CHILD PROTECTIVE SERVICES

SHOEMAKER'S CHRISTIAN HOMES

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

SHOEMAKER'S CHRISTIAN HOMES
REPORT ON AGREED-UPON PROCEDURES

TABLE OF CONTENTS

PAGE LEFT BLANK INTENTIONALLY

SHOEMAKER'S CHRISTIAN HOMES
REPORT ON AGREED-UPON PROCEDURES

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

NAME	TITLE	TERM EXPIRATION
	BOARD OF TRUSTEES	
Brenda Graham	Board Chairperson	January, 1998 - March 2000
Layton Shoemaker	Vice Chairman	July 1997 - March 2000
Jennifer King-Cooper	Secretary/Treasurer	September 1996 - March 2000
Franklin Shoemaker	Member	June 1996 - March 2000
Tonya A. Sharrett-Shoemaker	Member	June 1996 - March 2000
James Graham	Member	June 1996 - March 2000
Gerald Koster	Chaplain	June 1996 - March 2000
Jerry Feulmer	Member	January 1998 - April 1998
Carlos Graham	Member	June 1998 - March 2000
Patricia Shoemaker	Member	June 1998 - March 2000
Pat Sharrett	Member	June 1998 - March 2000
	ADMINISTRATIVE PERSONNEL	
Franklin E. Shoemaker	President & CEO	June 1996 - March 2000
Terry Jones	Vice President of Program Services	April 98 - March 2000
James E. Graham	Chief Financial Officer	April 98 - March 2000

Agency Address:

Shoemaker's Christian Homes
135 North Street, Suite B
Washington Courthouse, Ohio 43160

PAGE LEFT BLANK INTENTIONALLY

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

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

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 Shoemaker's Christian Homes (Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA). The applicable laws and regulations are described in the attached *Supplement to Report on Agreed-upon Procedures* under *Legal Authority.*

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

1. We performed procedures to determine whether the Placement Agency complied with the terms and conditions of its contractual agreements and provisions of applicable laws and regulations for expenditures during the Period.

2. We scanned all receipts and deposits from the applicable public children services agencies to Shoemaker's Christian Homes for the Period to determine whether receipts were properly deposited and recorded in the accounting records of the Placement Agency.

3. We compared the Placement Agency's per diem paid to the foster parents with the corresponding per diem it received from Montgomery County Children Services Agency (MCCSA) to determine the ratio of payments for administration and maintenance.

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

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

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

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

January 23, 2002

BACKGROUND INFORMATION

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform investigations utilizing certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months. This is the sixteenth 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 administer funds provided under Title IV-E of the Social Security Act in accordance with the rules adopted by the state Department of Human Services.[4]

Public Children Services Agency Contractual Requirements

Public Children Services Agencies (PCSA) are authorized to enter into contracts with a private child placement agency (PCPA) or 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. Montgomery County Children Service Agency (MCCSA), a PCSA, did not enter into such a comprehensive contract with Shoemaker Christian Homes, a PNA, but does contract with Shoemaker Christian Homes on a per child basis (see Issue 5-1).

---

[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).

Billing Process

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

Reports and Records

Not-for-profit PCPAs and PNAs that provide foster care services for children eligible under the Title IV-E program are required to submit cost reports annually to ODJFS.[7] Costs reported are used to determine a maximum allowable reimbursement rate under the Title IV-E program for foster care maintenance payments and administrative costs. ODJFS requires that the governing body of the PCPA or PNA authorize and review an annual audit with an opinion of the organization's finances by an independent certified or registered public accountant[8] and asks that a copy of the last completed audit be submitted with the annual cost report. 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]

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*.

---

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.

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)(1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

In addition, because the PCPAs and PNAs enjoy federal tax-exempt status, they are directly precluded from assigning any part of their net earnings to the benefit of any private shareholder or individual...[12]

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

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

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the Office of Management and Budget (OMB) Circulars A-87 and A-122."[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 written disclosure, in the minutes of the board, of any financial transaction of the PCPA or PNA in which a member of the board or his/her immediate family is involved."

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

---

[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) (1999), respectively.

[14] Prior to 5/1/98, applicable cost guidelines were contained at 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

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 and 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

In addition to the Ohio Administrative Code and the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations* formed the criteria to which we referred during our testing to determine if the expenditures at Shoemaker's Christian Homes were necessary in the performance of the IV-E program.

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]

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

---

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

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

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 cost among the entities that provided the funding.

We recommend that as part of the resolution of our findings ODJFS and the PCSAs that should be contracting with Shoemaker's Christian Homes (see Issue 5-1) join together to ensure the placement agency develops and implements a corrective action plan, that will result in fiscal accountability[20] and legal compliance[21] in an expeditious manner. Based on our findings we recommend the following:

(1) PCSAs who contracted with Shoemaker's Christian Homes during the Period 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 PCSAs who contracted with Shoemaker's Christian Homes during the Period in seeking recovery of misspent funds by providing administrative and technical support as needed.

(3) ODJFS should take appropriate measures to ensure that the principles and key employees of Shoemaker's Christian Homes are not allowed to pursue recertification for a period of no less than two years as provided in Ohio Admin. Code Section 5101:2-5-07(E).

(4) If the principals and key employees of the agency, formerly known as Shoemaker's Christian Homes, apply for certification after the mandatory waiting period of two years ODJFS should consider the significance of the findings set forth in this report in making their determination of whether the agency should be certified in the State of Ohio.

AGENCY INFORMATION

Shoemaker's Christian Homes was a private noncustodial agency (PNA), originally incorporated on June 1, 1996 as a nonprofit organization exempt from federal income tax under Internal Revenue Code Section 501 (c)(3). Shoemaker's Christian Homes was licensed by ODJFS to recommend families to become foster families and place children in foster homes. When a county children service agency needed a home for a foster child, it could have contacted agencies such as Shoemaker's Christian Homes to place the child. The group of family foster homes (private foster network) utilized by Shoemaker's Christian Homes had been in place since 1997. Shoemaker's Christian Homes places foster children primarily for MCCSA. Shoemaker's provided services to Ross and Franklin county children services agencies' and the Ohio Department of Youth Services during the period. In addition, to providing foster care services in Ohio the agency also had operations located in Kentucky and Florida. Finally, Shoemaker's Christian Homes certification to act as a representative of ODHS in recommending family foster homes for certification and to participate in the placement of children in family foster homes was revoked as of July 17, 2000 (see Issue 4-1).

---

[20] ODJFS has proposed Rule 5101:2-33-19, Penalties for Failure to Comply with Fiscal Accountability Procedures, sets forth the penalties that ODJFS may enforce against PCSAs, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability. The proposed effective date is August 9, 2001.

[21] ODJFS has proposed Rule 5101:2-47-231, Title IV-E Agency Contracting and Contract Monitoring Requirements, which sets forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services. The proposed effective date is August 9, 2001.

SHOEMAKER'S CHRISTIAN HOMES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

The following table shows statistical information about the agency for 1998:

Table I
Shoemaker's Christian Homes
Foster Care Statistics

Characteristic	Statistic
Daily Average Number of Children in Placement	48
Number of Active Licensed Foster Homes	48
Average Per Diem Rate	$50
Number of PCSA from Which Agency Receives Children	12
Required Training for Foster Caregiver Orientation	24 hours
Required Annual Training for Foster Caregiver	15 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	$1,282,529
Characteristics of Children Placed by Agency	Special to Intensive level of care

During the Period, Shoemaker's Christian Homes staff consisted of 14 employees, that provided foster care services, including, an executive director, office manager, secretaries, and social workers to provide the needed counseling and case management services to the foster children and foster parents.

Shoemaker's revenues are comprised primarily of funds from Montgomery County Children Services. The total revenue received by Shoemaker's from MCCSA for foster care services during the Period of January 1, 1998 to December 31, 1998 was $782,269.

During the Period of this engagement, the Montgomery County Children Services Agency was undergoing a separate financial audit conducted by the Auditor of State. We selected MCCSA' records for testing in Issues 2 and 3, because records were accessible and it was both cost and time efficient to do so.

SHOEMAKER'S CHRISTIAN HOMES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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

Table II
Shoemaker's Christian Homes
Revenue by Source

	1998	Percent of Total Revenue
Adams County	$ 62,425	5
Brown County	2,800	1
Franklin County	90,934	7
Gallia County	18,607	1
Jefferson County	18,376	1
Montgomery County	782,269	56
Pike County	19,292	1
Ross County	113,836	8
Scioto County	23,629	2
Ohio Department of Youth Services	82,260	6
Juvenile Court	57,701	4
Department of Human Services	75,347	5
FCF Management	24,454	2
Commonwealth of KY	7,266	1
Other Miscellaneous revenues	18,468	1
Totals	$1,397,124	100%

Relevant Individuals

Franklin E. Shoemaker

Franklin E. Shoemaker was a co-founder of Shoemaker's Christian Homes. He served as President and CEO of Shoemaker's since its inception in 1996. Mr. Shoemaker also served as a Board member of Shoemaker's.

Tonya A. Sharret-Shoemaker

Tonya Sharret-Shoemaker was also a co-founder of Shoemaker's Christian Homes. Mrs. Sharret-Shoemaker served as Vice President/Agency Operations. She also served as a Board member of Shoemaker's. Mrs. Sharret-Shoemaker is the wife of Franklin Shoemaker.

Layton Shoemaker

Layton Shoemaker was the Office Manager of Shoemaker's in Washington Court House and also served as a Board member. He was voted Vice-Chairman in 1998. Layton is the father of Franklin Shoemaker.

Patricia Shoemaker

Patricia Shoemaker was a Receptionist at Shoemaker's in Washington Court House and also served as a Board member. Mrs. Shoemaker was Layton Shoemaker's wife and Franklin Shoemaker's mother.

Tom and Pat Sharret

Tom and Pat Sharret served as Board members at Shoemaker's. Tom Sharret is related to Tonya Sharrett-Shoemaker.

Nicol, Brian and Chris Shoemaker

Nicol, Brian and Chris Shoemaker are children of Franklin and Tonya Shoemaker. They were not employees of Shoemaker's but airline tickets were purchased for them by Shoemaker's during 1998.

James Graham

James Graham was the CFO and a Board member of Shoemaker's. His wife was the Board Chairperson.

Brenda Graham

Brenda Graham was voted Board Chairperson in 1998.

Carlos and Brenda Graham

Carlos and Breda Graham served as Board members of Shoemaker's. Carlos Graham is related to the CFO, James Graham.

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 Shoemaker's Christian Homes for each month during the Period (See Issue 5 for reconciliation of payroll disbursements.)

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

3. For selected disbursements which were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.

4. We 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 and regulations.

6. We read lease agreements and other documentation supporting all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and Shoemaker's Christian Homes.

ISSUE 1-1	CHECK DISBURSEMENTS NOT ALLOWED OR WHICH LACKED SUPPORTING DOCUMENTATION REQUIRED UNDER COST REPORTING REQUIREMENTS

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.[22]

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..." [23]

---

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

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

We inspected fifty-two (52) check disbursements totaling $33,973 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. Shoemaker's Christian Homes was unable to provide us with the above types of supporting documentation as requested for eleven (11) of those disbursements totaling $3,187 thereby violating OMB Circular A-122, Attachment A(2)(a) and (g).

Additionally, eight (8) check disbursements totaling $2,960 for flowers for employees, airline tickets for Ed Shoemaker's children, veterinary expenses, a Christmas dinner, country club fees, and a background check for Mr. Shoemaker to run for the Florida House of Representatives. They were as follows:

1. Seven check disbursements totaling $2,886 for flowers for employees, airline tickets for Ed Shoemaker's children, veterinary expenses, country club fees, and a background check for Mr. Shoemaker to run for the Florida House of Representatives and were in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." Furthermore, entertainment costs for amusements, social activities and related costs for staff only are considered unallowable costs for use in completing ODHS 2910 Purchased Family Foster Care Cost Report.[24]

2. One check disbursement totaling $74 for a celebration Christmas dinner was in violation of OMB Circular A-122, Attachment B, Paragraph 14 which states, "Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable." Furthermore, entertainment costs for amusements, social activities and related costs for staff only are considered unallowable costs for use in completing ODHS 2910 Purchased Family Foster Care Cost Report.[25]

---

[24] Ohio Admin. Code Section 5101:2-47-26(A)(7)

[25] Ohio Admin. Code Section 5101:2-47-26(A)(7)

Table III
Shoemaker's Christian Homes
Questioned Costs

Undocumented Expenditures	
Check Disbursements	
Maintenance & Repair	$1,500
Checks payable to Cash	50
Office Supplies	50
Lodging	137
Payments to employees	1,450
Total Undocumented Check Disbursements	$3,187
Unallowed Costs For Personal Use	
Check Disbursements	
Fayette Veterinary Hospital (1999)-Ed Shoemaker	220
Kissimmee Bay Country Club (1999)-Ed Shoemaker	664
Wolman, Genshaft, & Gellman (1999)- Background check for Ed Shoemaker to run for the Florida House of Representatives	1,000
Flowers for employees	212
Airline tickets for Ed Shoemaker's children	790
Total Unallowed Check Disbursements	$2,886
Unallowed Costs for Entertainment	
Check Disbursements	
Florida Christmas Dinner Columbia Celebration (1999)-Ed Shoemaker	74
Total Unallowed Expenditures	$2,960
Total Questioned Costs	$6,147

Federal Questioned Cost: $6,147

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, Shoemaker's Christian Homes was in violation of OMB Circular A-122[26] in the amount of $3,187. Shoemaker's Christian Homes also violated Ohio Admin. Code Section 5101:2-47-26(A)(7) and OMB Circular A-122, Attachment B, Paragraphs 14 and 18 with respect to the unallowable expenditures in the amount of $2,960 as described in numbered paragraphs 1-2. The amount of the federal questioned costs totaled $6,147.

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

Management Comment:

Shoemaker's Christian Homes did not adhere to OMB Circular A-122 regarding documentation of allowable cost requirements and financial records retention. The Montgomery County Children Services agency should enter into a comprehensive contract with agencies (see Issue 5-1) and require the agencies, with which it contracts for placement services, to obtain and submit to MCCSA an annual financial audit performed in accordance with government auditing standards.[27] In addition, to the financial statement opinion, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. MCCSA should review these reports and follow up on any exceptions reported.

ISSUE 1-2	EMPLOYEE AND RELATED PARTY LOANS

RESULTS:

OMB Circular A-122, Attachment B, Paragraph 18 states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment A, Paragraph A (3)(a)-(c) states "...The question of reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions which receive the preponderance of their support from awards. In determining the reasonableness of a given cost, consideration shall be given to: a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award, b) the restraints or requirements imposed by such factors are generally accepted sound business practices, arms length bargaining ...c) whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees], and clients, the public at large..."

No interest loans were made to five employees including the president, vice-president, chief financial officer, director of operations, and an employee totaling $34,027. As of the end of the audit period, December 31, 1998, the outstanding balance of these loans was $14,838, which included $11,989 owed by the president and $2,315 owed by the director of operations. We talked with Ed Shoemaker, President & CEO on 12/9/99.

He stated that some employees were having trouble making ends meet. Therefore, the agency established an advance system.

[27] 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.

Borrower and Relationship to Shoemaker's Christian Homes	Relationship to Mr. Shoemaker	Amount Loaned	Dates Loans were made	Interest Rate	Amount of Principal Delinquent and/or Outstanding at 12/31/98	Was Loan Approved by the Board of Trustees?
Franklin Shoemaker, President & CEO	Self	$22,715	2-7-98 to 12-31-98	0.0%	$11,989	No
James Graham, CFO	No relation	$8,277	6-18-98 to 12-31-98	0.0%	$54	No
Tonya Sharret-Shoemaker, Vice-President	Wife	$150	5-29-98	0.0%	$150	No
Terry Jones, Director of Operations	No relation	$2,315	5-15-98 to 6-1-98	0.0%	$2,315	No
Susan Duncan, employee	No relation	$570	2-28-98 to 4-27-98	0.0%	$330	No
Totals		$34,027			$14,838	

Federal Questioned Costs: $14,838

Shoemaker's Christian Homes did not clearly demonstrate that interest free loans to the staff provided a benefit to the program or was necessary to the operation of the foster care program. Therefore, these expenditures were unreasonable costs and in violation of OMB Circular A-122, Attachment A, Paragraph 3(a)-(c) and Attachment B, Paragraph 18.[28] The amount of the federal questioned costs totaled $14,838.

Management comment:

PCSAs who placed children or had agreements with Shoemaker's Christian Homes during the Period should determine whether this finding constitutes a breach of their contract or agreements, and if so seek an appropriate remedy. ODJFS should assist these PCSAs in seeking recovery of misspent funds by providing administrative and technical support as needed. ODJFS should consider the significance of this issue in making their determination of whether the agency should be certified in the State of Ohio after the mandatory waiting period of two years.

---

[28] 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.

ISSUE 1-3	OHIO MONIES USED TO STARTUP FOSTER CARE OPERATIONS IN FLORIDA AND KENTUCKY

RESULTS:

Section 675(4)(A)[29] of the Social Security Act states, in part, that: "foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable with respect to a child's home for visitation. . ."

Section 1356.60(C)(1)-(2) of the Code of Federal Regulations states, "Federal matching funds for other State and local administrative expenditures for foster care and adoption assistance under title IV-E.

Federal financial participation is available at the rate of fifty percent (50%) for administrative expenditures necessary for the proper and efficient administration of the title IV-E State plan. The State's cost allocation plan shall identify which costs are allocated and claimed under this program. (1) The determination and redetermination of eligibility, fair hearings and appeals, rate setting and other costs directly related only to the administration of the foster care program under this part are deemed allowable administrative costs under this paragraph. They may not be claimed under any other section or Federal program. (2) The following are examples of allowable administrative costs necessary for the administration of the foster care program:

- (i) Referral to services;
- (ii) Preparation for and participation in judicial determinations;
- (iii) Placement of the child;
- (iv) Development of the case plan;
- (v) Case reviews;
- (vi) Case management and supervision;
- (vii) Recruitment and licensing of foster homes and institutions;
- (viii) Rate setting; and
- (ix) A proportionate share of related agency overhead.
- (x) Costs related to data collection and reporting."[30]

Ohio Admin. Code Section 5101:2-47-26(A)(6) considers the following costs as unallowable, "Contributions, donations, or any outlay of cash with no prospective benefit to the facility or program."

Per review of bank statements, checks, office leases, disbursement journals, check registers, invoices, and per discussion with Ed Shoemaker, foster care revenues from Ohio were used for start-up costs of a foster care agency in Kentucky and Florida. Therefore, these foster care revenues were not used for foster care maintenance or administration costs as required under 42 U.S.C. 675(4)(a) and Section 1356.60(C)(1)-(2) of the Code of Federal Regulations or provided no prospective benefit of Ohio's foster care program as required under Ohio Admin. Code Section 5101:2-47-26(A)(6).

---

[29] 42 U.S.C 675 (4)(A).

[30] 45 C.F.R. Section 1356.60(c)(1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

SHOEMAKER'S CHRISTIAN HOMES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Shoemaker was able to accumulate substantial revenues in excess of costs ("profits") which were spent on start-up costs for a foster care agencies in Kentucky and Florida. This substantial excess should have been spent for the benefit of the foster care program.

To determine whether the expenditures, from net earnings in excess of cost ("profits") accumulated by Shoemaker's Christian Homes were unallowable, we read the federal regulations Shoemaker's Christian Homes would have to comply with when spending foster care revenues which consisting of federal funds commingled with state and local matching revenues.

We specifically noted that 45 C.F.R. Section 74.81 states, in pertinent part, "...no HHS funds may be paid as profit to any recipient even if the recipient is a commercial organization. Profit is any amount in excess of allowable direct and indirect costs."

These unallowable start-up expenditures consisted of the following:

Unallowable start-up costs for the State of Florida

Goodwin Property-Agency office space	$10,293
American Executive Center-Agency office space	1,433
Saint Cloud Post Office	165
Florida Department of State Fee	70
Florida Department of State-Division of Corp.	61
Florida Department of Children & Families	125
Kissimmee/Osceola Chamber of Commerce	218
Sprint-Florida phone bill	104
Total Unallowable start-up costs-Florida	$12,469

In a letter to the Ohio State Auditor's Office dated July 3, 2000 Mr. Franklin E. Shoemaker, CEO indicates that 1998 expenditures totaling $42,011 were made to start Shoemaker's Christian Homes Kentucky operation. Upon further receipt of documentation for the years 1999-2000, which included bank statements, checks, office leases, disbursement journals, check registers, and invoices, from Mr. Shoemaker on January 23, 2002, we noted additional unallowable expenses totaling $88,591. All of these expenditures were paid with funds from Shoemaker's Christian Homes Ohio's operation; however, $9,999 was paid and/or transferred out of the Kentucky bank account to pay for Ohio expenses. A synopsis of the expenditures follows:

Unallowable start-up costs for the State of Kentucky

Bell South-Kentucky	1,326
Austin Building-Kentucky office rent	4,472
Salary expense for Teresa Cooper-Kentucky office	9,737
Salary expense for James Graham-Kentucky office	60,247
Salary expense for Terry Jones-Kentucky office	53,293
Salary expense for Christy Brooks-Kentucky office	500
Sam's Club-Kentucky	1,027
Total Unallowed start-up costs-Kentucky	$130,602
Less: Kentucky revenues used for Ohio expenses	(9,999)
Net Unallowed Kentucky start-up costs	120,603
Total Unallowed start-up costs for Florida and Kentucky	$133,072

All of these costs were either reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program. We spoke with Vanessa Blevins, CPA for Shoemaker's Christian Home, on December 9, 1999. She indicated that it was merely an oversight on her part and that she was unaware that the costs in question should not have been on an ODHS cost report. Only allowable costs attributable to running a foster care program in the state of Ohio, should be paid with Ohio foster care revenues.

Federal Questioned Costs: $133,072

Shoemaker's Christian Homes accumulated excess revenues ("profits") that were not expended for allowable foster care maintenance, administrative costs, or had any prospective benefit to Ohio's foster care program, and were reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program and was in violation of 42 U.S.C. 675(4)(a), 45 C.F.R. Section 1356.60(c), and 45 C.F.R. Section 74.81. Shoemaker's Christian Homes was also in violation of OMB Circular A-122 Attachment A, Paragraph A(3)(a)-(c) and Ohio Admin. Code Section 5101:2-47-26(A)(6) with respect to the unallowable expenditures in the amount of $133,072. The amount of the federal questioned costs totaled $133,072.

Management comment:

PCSAs who placed children or had agreements with Shoemaker's Christian Homes during the Period should determine whether this finding constitutes a breach of their contract or agreements, and if so seek an appropriate remedy. ODJFS should assist these PCSAs in seeking recovery of misspent funds by providing administrative and technical support as needed. ODJFS should consider the significance of this issue in making their determination of whether the agency should be certified in the State of Ohio after the mandatory waiting period of two years.

ISSUE 1-4	CHECKING ACCOUNT SEQUENCE OF CHECKS

RESULTS:

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

During the test of expenditures we noted a gap of forty-three checks that could not be located by the agency. Failure to account for all checks could potentially allow the checks to be used for unauthorized purposes. All canceled checks of the agency should be accounted for. Voided or destroyed checks should be maintained and documented to illustrate the check was actually voided or destroyed.

We discussed this with the agency's accountant Vanessa Blevins on November 24, 1999. She stated that a series of checks were taken down to Florida to start a new office. The checks were not used and returned to the Washington Courthouse office. However, the checks were out of sequence order and therefore destroyed. There was no documentation of the destroyed checks.

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

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES

Objective:

To determine whether all receipts and deposits from the applicable public children services agencies to the PNA 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 Shoemaker's Christian Homes 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 Shoemaker's Christian Homes received as program service fees from various counties and other sources. Shoemaker's Christian Homes 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 Shoemaker's Christian Homes 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 Shoemaker's Christian Homes were used in accordance with Social Security Act.

2. To determine whether Shoemaker's Christian Homes per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.

3. To determine the ratio of the per diem payments used for administration and maintenance.

Procedures Performed:

1. We obtained from Montgomery County Children Services agency the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to Montgomery County Children Services agency 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 Shoemaker's Christian Homes for the same period and traced these invoices submitted by Shoemaker Christian Homes.

2. We selected a representative sample of children identified by MCCSA as Title IV-E eligible children being serviced by Shoemaker's Christian Homes. Federal maintenance payments to these children totaled $29,592 or 82% 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 Shoemaker's Christian Homes from MCCSA to the corresponding Shoemaker's Christian Homes 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 the Shoemaker's Christian Homes 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 Shoemaker's Christian Homes and MCCSA and between Shoemaker's Christian Homes and foster caregivers.

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

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

RESULTS:

Payments for foster care maintenance are 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.[31]

[31] 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[32] made to the PCPAs andPNAs. In 1998, the FFP was 58% for maintenance payments[33] made and 50% for administrative costs[34] incurred under the Title IV-E program.

We selected a sample of 35 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and MCCSA submitted $61,519 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 $51,020and received $29,592 at the 58% FFP reimbursement rate, however the Placement Agency only made maintenance payments to foster parents totaling $49,944. The difference of $1,076 is an overstatement of maintenance claimed in our sample.

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

Table III
Overpayment of Title IV-E Maintenance Reimbursement

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	$29,592
Required PCSA Match for Federal Financial Participation	21,429
Total Title IV-E Maintenance Claimed by ODJFS	51,020
Amount Paid by PNA to Foster Parents for Maintenance	(49,944)
Overstatement of Maintenance Claim	$1,076

Projected Questioned Cost:

We specifically identified $1,076 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 cost. We used the ratio approach, as illustrated below:

---

32 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.

33 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.

34 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.

Dollar Amount of Error : Dollar Amount of Sample	$1,076/$51,020	2.11%
Dollar Amount of Population		X $788,231
Projected Overstatement of Maintenance Claim		$16,632
Actual Maintenance Reimbursement Claim (58% reimbursement rate)		$9,647
Allowable Administrative Reimbursement Claim (50% reimbursement rate)		$8,316
Overpayment of Maintenance Claim		$1,331

Federal Questioned Cost: $1,331

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 overstated by $1,076, and when using the ratio approach resulted in questioned cost of $1,331.

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.[35]

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.[36] We further recommend that an adjustment to correct the overpayment of the Title IV-E maintenance reimbursement be made with the U.S. Department of Health and Human Services.

ISSUE 3-2	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE

Results:

We tested the payments from Montgomery County Children Services Agency (MCCSA) to Shoemaker's Christian Homes for a sample of 35 foster children. The payments to the Placement Agency for this sample totaled $74,835. We noted that the Placement Agency received the correct per diem rates.

35 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).

36 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.

The foster parents in the sample received $49,944, and we noted that these foster parents received the correct per diem rates. The foster parents received $49,944 or 67% of the total funds paid to the Placement Agency by MCCSA. The remaining $24,891 or 33% was retained by Shoemaker's Christina Homes 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	ENTRANCE AND EXIT DATES OF PLACEMENT

Results:

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, providing documentary evidence in the event of litigation, and calculating payments due to the PCPA/PNA.

We compared 35 placement dates of foster children recorded by MCCSA and Shoemaker's Christian Homes and found 4 dates where the records did not agree. Inaccurate information about the dates children are placed in the care of PCPA/PNAs could result in inappropriate administrative decisions and incorrect payments to the PCPA/PNAs.

Management Comment:

ODJFS should make the necessary procedural and programming changes to the Family and Children Services Information System (FACSIS) that would ensure the integrity of data needed by the PCPA/PNAs to manage the foster care program and accurately reflect placement dates.

We also recommend a system be developed and implemented that would integrate all placement information into a complete, accurate, and easily accessible database. In addition, we recommend that MCCSA and the PCPA/PNAs 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.

SHOEMAKER'S CHRISTIAN HOMES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Procedures Performed:

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

2. We completed an internal control questionnaire, and identified significant weaknesses that existed in the accounting cycle.

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

4. We contacted ODJFS and received a letter from the licensing department regarding the revocation of the Placement Agency's certification.

5. We obtained and reviewed documentation separately from James Graham, the former CFO of Shoemaker's Christian Homes, and from Ed Shoemaker, the former CEO of Shoemaker's Christian Homes which related to a management dispute which resulted in the separation of the Ohio (including Florida) and Kentucky Operations of Shoemaker's Christian Homes (later to be named New Beginnings Family Services, Inc.).

ISSUE 4-1	REVOCATION OF AGENCY LICENSE

During the period of our audit Shoemaker's Christian Homes was being reviewed by the ODJFS licensing department. We received a letter dated March 31, 2000 ODJFS, proposed to enter into adjudication order to revoke and deny the certification of Shoemaker's Christian Homes which included the certification to act as a representative of ODJFS in recommending family foster homes for certification and to participate in the placement of children in family foster homes. Effective July 17, 2000, the adjudication order revoked Shoemaker's Christian Homes' license to operate a private noncustodial child placing agency, including its certified functions listed above. According to Ohio Admin. Code Section 5101:2-5-07(E) which states, in pertinent part, that "...the agency and those parties identified as principals shall not be eligible for certification for two years from the date of revocation or the exhaustion of all appeals, whichever is later."

In its letter dated March 31, 2000 ODJFS cited several rule violations which lead to the revocation of the Placement Agency's license and summarized the nature of each violation as follows:

Ohio Admin. Code Section 5101:2-5-7(A)(1), states: "An application for an agency certificate or for any of the functions an agency intends to perform may be denied and an existing certificate or certification to perform specific functions may be revoked for any of the following reasons: (1) An agency has failed to comply with any applicable requirement of Chapter 5101:2-5 of the Administrative Code or any or any requirement of any other applicable chapter of the Administrative Code relevant to the intended or certified functions of the agency. Furthermore, Ohio Admin. Code Section 5101:2-5-7(A)(3), further states that the certificate may be revoked if, "An agency is found to have furnished or made false statements or reports to the Ohio Department of Human Services (ODHS) in order to obtain initial certification or recertification."

In regards to Ohio Admin. Code Section 5101:2-5-7(A)(1) ODJFS, stated that, "The agency has failed to maintain compliance with the rules relevant to their certified function found in Chapter 5101:2-5 of the Ohio Administrative Code."

With respect to Ohio Admin. Code Section 5101:2-5-7(A)(3), ODJFS added that, "During the investigation of complaint numbered ..., it was determined that the director of the agency, Ed Shoemaker had falsified documents to license a family foster home. Mr. Shoemaker admitted that he had forged ...., the former agency social worker's signature to documents which she had not prepared."

Ohio Admin. Code Section 5101:2-5-08(A) and (A)(1), states in pertinent part, "A PCPA or PNA shall have an identifiable governing body responsible for establishing policies and assuring the effectiveness and efficiency of the PCPA or PNA in achieving its purpose. The duties of the governing body shall include, but are not limited to the following: (1) Hiring an administrator who meets the minimum qualifications pursuant to 5101:2-5-09 of the Administrative Code. Ohio Admin. Code Section 5101:2-5-09(C) goes on to say that "An agency shall hire qualified employees to provide the services which it is certified to provide."

ODJFS then stated that these were citations because "The governing body did not establish a policy that would allow the transfer of family foster homes, with foster children in their homes, to another agency. The agency has transferred its foster homes to the V Beacon agency contrary to its transfer policy." Additionally, ODJFS stated that "The governing body of the agency has not maintained the employment of an administrator. The agency is operating without an administrator."

Ohio Admin. Code Section 5101:2-5-08(B) states that, "The governing body of a PCPA or PNA shall identify the names and current addresses of all board members, current officers of the board, and any association, partnership or other arrangement under which the board has been established or operates, and the names and current addresses of all partners or principal owners of such association."

ODJFS then described the nature of the violation as "The governing body of the agency has not identified the names and current addresses of all board members and the current officers of the board."

Ohio Admin. Code Section 5101:2-5-08(E)(1)-(3) states that, "The minutes of all the governing body meetings shall be maintained at the PCPA or PNA in an organized, permanent and current manner and shall include, at a minimum:

(1) Dates of meetings;
(2) Names of those governing body members present; and
(3) Issues discussed and actions taken.

ODJFS then asserted that these citations were because "The governing body of the agency has not maintained the minutes of the governing board."

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

ODJFS then expressed the nature of the violation as "The governing body of the agency has permitted the use of public funds for purposes other than agency business."

Ohio Admin. Code Section 5101:2-5-08(H) states that, "A person who is employed by a PCPA or PNA certified under this chapter or any person who is a member of the governing body shall not be eligible to vote on or participate in the decision making process with respect to any matter or issue in which he/she could benefit financially or materially."

Furthermore, ODJFS described the rule violation as "Agency employees and members of the governing body have participated in the decision making process and voted in matters which have benefitted the voter or decision maker materially and/or financially.

Management Comment:

If the principals and key employees of the agency, formerly known as Shoemaker's Christian Homes, apply for certification after the mandatory waiting period of two years ODJFS should consider the significance of this issue in making their determination of whether the agency should be certified in the State of Ohio.

ISSUE 4-2	LAWSUIT FILED BY THE CHIEF EXECUTIVE OFFICER AGAINST FORMER EMPLOYEES OF THE AGENCY

RESULTS:

Per a terms sheet dated February 8, 2000 there was a separation of the Ohio (including Florida) and Kentucky Operations of Shoemaker's Christian Homes (later to be named New Beginnings Family Services, Inc.). The terms of the legal separation were signed by Franklin Shoemaker, CEO, Brenda Graham, Board Chair, and James Graham, CFO. Board action was taken by the newly organized Kentucky Board on February 11,2000 to approve the legal separation. The terms of the separation allowed for, "Allocation of accounts receivable, accounts payable, and liabilities is to be determined by location of accrual." These terms also stated, "The assignment is conditioned upon review and approval of The Beacon Agency, should an acquisition of Shoemaker's Christian Homes by Beacon take place."

On March 10, 2000 Brenda Graham, Board Chair-Ohio, sent a letter of resignation to the Ohio Board. In her letter she stated that her resignation was because the "...original separation agreement between Shoemaker's Christian Homes for Children and Adolescents, Inc.'s Ohio and Kentucky entities was disregarded. Instead Franklin "Ed" Shoemaker has requested personal payment in the amount of $160k over an 8-year period to himself for consulting services without an obligation to perform any duties to separate."

A lawsuit was filed by Shoemaker's Christian Homes on June 23, 2000 against New Beginnings Family Services, Inc. and it's individual members which included: Brenda Graham, James Graham, Terry Jones, etc. The lawsuit alleged that the terms of separation were never completed and "That all corporate operations, assets, property, monies, financial and operational records and books of the Corporation be relinquished by the defendants and immediately returned to the Corporation." The lawsuit also demands judgment "For monetary losses, loss of revenues, and loss of business opportunities suffered by the Corporation, which losses exceed the jurisdictional minimum of this Court."

A judgment was made in this lawsuit as follows:

1. Shoemaker's Christian Homes for Children and Adolescents, Inc. and Franklin Shoemaker (collectively "Shoemaker"), shall pay to Terry Jones, Bridgette Jones, Brenda Graham, James Graham, Donna Klein, Henry Ford, Christy Brooks, Richard Brooks and New Beginnings Family Services, Inc., (collectively "New Beginnings"), the sum of Seven Thousand Dollars ($7,000.00).

2. New Beginnings assumes any and all liability and assets of Shoemaker as it existed in Kentucky, governed by the Kentucky Board of Directors, including liability for any outstanding taxes in the State of Kentucky. New Beginnings shall receive as its own any assets of the former Shoemaker's Christian Homes for Children & Adolescents, Inc. in Kentucky, including but not limited to any office furniture or equipment, the offices, the phone number and address, and any other assets associated formerly with Shoemaker's Christian Homes as it existed in Kentucky under the former Kentucky Board of Directors.

3. Shoemaker assumes any and all liabilities and assets of Shoemaker's Christian Homes for Children & Adolescents, Inc. in Ohio and Florida, including but not limited to any and all tax liabilities of any nature or kind, any outstanding debts, and any obligations and obligations known or unknown.

Management Comment:

If the principals and key employees of the agency, formerly known as Shoemaker's Christian Homes, apply for certification after the mandatory waiting period of two years ODJFS should consider the significance of this issue in making their determination of whether the agency should be certified in the State of Ohio.

ISSUE 4-3	BOARD INDEPENDENCE

RESULTS:

In order to effectively execute oversight of Placement Agency management, members of the Board of Trustees should be independent of the management team it appoints. To be independent, board members, should not be involved in the day to day management of the entity, have a direct or indirect financial interest in the entity, nor have a business or personal relationship which could impair the member's objectivity when making decisions.

In addition, Ohio Admin. Code Section 5101:2-5-08(H) which states that "A person who is employed by a PCPA or PNA certified under this chapter or any person who is a member of the governing body shall not be eligible to vote on or participate in the decision making process with respect to any matter or issue in which he/she could benefit financially or materially."

James Graham, Tonya Sharret-Shoemaker, and Franklin Shoemaker, who were also members of the Board, were loaned monies from Shoemaker's Christian Homes which could have impaired their objectivity. These related party transactions could be questionable due to Ohio Admin. Code Section 5101:2-5-08(G) and (H). Franklin Shoemaker and James Graham also made decisions for Shoemaker's Christian Homes on an administrative level as well as performing some functions in a fiscal capacity (e.g.: signing off on checks, makes deposits, approving bank reconciliations, etc.).

We found instances where conflicts of interest do exist:

- At least eight (8) of the eleven (11) members of the Board of Directors are closely related parties.
- The Chairperson of the Board is the wife of the CFO of the Agency.
- The President/CEO of the Agency and his wife are Board members.
- The CFO of the Agency is also a Board member.
- During 1999, the Chairman of the Board was the wife of the CFO.
- The Vice Chairman of the Board is the father of the President/CEO.
- During 1999, the Secretary/Treasurer was the mother of the President/CEO and the wife of

the Vice Chairman.

- The President/CEO, his wife, and the CFO, who is the husband of the Board Chairperson, were loaned and/or advanced agency funds. These members voted in favor of granting themselves loans.

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 4-4	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.

Shoemaker's Christian Homes did not have an audit committee; however, the Board of Trustees unanimously approved the December 31, 1997 audit report on June 30, 1998. 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:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 4-5	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 relied upon its external auditors to calculate the 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:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 4-6	ACCOUNTING PROCEDURES AND POLICIES

Results:

Adequately designed accounting policies and procedures enhances the reliability of the agency's financial reporting and better ensures compliance with applicable laws, regulations, and contracts.

During our audit, Shoemaker's Christian Homes was not able to provide us with any written financial policies that were documented or approved by the Board of Trustees.

The lack of written policies and procedures is an internal control weakness that if corrected would strengthen financial accountability and legal compliance.

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

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 Shoemaker's Christian Homes were used in accordance with Social Security Act.

5. To determine whether the ODHS 2910 Purchased Family Foster Care Cost Report(s) submitted to ODJFS by Shoemaker's Christian Homes were accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

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

2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribed in Ohio Administrative Code Chapter 5101:2.

3. We determined whether the PCPA/PNA established a policy on: respite care; alternative care arrangement; residency; training and verification of income and prior childcare experience, and if a policy was authorized and documented.
4. We compared wages paid as identified on the ODHS 2910 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 that public children services agencies enter into purchase of service agreements with providers of purchased family foster care.

The agreement must specify that foster care maintenance, administrative case management, and case planning and related administrative activities are being purchased.[37] In addition, sound business practices and public policy dictate that contracts between parties stipulate issues of fiscal accountability, compliance, and record retention.

Shoemaker's Christian Homes did not enter into a a comprehensive purchase of service agreement with PCSAs. Individual childcare agreements for each child were executed,[38] however, did not include the responsibilities of the contracting parties in regard to fiscal accountability, compliance, and record retention.

The lack of an effective system of contracting and contract monitoring[39] 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.

---

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

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

[39] ODJFS has proposed Rule 5101:2-47-231, Title IV-E Agency Contracting and Contract Monitoring

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 5-2	COMPLETE AND ACCURATE INFORMATION ON APPLICATIONS

Results:

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

Our review found that Shoemaker's Christian Homes did not take adequate measures to ensure the information on the family foster home applications submitted were complete and accurate. Foster parent income was not verified in ten out of ten family foster home applications files reviewed.

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

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 5-3	ALTERNATIVE CARE ARRANGEMENTS POLICY

Results:

Ohio Admin. Code Section 5101:2-7-08 provides:

A. A foster caregiver shall be responsible for the full-time care of a foster child. This does not prohibit both foster caregivers in the case of a couple, co-partents or a single foster caregiver from working outside the home.

B. Alternative arrangements for the care of a foster child by someone other than the foster caregiver shall be approved by the recommending agency.

C. A foster caregiver shall have prior written approval by the recommending agency of a plan for the care of a foster child in emergency situations.

D. A foster caregiver shall have prior written approval by the recommending agency of a statement for each foster child specifying whether or not the foster child may be left unattended and, if so, for what period of time.

E. When a foster caregiver arranges for a foster child to be cared for in a day-care center or type A or type B family day-care home, the foster caregiver shall provide documentation to the recommending agency that the day-care center or type A or type B family day-care home is currently licensed or certified according to Chapter 5101:2-12, 5101:2-13, or 5101:2-14 of the Administrative Code, as applicable.

The agency documented alternative care arrangements for each foster parent, however, there was no written policy on how to authorize or approve alternative care arrangements.

Without the aid of alternative care arrangements, which clearly details the procedures for requesting, granting and the documentation of alternative care arrangements increases the risk that unsuitable care-givers may be approved.

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 5-4	FIVE YEAR RESIDENCY REQUIREMENT

Results:

Ohio Admin. Code Section 5101:2-5-091(I) provides that, "The agency shall request that 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:

A. 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

B. The person 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."

All of the files reviewed did not contain documentation or evidence that the foster parents recommended for licensing by the PCPA/PNA, had resided in Ohio for the five-year period immediately prior to the date of the application to become a foster parent.

If the agency approves a family foster home prior to the receipt of a BCII records 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:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 5-5	INCOME SUFFICIENT TO MEET THE BASIC NEEDS OF THE HOUSEHOLD

Results:

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

The PCPA/PNAs did not document that the applicant's income was sufficient to meet the basic needs of the household in all of the foster home files we reviewed. In addition, we found that PCPA/PNAs did not obtain verification of employment and/or income other than verbal confirmation by the applicant.

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 5-6	MONITORING OF THE BUDGET

Results:

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

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

Shoemaker's Christian Homes' Board of Trustees did an annual budget, but did not provide evidence to indicate they monitored the budget at any time during the year.

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

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

Management Comment:

The Placement Agency's license was revoked effective July 17, 2000; therefore, no management comment is presented with this issue.

ISSUE 5-7	TITLE IV-E COST REPORT

Results:

$85,989 detailed as federal questioned costs in Issues 1-1, 1-2, and 1-3 of this report, was charged against the foster care program and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report. Ineligible costs claimed on the cost report could result in overstated Title IV-E reimbursement per diem rates and therefore overstated federal reimbursement.

ODJFS must determine the amount of over reporting by the Placement Agency and re-compute the Title IV-E per diem reimbursement rate that should have been paid to Shoemaker's Christian Homes during the period and reimburse HHS, ODJFS, or the PCSA for any over reimbursement resulting from the overstated costs.[40] Failure to properly classify program costs could result in questioned costs and have an adverse effect on the Title IV-E rate setting process.

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

Management Comment:

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

---

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

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

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

SHOEMAKER'S CHRISTIAN HOMES
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
Undocumented and Unallowable Expenditures	1-1	11	$6,147
Expenditures for Loans and Advances without Documentation	1-2	14	$14,838
Unallowable Expenditures to Startup Foster Care Operations costs in Florida and Kentucky	1-3	16	$133,072
ODJFS Systemic Overpayment of Title IV-E Maintenance[43]	3-1	20	$1,331
TOTAL FEDERAL QUESTIONED COSTS			**$155,388**

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

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

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

SHOEMAKER'S CHRISTIAN HOMES

FAYETTE 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
APRIL 2, 2002