOUNTING POLICES AND PROCEDURES |
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**Results:**

Adequately designed accounting policies and procedures enhance the reliability of the Placement Agency financial reports. The Placement Agency was unable to produce written accounting policies or procedures.

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

| **ISSUE 4-4** | FINANCIAL STATEMENTS |
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**Results:**

Furthermore, 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,[36] and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report.

The Placement Agency did not prepare financial statements for 1998 or 1999 and the Board of Trustees did not review the 1995 and 1996 written audit reports as required by Ohio Admin. Code Section 5101-2-5-08 (A)(5) in a timely manner. Furthermore, annual audits were not performed nor were cost reports submitted to ODJFS in the required timeframes.

| **ISSUE 4-5** | 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, 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 it was noted that Gary Edwards, Sr., former Chief of Operations, authorized and approved all agency expenditures, prepared and signed all checks without board review or approval. Two signatures were required on checks, however, the board president signed blank checks, because Board only met annually. Gary Edwards, Sr. and Michael Hayes were the check signers until June 1999, at which time Kevin Brown and James Robinson took over as check signers.

Also, the former Chief of Operations prepared deposit slips. Supporting documentation (receipts, invoices, etc.) was not always retained and checks were written and held when funds were not sufficient to cover the check. See Issues 1-1- and 1-2 for federal questioned costs of $80,935 and $95,572 respectively involving Mr. Gary Edwards, Sr.

Failure to ensure that controls are in place segregating duties and establishing oversight authority increases the risk of errors, omissions and misrepresentations occurring and not being detected.

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36 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.

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| **ISSUE 4-6** | 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.

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.

**Management Comment:**

ODJFS in cooperation with the Charitable Law section of the Attorney General's office should develop guidelines to monitor the distribution of the net assets for nonprofit PCPA/PNAs that cease operations and/or dissolve their corporations to ensure distribution of those net assets are made in accordance with state and federal laws and regulations.

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| **ISSUE 4-7** | LACK OF BOARD OF TRUSTEES MONITORING OF THE BUDGET AND OTHER OVERSIGHT RESPONSIBILITIES |

**Results:**

The Board of Trustees should provide effective oversight over all significant financial and operational transactions as part of their duties as the governing board of the entity. This practice will better ensure that the Placement Agency adheres to acceptable financial and business practices in compliance with program requirements.

Ohio Admin. Code Section 5101:2-5-08 (A), states in pertinent part, "A PCPA or PNA shall have an identifiable governing body responsible for establishing policies and assuring the effectiveness and efficiency of the PCPA or PNA in achieving its purposes. The duties of the governing body shall include, but are not limited to the following: ...

(1) Annually evaluating the performance of the agency's administrator in writing . . .

(2) Reviewing, approving and monitoring a written annual budget for the PCPA or PNA Such budget shall ensure funding to provide services relevant to all certified functions and detail anticipated income and expenditures."

(3) Authorizing, reviewing and submitting to ODJFS one of the following: ...
(b) A written annual audit with an opinion of the PCPA or PNA finances prepared by an independent certified or registered public accountant when the agency's annual gross income is three hundred thousand dollars or more.

(4) Conducting an annual review of written policies of the PCPA or PNA relevant to the agency's certified functions. "[37]

Budgeting and general administration is an essential element of the financial planning, control, and evaluation process of the agency. Failure to monitor the budget and the performance of other oversight administrative reviews could impair the governing body's ability to properly allocate resources as needed and manage costs and ensure that the Agency adheres to acceptable business practices in compliance with program requirements.

In our testing, we found that the board failed to perform the following duties:

(1) evaluate the performance of the administrator in writing,

(2) review, approve and/or monitor the budget, and loans made to related parties of the executive director,

(3) review the annual audits and respond to reportable conditions for 1997 and 1998, and

(4) annually review written policies of the agency.

In a meeting with auditors on December 15, 1999 the board's president and vice president stated because the board only met annually they never reviewed the expenditures, were not aware that checks were used out of numerical sequence and were made payable to cash; that monthly bank reconciliations had not been performed; and that checks had been written and signed but not mailed out to the payee. In addition the board was not aware of a salary schedule for employees, not sure if the agency owned or leased a van and believed certain payments made were to repay a loan made to Homes With A Heart by an individual.

The lack of ongoing monitoring and annual reviews could result in an Agency's operations not achieving the goals and objectives of the Agency.

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| **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 The Placement Agency 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 The Placement Agency was accurate and completed in accordance with ODJFS regulations.

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[37] The cited provisions appear as amended effective 7-1-00 but were substantially the same during the Period, except that Subsection (5) did not require that the annual written audit be submitted to ODHS. Subsection (6) required that the agency "develop an annual review" of agency policies.

**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 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** | CONTRACT AGREEMENTS |
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**Results:**

During the Period the Ohio Administrative Code required 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.[38] 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.

The LCCS did not enter into a purchase of service agreement with the Placement Agency, although individual childcare agreements for each child were executed.[39]

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.

| **ISSUE 5-2** | TITLE IV-E PURCHASED FAMILY FOSTER CARE COST REPORT |
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**Results:**

Four hundred ninety-two thousand nine hundred seventy-four dollars ($492,974) classified as federal questioned costs 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. Homes With A Heart ceased operations effective November 12, 1999. The Placement Agency did not file the required ODHS 2910 Purchased Family Foster Care Cost Report for expenditures it made January 1, 1998 through November 12, 1999.

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[38] Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8-1-02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12-1-01.

[39] Ohio Admin. Code Section 5101:2-42-91(A).

ODJFS must determine the amount of over reporting by Homes With A Heart and re-compute the Title IV-E per diem reimbursement rate that should have been paid to Homes With A Heart during the Period and reimburse HHS, ODJFS, or the PCSA for any over reimbursement resulting from overstated costs.[40] Failure to properly classify program costs could result in 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:**

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews[41] of all cost reports.[42] Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

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40 Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, the substance of this section was found at Ohio Admin. Code Section 5101:2-47-03(H).

41 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.

42 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.

**HOMES WITH A HEART, INC.**
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**SUMMARY OF FEDERAL QUESTIONED COSTS**

**JANUARY 1, 1996 - OCTOBER 31, 1999**

| QUESTIONED COSTS | ISSUE NUMBER | PAGE NUMBER | AMOUNT |
|---|---|---|---|
| Cash Expenditures by Check without Documentation | 1-1 | 13 | $393,338 |
| Unallowed Expenditures | 1-1 | 13 | 2,064 |
| Payments To or On Behalf of the Founder/ Chief of Operations of Homes With A Heart and Failure to Report Income and Withhold Federal Taxes | 1-2 | 16 | 95,572 |
| Interest Free Loan | 1-3 | 18 | 2,000 |
| Systemic Overpayment of Title IV-E Maintenance Reimbursement[43] | 3-1 | 21 | 30,459 |
| **TOTAL FEDERAL QUESTIONED COST** | | | **$523,433** |

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

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

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P.O. Box 1140
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# HOMES WITH A HEART, INC

# LUCAS 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**
**AUGUST 12, 2002**