LIFEWAY FOR YOUTH, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

LIFEWAY FOR YOUTH, INC.
REPORT ON AGREED-UPON PROCEDURES

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

NAME	TITLE	TERM
	BOARD OF TRUSTEES	
H. Anthony Stephens	President	June 1993 - Present
Michael Berner	Chairman of the Board	June 1993 - Present
Brenda Berner	Secretary/Treasurer	June 1993 - Present
Elizabeth Hanrahan	Board Member	June 1993 - Present
Doug Radel	Board Member	February 1998 - January 1999
Don Parrett	Board Member	February 1998 - January 1999
	ADMINISTRATIVE PERSONNEL	
Michael Berner	Executive Director	January 1993 - Present
Brenda Berner	Assistant Director	January 1993 - Present

<u>Agency Address</u>

Lifeway for Youth, Inc.
85 Quick Road
New Carlisle, Ohio 45344

STATE OF OHIO
OFFICE OF THE AUDITOR

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Independent Accountants' Report

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

Dear Director Hayes:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family 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 Lifeway for Youth, Inc. (Lifeway or Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and Montgomery County Children Services Agency (MCCSA).

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 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 Lifeway 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 MCCSA to determine the ratio of payments for administration and maintenance.

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.

[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 performed procedures to confirm internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Admin. Code Chapter 5101:2.

On March 5, 2002 we held a post audit conference with the following:

Name	Office/Position
Michael Berner	Lifeway for Youth, Inc., Executive Director
Brenda Berner	Lifeway for Youth, Inc., Assistant Executive Director
Carolyn Edwards	Auditor of State, Auditor in Charge
Gregory Kelly	Auditor of State, Asst. Chief Deputy Auditor

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

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

JIM PETRO
Auditor of State

July 6, 2001

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 fourteenth report released of the 25 reports to be issued.

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

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

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

Public Children Services Agency Contractual Requirements

Public Children Services Agencies (PCSAs) are authorized to enter into contracts with a private child placing agency (PCPA) or a private noncustodial agency (PNA) to provide care and services which it deems to be in the best interest of any child who needs or is likely to need public care and services.[5] PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster homes for certification; accept temporary, permanent and legal custody of children; and place children for foster care or adoption. MCCSA, a PCSA, did not enter into such an agreement with Lifeway for Youth, Inc., a PNA (see Issue 5-1, Purchase of service agreement).

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

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

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

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

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 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 . . . "[9]

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 administrative costs do not include the costs of social services provided to the child, the child's family or foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.[11]

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[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 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).

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

[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).

[10] 42 U.S.C. Section 675(4)(A).

[11] 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.

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*.

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 . . . "[12]

Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, establishes an audit requirement for federal funds (including Title IV-E funds) administered by state and local governments and non-profit entities, and authorizes auditors to question unallowed costs which appear to have resulted from a violation of law, regulation or other agreement governing the use of such funds, costs which are not supported by adequate documentation, or appear unreasonable.[13]

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

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the Office of Management and Budget (OMB) Circulars A-87 and A-122."[14] Specifically, ODJFS considers certain costs to be unallowable for purposes of calculating the rate at which foster care maintenance costs can be reimbursed with federal Title IV-E funds including, but not limited to, contributions, donations, or any outlay of cash with no prospective benefit to the facility or program; entertainment costs for amusements, social activities, and related costs for staff only; and costs of activities prohibited under section 501(c)(3) of the Internal Revenue Code.[15]

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

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

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[12] 26 U.S.C. Section 501(c)(3).

[13] Pursuant to her rulemaking authority under the Single Audit Act, 31 U.S.C. Section 7505, the Secretary of the Department of Health and Human Services has promulgated a regulation which provides that state and local governments, as well as recipients and subrecipients that are non-profit organizations, are subject to the audit requirements contained in the Single Audit Act, 31 U.S.C. Sections 7501 et seq., and OMB Circular A-133. See 45 C.F.R. Section 74.26(b) and (a) (2001), respectively.

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

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

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[16] made to the PCPAs or PNAs.

In 1998, the FFP was 58% for maintenance payments[17] made and 50% for administrative costs[18] 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 the Lifeway 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.

OMB Circular A-133 defines questioned costs as follows:

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

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

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

(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances." [19]

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

17 45 C.F.R. Section 1356.60(a)(2) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

18 45 C.F.R. Section1356.60(c) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

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

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

We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with Lifeway join together to ensure Lifeway develops and implements a corrective action plan that will result in fiscal accountability[20] and legal compliance[21] in an expeditious manner. Based on the findings we recommend the following:

(1) The PCSAs purchasing services from Lifeway 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.

AGENCY INFORMATION

Lifeway for Youth, Inc. is a private non-custodial agency (PNA) that was incorporated on March 14, 1994 as a not-for-profit corporation 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.[23] Lifeway is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3) and is licensed by the 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 Lifeway to place the child. The group of foster family homes (private foster network) utilized by the Placement Agency has been in place since 1994. Lifeway places foster children primarily for MCCSA. During the Period Lifeway provided services to Allen, Augulaize, Butler, Clark, Clinton, Clermont, Darke, Delaware, Fairfield, Fayette, Greene, Logan, Madison, Miami, Montgomery, and Shelby County children services agencies.

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

[21] 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.

[23] Lifeway December 1998 and 1997 audited financial statements, note 1.

Related Party Transactions [24] with Affiliated Organizations

Lifeway was involved in a series of significant related party transactions during the Period with Grace Fellowship Church, and its Executive Director, Michael Berner. Lifeway's assistant executive director, one board member and numerous staff member also held key positions within the church.

Grace Fellowship Church (the Church) was founded in 1984 by Michael and Brenda Berner. Initially Church services were held in the Berner's home but after a few months, services were moved to 1124 Harrison Street in Springfield. In 1998 the Church entered into an agreement with Lifeway to rent space at 85 and 125 Quick Road, New Carlisle. During the Period, the Church had numerous financial transactions with Lifeway which included both renting to and renting from the Church.

As Pastor of the Church it was common for Mr. Berner to enter into contractual agreements on behalf of the Grace Fellowship Church, this would include transactions with Lifeway. Mr. Berner would either sign agreements as Pastor/Bd. Chairman of the Church or as Executive Director/Chairman for Lifeway.

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
Lifeway for Youth, Inc.
Foster Care Statistics

Characteristic	Statistic
Daily Average Number of Children in Placement	116
Number of Active Licensed Foster Homes	128
Average Per Diem Rate	$60
Number of PCSA from Which Agency Receives Children	16
Required Training for Foster Caregiver Orientation	12 Hours
Required Annual Training for Foster Caregiver	12-24 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Reports	$2,072,554
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

24 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.

During the Period, Lifeway's foster care staff consisted of 23 people who provided direct foster care services, including a director, assistant director, group home director, case management director, administrative support, case management, a receptionist, and maintenance to provide the needed counseling and case management services to the foster children and foster parents.

Lifeway's revenues were comprised primarily of funds from Montgomery County Children Services. The total revenue received from Montgomery County Children Services for foster care services during the Period of January 1, 1998 to December 31, 1998 was $1,365,639.

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
Lifeway for Youth, Inc.
Revenue by Source

	1998	Percent of Total Revenue
Public Funding Sources		
Montgomery County	1,365,639	51
Clark County	353,147	13
Miami County	258,576	10
All other Counties/Governmental Agencies	534,450	20
Boys Home Revenue	143,897	5
Girls Home Revenue	39,625	1
Interest Income	295	0
Totals	$2,695,629	100%

Relevant Individuals

<u>Michael Berner</u>

Michael Berner and his wife, Brenda Berner, co-founded Lifeway for Youth, Inc. In 1998, Mr. Berner served as the Executive Director and Board Chairman of Lifeway. On March 25, 1998, the board authorized Mr. Berner to enter into agreements on behalf of Lifeway. The Berners also co-founded the Grace Fellowship Church (the Church). Michael Berner served as Pastor/Chairman of the Board for the Church and, as Chairman, was responsible for entering into contract agreements on behalf of the Church.

LIFEWAY FOR YOUTH, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

<u>Brenda Berner</u>

Brenda Berner co-founded Lifeway with her husband Michael Berner who served as the Executive Director. In 1998 Ms. Berner served as Secretary/Treasurer of Lifeway and on March 25, 1998, the board authorized Ms. Berner, along with her husband, to enter into agreements on behalf of the agency. During this period, Ms. Berner was also the Secretary/Treasurer of the Church.

<u>Andrea Berner</u>

Andrea Berner is the daughter of Michael and Brenda Berner. In 1998 she worked as a caseworker for Lifeway.

<u>Elizabeth Hanrahan</u>

Elizabeth Hanrahan is a board member for both Lifeway and the Church. She is the sister-in-law to Michael Berner. Paul Hanrahan, her husband, who is also Michael Berner's brother, became a board member of Lifeway in 1999.

<u>Grace Fellowship Church</u>

Grace Fellowship Church (the "Church") was founded in 1984 by Michael and Brenda Berner. Initially Church services were held in the Berner's home but after a few months, services were moved to 1124 Harrison Street in Springfield. In 1998 the Church entered into an agreement with Lifeway to rent space at 85 and 125 Quick Road, New Carlisle. During the Period, the Church had numerous financial transactions with Lifeway.

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 Lifeway 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 Lifeway 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 at 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.[25]

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." [26]

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

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

We inspected one hundred fifty (150) check disbursements totaling $177,675 in charges. We requested supporting documentation for these disbursements such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Lifeway was unable to provide us with supporting documentation for forty-one (41) disbursements totaling $2,892. For these forty-one transactions, Lifeway provided us with canceled checks but no invoices, receipts or other documentation to support these expenditures.

We inspected two-hundred forty (240) credit card expenditures totaling $21,493 in charges. We requested supporting documentation for these expenditures such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Lifeway was unable to provide us with supporting documentation for ten (10) transactions totaling $9,670.

Additionally, expenditures totaling $3,210 were not allowable direct services or administrative costs under OMB Circular A-122. These improper expenditures consisted of donations, flowers, cigarettes, diet pills and other personal expenditures for staff, finance fees, and over-the-limit penalties. They were as follows:

1. Three transactions for the purchase of cigarettes, diet pills, and flowers for staff in the amount of $154 were deemed unallowable and in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees". Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(7)[27] states that " the costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities" are unallowable when completing the ODHS 2910 Purchased Family Foster Care Cost Report.

2. Three transaction for uninsured dental work in the amount of $2,180 was deemed unallowable and in violation of OMB Circular A-122, Paragraph 17(f)(2) states: Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see subparagraph h), and the like, are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in manner consistent with pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities."

3. Six credit card transactions totaling $48 for finance charges and late fees and were in violation of OMB Circular A-122, Attachment B, Paragraph 23(a)(1), which states in pertinent part: "Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable..." The agency's reporting of these expenditures on its ODHS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(9), which generally disallows the reporting of "costs incurred for interest on borrowed capital . . . "[28]

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

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

4. Three check disbursements totaling $828 for donations. These donations were to the Safely Home School program, an agency directors' memorial fund, and Grace Fellowship Church for summer camp. These donations were unallowable under OMB Circular A-122, Attachment B, Paragraph 9 which states, "Contributions and donations by the organization to others are unallowable."

Table III
Lifeway for Youth, Inc.
Questioned Expenditures

Check and Credit Card Disbursements Not Authorized or Which Lacked Supporting Documentation	
Check Disbursements	
Furniture	$792
Advances to foster parents	200
Clothing reimbursement	656
Other expenditures	1,244
Total Undocumented Check Disbursements	2,892
Credit Card Disbursements	
Office equipment and supplies	4,489
Grocery expenditures	3,494
Auto Repair	38
Other expenditures	1,649
Total Undocumented Credit Card Expense	9,670
Total Undocumented Expenditures	12,562
Unallowable Expenditures[29]	
Cigarettes, diet pills	92
Flowers	62
Uninsured employee dental work	2,180
Fees and penalties	48
Donations	828
Total Unallowed Expenditures	3,210
Total Questioned Costs	$ 15,772

Federal Questioned Costs: $15,772

Due to unallowed and inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program, Lifeway was in violation

29 Ohio Admin. Code Section 5101:2-47-26(A)(6)

OMB Circular A-122[30] in the amount of $12,562. Lifeway was also in violation of Ohio Admin. Code Section 5101:2-47-26 (A)(7)[31] and (9), and OMB Circular A-122 Attachment B, Paragraphs 9, 16, 17(f)(2), 18, and 23(a)(1) with respect to the unallowed expenditures in the amount of $3,210. The amount of federal questioned costs totaled $15,772.

Management Comment

The Montgomery County Children Services Agency should enter into contractual agreements with all agencies providing it's foster care services (see Issue 5-1). Furthermore it should require the agencies for which it contracts for placement services, to obtain and submit to MCCSA an annual financial audit performed in accordance with government auditing standards.[32] 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. MCCSA should review these reports and follow up on any exceptions reported.

ISSUE 1-2	TUITION REIMBURSEMENT

Results:

Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 53(b) states in pertinent part, "Cost of part-time education, at an undergraduate or post-graduate college level, including that provided at the organization's own facilities, are allowable only when the course or degree pursued is relative to the field in which the employee is now working or may reasonably be expected to work, and are limited to: (1) Training materials; (2) Textbooks; (3) Fees charges by the educational institution . . . "

Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 53(c) states in pertinent part, "Cost of tuition, fees, training materials, and textbooks (but not subsistence, salary, or any other emoluments) in connection with full-time education, including that provided at the organization's own facilities, at a post-graduate (but not an undergraduate) college level, are allowable only when the course or degree pursed is related to the field in which the employee is not working or may reasonable be expected to work . . . "

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.[33]

OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." In addition, the Ohio Administrative Code provides that when completing ODJFS cost reports, "(c)ontributions, donations, <u>or any outlay of cash</u> with no prospective benefit to the facility or

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

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

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

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

program" are considered unallowable. (Emphasis added)[34]

Lifeway paid for classes taken by employees, in the form of either an employee reimbursement or a direct payment to various colleges. We requested supporting documentation for the classes taken such as receipts, invoices, transcripts, course schedules, grades, fee schedules, authorization by the board, and verification that the courses were job related.

During our Review the following transactions were noted:

- Lifeway paid $10,541 in employee tuition reimbursements for Andrea Berner, daughter of Michael and Brenda Berner, to attend college. Adequate supporting documentation, as described above, was not provided. The documentation provided consisted of the following:

  Three monthly statements for the payment amount of $4,633 was presented, however, it did not indicate courses taken and included unallowed expenditures. Undocumented expenditures for this invoice totaled $3,675 for tuition and allowable fees. Unallowed expenditures totaled $958 for the payment of a cafeteria meal plan, telecommunications, parking, student yearbook, breakage, health and intramural sports fees which are a violation of Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 53(b) and (c).

  An invoice was submitted that showed a previous balance of $4,788, no supporting documentation was presented.

  A statement was presented for payment for winter classes in the amount of $666 (the full bill was $960 and a $294 grant was applied towards this amount) for which no documentation was presented. The statement did not indicate courses taken and included unallowed expenditures. Undocumented expenditures totaled $666. Unallowed expenditures were for a parking fine, late payment and interest charges in the amount of $61.

  Based on the information listed above Lifeway was in violation of OMB Circular A-122, Attachment B, Paragraph 18, 53(b) and (c). Undocumented expenditures totaled $9,129 and unallowed expenditures totaled $1,019. Total quested cost $10,148.

- Lifeway paid $1,500 for Brenda Berner, Assistant Executive Director, for tuition for courses taken from April 1998 through April 2001. Included in this amount was $600 for courses which allowed her to receive life credits toward a degree in Religious Arts/Christian Counseling for classes which did not require attendance. Credit was obtained for life experience in courses such as Ministry of Helps, Introduction to Christian Education, and Evangelism which were not job related. Lifeway was in violation of OMB Circular A-122, Attachment B, Paragraph 18 and Ohio Admin. Code provides that when completing ODJFS cost reports, "(c)ontributions, donations, <u>or any outlay of cash</u> with no prospective benefit to the facility or program" are considered unallowable. (Emphasis added)[35] Unallowed tuition costs totaled $600.

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[34] Ohio Admin. Code Section 5101:2-47-26(A)(6).

[35] Ohio Admin. Code Section 5101:2-47-26(A)(6).

Federal Questioned Costs: $10,748

Due to unallowed and inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program, Lifeway was in violation OMB Circular A-122, Attachment A, Paragraph (A)(2)(a) and (g) in the amount of $9,1,29 Lifeway was also in violation of Ohio Admin. Code Section 5101:2-47-26 (A)(6) and OMB Circular A-122, Attachment B, Paragraph 53(b) and (c), OMB Circular A-122 Attachment B, Paragraph 9 with respect to the unallowed expenditures in the amount of $1,619. The amount of federal questioned costs totaled $10,748.

Management Comment

We recommend that Lifeway revise its policy on tuition reimbursement. The policy should detail what type of classes will be reimbursed, who qualifies and what documents must be submitted for reimbursement. Furthermore, management of Lifeway should periodically monitor for continuous compliance with the policy and procedures requirement.

ISSUE 1-3	CONTRIBUTIONS/DONATIONS

Results:

OMB Circular A-122, Attachment B, Paragraph 9 which states, "Contributions and donations by the organization to others are unallowable." In addition, the Ohio Administrative Code provides that when completing ODJFS cost reports, "(c)ontributions, donations, <u>or any outlay of cash</u> with no prospective benefit to the facility or program" are considered unallowable. (Emphasis added)[36]

Lifeway donated $9,000 in 1997 for Michael Berner, acting in official capacity as Pastor of Grace Fellowship Church, to go to Peru. Per Mr. Berner, this was a joint venture with several other faith-based organizations in helping transport and distribute 1500 pounds of donated clothing and medication to poverty-stricken children and families in the Amazon region of Peru. Lifeway partnered with Grace Fellowship Church in the project. There was no evidence of board approval.

Federal Questioned Cost: $9,000

Expenditures in the amount of $9,000, were reported on the cost report and charged against the foster care program, in violation OMB Circular A-122 B(9) and Ohio Admin. Code Section 5101:2-47-26(A)(6). In addition these expenditures were in violation of Ohio Admin. Code 5101:2-5-08 (G) and (H).

Management Comment

Lifeway's Board of Trustees should develop policies and procedures to ensure compliance with OMB Circular A-122 B(9) and Ohio Admin. Code Section 5101:2-47-26(A)(6). At a minimum, this guidance should include oversight over spending, and all activities for which the Ohio Administrative Code requires board approval.

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[36] Ohio Admin. Code Section 5101:2-47-26(A)(6).

ISSUE 1-4	IMPROPER REPORTING OF WAGES ON THE COST REPORT

Results:

Ohio Admin. Code Section 5101:2-47-25(J)[37] "Salaries" include all remuneration, paid currently or accrued, for services rendered during the period of the cost report or budget . . . The costs of such compensation are allowable to the extent that the compensation is reasonable for the services rendered and is supported by documented payroll vouchers or a generally accepted method of documentation. 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 center will be supported by appropriate time distribution record. The method used should produce an equitable distribution of time and effort. Compensation for owners is allowable provided the service performed is a necessary function.

Lifeway operated two separate group homes during the period. Separate cost reports were required for each group home, with employees salaries allocated based on the time worked for each program.

During the period the director, assistant director, and maintenance all worked for both programs and their salaries were to be allocated equally. However, we noted that one hundred percent (100%) of the their salaries were reported on both group home program Title IV-E cost reports. The total overstated dollar amount was $25,223.

Federal Questioned Cost: $25,223

Due to the overstatement of salary costs reported on the cost report and charged against the foster care program, Lifeway was in violation of Ohio Admin. Code Section 5101:2-47-25(J) in the amount of $25,223 which could adversely affect the title IV-E rate setting process. 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 that Lifeway establish accounting policies and procedures that ensure program costs for wages are equitably and accurately allocated to the correct programs. Allocation should be supported by appropriate time distribution records. Management should periodically monitor for continuous compliance.

ISSUE 1-5	BOARD OVERSIGHT FOR RELATED PARTY TRANSACTIONS

Results:

Ohio Admin. Code Section 5101:2-5-08(G) states in pertinent part: "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,

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

unless the services or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA."

Ohio Admin. Code Section 5101:2-5-08(H) states, "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.

Michael and Brenda Berner were the founders and board members of Grace Fellowship. Mr. Berner was the Pastor and his wife maintained the books for the Church.

On March 25, 1998, the Board authorized the Executive Director and the Assistant Director, Michael Berner and Brenda Berner respectfully, to enter into agreements on behalf of Lifeway without prior Board approval. This was in violation of Ohio Admin. Code Section 5101:2-5-08 (H). Through this authority, Michael Berner was eminently involved in both sides of the related party transactions between the Church and Lifeway. Furthermore, these transactions involved matters in which he had a direct or indirect financial interest or business or personal relationship. The dealings between the Church and Lifeway occurred without adequate overviews or monitoring by Lifeway's board. Which meant that Mr. Berner voted on or participated in the decision making process with respect to matters and issues in which he could benefit financially or materially.

We identified related party transactions for which Lifeway did not provide documentation of Board approval or documentation to support its procedures for determining whether the goods or services were purchased at a competitive cost or under terms favorable to the agency.

During the Period the following transactions occurred without board approval:

- 1997 Grace Fellowship Church rented a room to Lifeway for training at $100 per month. Total rent paid in 1997 was $3,500 and $1,300 in 1998. Michael Berner signed the contract agreement as the Executive Director/Chairman of the Board for Lifeway

- November 26, 1998 Lifeway entered into a contract agreement with Grace Fellowship Church to lease the use of the auditorium and classrooms located at 85 and 125 Quick Road (Lifeway is located at 85 Quick Road) for $425 per month. Michael Berner signed the contract as the Pastor/Bd. Chairman for Grace Fellowship Church.

- Lifeway bought a 1991 Ford van on June 1, 1998 for $6,000 from Michael Berner, no supporting documentation was submitted. It was subsequently traded in for a new van in 1999. No documentation was provided to show the transaction was competitive or favorable to the agency nor was it board approved.

- Lifeway rented a home, which it used as a group home, from the Berners'. The monthly rent was $1,300 monthly. Lifeway paid a total of $15,600 for the Period.

- Additionally, Lifeway bought dining room furniture for $1,000 from Michael Berner. No supporting documentation was submitted to show the transaction was competitive or favorable to the agency or was board approved.

Failure to document related party transactions in the minutes of the Board of Trustees and to obtain and maintain competitive bids or quotes for these services, which demonstrate the costs were favorable and competitive could give the appearance of improprieties on behalf of both agencies.

Management Comments

Lifeway's Board of Trustees should develop policies and procedures to ensure related party transactions are in compliance with Ohio Admin. Code Sections 5101:2-5-08(G) and 5101:2-5-08(H) and thereby maximize the use of agency resources to benefit foster children. At a minimum, this guidance should include all activities for which the Ohio Administrative Code requires board approval. In such transactions, the facts supporting compliance with the Ohio Administrative Code and Board approval for these goods or services should be documented in the Board minutes.

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 Lifeway 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 Lifeway 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 Montgomery County Auditor to determine the completeness of receipts received and deposited for fees for services.

4. 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.

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 Lifeway received as program service fees from various counties, grants and gifts, employee lease reimbursement 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 MCCSA. Furthermore, we determined that all MCCSA disbursements to Lifeway 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 Lifeway were used in accordance with the Social Security Act.

2. To determine whether Lifeway'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 MCCSA the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to MCCSA 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 Lifeway for the same period and traced these payments to the invoices submitted by Lifeway

2. We selected a representative sample of children identified by MCCSA as Title IV-E eligible children being serviced by Lifeway. Federal maintenance payments for these children totaled $40,132 for 31% of the sample.

3. We found the child's name on the appropriate month's ODHS Title IV-E Disbursement Journal. We documented the amount of federal maintenance reimbursement that would have been paid for each child.

4. We compared payments received by Lifeway from MCCSA to the corresponding Lifeway 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 or per diem agreements between Lifeway 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 Lifeway and MCCSA and between Lifeway and foster caregivers.

9. We compared Lifeway'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	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.[38]

[38] 42 U.S.C. Section 675 (4)(A)

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[39] made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments[40] made and 50% for administrative costs[41] incurred under the Title IV-E program.

We selected a sample of 51 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and MCCSA submitted $85,128 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 $69,193 and received $40,132 at the 58% FFP reimbursement rate, however the Placement Agency made maintenance payments to foster parents totaling $44,590. The remaining $24,603 was retained by Lifeway and used for administrative costs or other purposes.

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)	$40,132
Required PCSA Match for Federal Financial Participation	29,061
Required PCSA Match for Federal Financial Participation	69,193
Total Title IV-E Maintenance Claimed by ODJFS	44,590
Overstatement of Maintenance Claim	$24,603

Projected Questioned Costs:

We specifically identified $24,603 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.

39 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.

40 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.

41 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.

We used the ratio approach, as illustrated below:

Dollar Amount of Error: Dollar Amount of Sample	$24,603/$69,193	35.56 %
Dollar Amount of Population		X $1,329,040
Projected Overstatement of Maintenance Costs		$472,603
Projected Overstatement of Maintenance Claimed (58% reimbursement rate x $472,603)		$274,110
Allowable Administration Reimbursement (50% reimbursement rate x $472,603)		$236,302
Projected overstatement of Maintenance Claim		$37,808

Federal Questioned Cost: $37,808

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 $24,603, and when extended to the population using the ratio approach resulted in questioned costs of $37,808.

ODJFS should take the Federal Questioned Cost over reported to the County 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.[42]

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.[43] 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.

Auditee's Response

We are challenging the validity of the Total Federal Questioned Cost. The overpayment of Title IV-E Maintenance Reimbursement amount of $37,808 represents systemic disorganization and is not a Lifeway issue. It should therefore not be an issue of questioned cost on the report.

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[42] 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).

[43] 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.

ISSUE 3-2	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE

Results:

We tested the payments from MCCSA to Lifeway for a sample of 82 foster children. The payments to the Placement Agency for this sample totaled $131,073. We noted that the Placement Agency received the correct per diem rates.

The foster parents in the sample received $69,167, and we noted that these foster parents received the correct per diem rates. Of the $131,073 received from MCCSA by the Placement Agency the foster parents received $69,167 or 53% of the total funds paid to the Placement Agency by MCCSA. The remaining 61,906 or 47% was retained by Lifeway 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	MANAGING CHANGES TO RATES AND PER DIEM AGREEMENTS

Results:

The Placement Agency should ensure the proper authorization and timely updating of per diem agreements between the Placement Agency and the foster caregiver whenever a level of care change occurs.

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 Lifeway 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 Lifeway or the individual foster parent. During our testing, it appeared that foster parents received one rate for the care of a child for the entire duration of the child's placement, when in fact there were several rate changes during the Period.

Management Comment

Amendments or new per diem agreements with foster parents should be completed for each subsequent rate change. This procedure would provide greater assurance to both the Placement Agency and the foster parents that current and properly authorized rates are used when making payments. Management should periodically monitor these procedures to ensure per diem agreements are updated in a timely manner.

ISSUE 3-4	PLACEMENT DATES

Accurate accounting for the dates a child enters and exits the care of a PCPA/PNA is necessary to ensure the child is continuously maintained in a safe environment, to provide documentary evidence in the event of litigation, and to calculate payments due to the PCPA/PNA

We compared 82 placement dates recorded by MCCSA and the PCPA/PNA and found 56 dates where the records did not agree.

Inaccurate or inconsistent dates documenting placement in the care of PCPA/PNAs could result in inappropriate administrative decisions and incorrect payments to the PCPA/PNAs.

Furthermore, the risk that under/over payments could occur and be undetected increases significantly with the lack of integration of information and potentially incomplete or inaccurate information obtained from MICRO-FACSIS.

Management Comment

ODJFS should make the necessary programming changes to FACSIS that would ensure the integrity of data needed by the PCPA/PNA's to manage the foster care program.

We also recommend a system be developed and implemented that would integrate all placement information into a complete, accurate, and easily accessible database. MCCSA and the PCPA/PNAs should review the process of recording the date children enter and exit the PCPA/PNA to find the most effective and efficient process.

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 read the Board of Trustees' minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.

2. We completed a review of internal controls, and identified weaknesses that existed in the accounting cycle.

3. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

ISSUE 4-1	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.

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

Management Comment

We recommend that Lifeway 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 in 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, Brenda Berner, Assistant Director and Secretary/Treasurer of Lifeway, exercised near complete control of the cash receipts and disbursements cycles.

If controls are not in place and working properly, the risk of errors, omissions, and misrepresentations may occur in the financial records of the agency without being detected. Furthermore, the risk for potential fraud and embezzlement occurring without being detected increases with the absence of supervisory or overview controls.

Management Comment

We recommend that Lifeway segregate transaction authorization, cash handling and accounting activities in order to eliminate conflicting duties being assigned to one person. This will improve the effectiveness of the internal control. Furthermore, we recommend that any check payable to the Executive Director or authorized signers, be authorized/approved or reviewed by the board.

ISSUE 4-3	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 which is defined as, "any alternative care provided for a child placed in a specialized foster home that lasts more than twenty-four consecutive hours when the plan is to return the child to the same specialized foster home at the end of the period of respite care."[44]

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.

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

- The placement of a child in the care of a person who has not been adequately screened,
- Abuse or misuse of respite,
- Inadequate or incomplete information collected and placed in the foster parent(s) files regarding the child's placement,
- Inconsistency in granting and use of respite,
- Duplication or errors in payments, e.g., payment to wrong foster parent(s) or payment for an incorrect number of days in placement.

[44] Ohio Admin. Code Section 5101:2-1-01(A)

Management Comment

ODJFS should establish minimum guidelines to be used by Placement Agencies to make and document decisions about respite care that would minimize a foster child's exposure to risk. Those rules should set forth minimum standards to ensure the safety and well being of the children placed in respite care.

ISSUE 4-4	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. The Placement Agency calculated their own fixed asset balances and related depreciation expense and accumulated depreciation reported in the financial statements.

The lack of a written fixed asset policy could lead to the unauthorized acquisition, use or disposition of fixed assets and material financial statement misstatements.

The Placement Agency was not aware of the benefits of having a fixed asset policy.

Management Comment:

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

1. The types of fixed asset records to maintain, such as a detailed listing of plant, property and equipment or a current professional appraisal of assets. The list should include beginning balances, additions, deletions (including gains or losses on sales), transfers, ending balances and depreciation expense and accumulated depreciation (where applicable).

2. Categories of fixed assets include land, land improvements, buildings and structures, machinery, equipment, furniture, tools, donated assets and leasehold and leasehold improvements.

3. Basis for valuing assets at either the cost or estimated historical cost and capitalization thresholds which establishes the criteria for when expenditures should be capitalized excluding repairs and maintenance.

4. Depreciation and amortization method, such as straight line over the useful lives of the assets and salvage values, procedures for the depreciation of additions and retirements, and the accounting for fully depreciated assets.

5. Annual fixed asset inventory by visually comparing the asset and the information on the detailed fixed asset listing.

6. Authorized use of its assets, such as a log noting date, person, purpose and location for the use of the asset.

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

ISSUE 4-5	SAFEGUARDING OF THE ASSETS

Results:

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

During the Period we noted that Lifeway did not have a policy for the safeguarding and accountability of assets . It was also noted that all of the agency's credit cards were issued in the name of the Executive Director. Monthly statements were mailed directly to the Director's home address.

The agency's credit card was used in error for the purchase of airline tickets for the Executive Director and his wife (this was paid by the Berner's)

Failure to adequately secure and account for agency assets and company credit cards exposes the Agency to the risk that theft or unauthorized and unallowable expenditures could occur and go undetected.

Management Comment

We recommend that Lifeway develop a policy for the safeguarding and accountability of its assets. Development and communication of this policy would reduce the risk of theft of agency assets and unauthorized or unallowable expenditures. The policy should require that agency assets be maintained in a secure environment and regularly inventoried.

ISSUE 4-6	BOARD INDEPENDENCE

Results:

Board members must maintain independence in order to ensure proper oversight of the agency's operations. To be independent, individuals should not be involved in the management of the entity, have a vested interest in the entity, and should not be related to individuals with a vested interest in the entity.

- Three members of the Board of Directors are closely related.
  - Michael Berner, Chairman of the Board/Executive Director, is married to Brenda Berner.
  - Elizabeth Hanrahan, Board Member, is married to Michael Berner's brother.
  - Brenda Berner, Secretary/Treasurer and Assistant Director, is Michael Berner's wife.
- The remaining board members are all members of Grace Fellowship Church where Michael Berner is the pastor.
- Michael and Brenda Berner make the financial decisions for the agency without board approval.
- Michael signs all contracts entered into on behalf of the agency, with the exception of the ones where he was the seller or representative of the related agency.

Lack of independence could lead to the domination of the board of directors by a small group, in this case the executive director and his wife, and increase the risk of decisions being made which could benefit them financially or materially.

Management Comment

Lifeway should limit the representation of non-independent individuals on its board of directors and seek independent outside board members. The board of directors could include professionals knowledgeable in the area of foster care and a cross section of business professions in the community.

ISSUE 4-7	BOARD MONITORING

Results:

The board should set the goals and objectives of the agency, and should monitor all financial and operational transactions, as part of their duties, to ensure that they are met. The goals and objectives should be in accordance with Ohio Admin. Code section 5101:2-5-08(A) which states, “The 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: Subsection (A)(6) provides: “Developing an annual review of written policies of the PCPA or PNA relevant to the agency’s certified functions.”

Furthermore, 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.

During the Period, the following activities took place without evidence of board approval:

- Foster parent rates and per diem rate schedules were established.
- Loans/Advances were given to employees and/or foster parents where no written agreement was entered. Repayment did not occur for two transactions (see Issue 1-1)
- Donation of $9,000 to Grace Fellowship Church, where acting in his official capacity as Pastor, for Mr. Berner to go to Peru (see Issue 1-3)
- Lifeway rented property from the Berner’s (see Issue 1-3)
- Payments was made for items purchased with out adequate supporting documentation (see Issue 1-1)

The following activities were not monitored:

- Repayment of loans (one loan was not repaid)
- Budgetary activity throughout the year

Failure to approve and monitor outlays of cash, could result in expenditures which provide no prospective benefit to the facility or programs.

Management Comments

We recommend that the Board of Trustees provide guidance to management on the types of financial, administrative, and policy decisions which require board approval. At a minimum, this guidance should include all activities for which the Ohio Administrative Code requires board approval. We further recommend that Lifeway pursue and collect balances on outstanding loans and eliminate the practice of granting loans and advances. The Board should periodically monitor for compliance with board policies.

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 Lifeway 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 Lifeway was accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We read the Board of Trustees minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.

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	PURCHASE OF SERVICE AGREEMENTS FOR FOSTER CARE AND PLACEMENT SERVICES

Results:

The Ohio Administrative Code requires public children services agencies to 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.[45] In addition, sound business practices and public policy dictate that contracts between parties stipulate issues of fiscal accountability, compliance, and record retention.

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[45] Ohio Admin. Code Section 5101:2-33-18(A)

Lifeway did not enter into a purchase of service agreement with MCCSA. Individual childcare agreements for each child were executed.

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 all PCSA's using the services of private agencies that effectively sets forth all applicable compliance requirements, fiscal accountability standards, and allowable costs.[46]

ISSUE 5-2	FBI CRIMINAL RECORDS CHECKS FOR PROSPECTIVE FOSTER PARENTS WITHOUT FIVE-YEARS PROOF OF RESIDENCY

Results:

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

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

Seven of ten family foster home files reviewed did not contain verification that (1) the foster parents recommended for licensing had resided in Ohio for the five-year period immediately prior to the date of the application or that (2) within that five-year period, BCII had requested information about the persons from the FBI in a criminal records check.

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

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

Management Comment

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

ISSUE 5-3	APPROVAL OF FOSTER PARENT PRIOR TO RECEIVING BCII CHECK

Results:

Ohio Admin. Code Section 5101:2-5-20(C)(6) provides, “An agency shall not approve a prospective foster caregiver on a conditional basis awaiting the results of the criminal records check required by paragraph (L) of rule 5101:2-7-02 of the Administrative Code. The required criminal records check must be completed prior to the agency recommending a prospective foster caregiver for certification.”

In one out of ten foster home application files reviewed the agency recommended the foster parent for certification prior to receiving the BCII records check.

If the agency approves a family foster home prior to the receipt of a BCII record check, unsuitable applicants may be allowed to care for foster children. Such foster parents could cause undue emotional or physical harm to foster children in their care.

Management Comment:

We recommend that Lifeway and ODJFS design and implement a system of controls over the licensing process that ensures that applicants are not recommended for initial certification prior to the agency receiving a BCII check. This will ensure that applicants who are not suitable to become foster parents do not cause undue emotional or physical harm to foster children.

ISSUE 5-4	SUFFICIENT INCOME REQUIREMENTS TO MEET THE BASIC NEEDS

Results:

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

In addition, Ohio Admin. Code Section 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.”

Our Review found that Lifeway did not document, in the family foster home folders, the steps taken to ensure the information on the family foster home application submitted was complete and accurate, nor did Lifeway document the applicant’s income was sufficient to meet the basic needs of the household in one out of the ten foster home files reviewed. In addition, foster parent income and employment was not documented in the family foster home folders as verified in one out of ten family foster home applications files reviewed.

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

Management Comment:

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

ISSUE 5-5	CHILD PLACEMENT LOGS

Results:

Ohio Administrative Code 5101:2-5-29(C) states that "An agency shall maintain in each family foster home records 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 from the family foster home; and
5) The new location of the child."

Two of ten foster home files did not contain the date of birth for a foster child.

Failure to properly document the new location of the child could result in inaccurate information such as:

- the dates the child was in the home,
- duplicate payments,
- the number times the child was placed in a particular home, and
- could affect agency tracking system.

Management Comments

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	CHANGE OF ADDRESS

Results:

Ohio Admin. Code Section 5101:2-5-30(A) states: "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."

An agency shall submit an ODHS 1317 "Recommendation for Certification/Recertification of a Family Foster Home" to ODHS to recommend any change which would cause a change on the face of the certificate. Such recommendation shall be made within thirty calendar days of the agency's receipt of notification.[47]

One out of ten of the foster home files reviewed revealed that the PCPA failed to document in the case file when the foster caregiver notified them of the change in address. There was no documentation that the change was evaluated to determine if the couple was still capable of providing continued care for foster children as required by code.

Failure to accurately reflect changes in the addresses of the family foster home could result in errors in shipments of checks, and duplicate licensing for the same location.

Management Comment:

The Lifeway should develop policies and procedures to assure the agency is notified of a change of address, occupancy, martial status and any other changes within the household in a timely manner, and that this information is documented in the foster caregiver case file, evaluated and submitted to ODHS within the required timeframe. We further recommend that the agency establish a system of monitoring controls to ensure continuous compliance.

ISSUE 5-7	TRAINING REQUIREMENTS

Results:

During the Period, Ohio Admin. Code Section 5101:2-5-33(B)(2) required that PNAs provide "not less than twelve hours of ongoing annual training" to foster care providers.[48]

Six out of ten foster family homes files reviewed revealed that the ongoing training requirement was not met. The agency did contact these individuals about their non-compliance. However, the foster parents continued to be in non-compliance. As a result placement to these foster parents ceased.

The rules were established to ensure that only eligible persons obtain and maintain licenses to keep foster children. Failure to abide by training requirements renders the foster parent ineligible to keep foster children.

Failure to ensure that foster care providers obtain the required training hours increases the risk that the agency will license foster caregivers who have not maintained the minimum eligibility requirements to be foster parents.

Management Comment:

Lifeway should adopt policies and procedures which would enable the agency to:

- track the ongoing training requirements of the foster parents in a timely manner,
- impose remedies for noncompliance, and
- monitor controls in place.

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[47] Ohio Admin. Code Section 5101:2-5-30(C)

[48] This rule was amended effective 9-1-00 to require 24 hours of ongoing training during each certification period.

This would ensure compliance with Ohio Admin. Code Section 5101:2-5-33(B)(2).

ISSUE 5-8	TITLE IV-E COST REPORT

Results:

$60,743 detailed as federal questioned costs in Issue 1-1 through 1-4 of this report, was charged against the foster care program, and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

ODJFS must determine the amount of over reporting by Lifeway and recompute the Title IV-E per diem reimbursement rate that should have been paid to Lifeway 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

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews[50] of all cost reports.[51] Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

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49 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).

50 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.

51 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.

LIFEWAY FOR YOUTH, INC.
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
Expenditures by Check without Documentation	1-1	11	$2,892
Credit Card Expenditures without Documentation	1-1	11	9,670
Unallowable Expenditures	1-1	11	3,210
Unallowed Tuition Reimbursement	1-2	14	10,748
Contributions/Donations	1-3	16	9,000
Duplicate Reporting of Wages on the Cost Report	1-4	17	25,223
ODJFS Systemic Overpayment of Title IV-E Maintenance[52]	3-1	20	37,808
TOTAL FEDERAL QUESTIONED COST			**$98,551**

52 This Federal Questioned Cost resulted from the overstatement by ODJFS of maintenance claimed by county agencies, see Issue 3-1.

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

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LIFEWAY FOR YOUTH, INC.

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 15, 2002