CHILD PROTECTIVE SERVICES

SPECIALIZED ALTERNATIVES FOR FAMILIES AND YOUTH OF OHIO, INC.

REPORT ON AGREED-UPON PROCEDURES

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
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TABLE OF CONTENTS

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
REPORT ON AGREED-UPON PROCEDURES

BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL
AS OF JUNE 30, 1999

NAME	TITLE	TERM
	BOARD OF TRUSTEES	
David Nell*	Chair	January 1, 1997 - December 31, 1999
Sue Newland	Vice Chair	January 1, 1997 - December 31, 1999
Robert Vargo*	Secretary/Treasurer	January 1, 1997 - December 31, 1999
Jeff Howison	Member	January 1, 1997 - December 31, 1999
Rose Watt*	Member	January 1, 1997 - December 31, 1999
Dan Combs*	Member	January 1, 1997 - December 31, 1999
Lisa Bachmann**	Member	January 1, 1997 - December 31, 1999

NAME	TITLE	LENGTH OF SERVICE
	ADMINISTRATIVE PERSONNEL	
Stephen Mansfield	Legal Counsel	November 1990 - November 30, 2000
Druanne Whitaker	Chief Operating Officer	January 1994 - Current

<u>Agency Address</u>

Specialized Alternatives For Families and Youth of Ohio, Inc.
10100 Elida Road
Delphos, OH 45833

* Resigned at the November 29, 1999 SAFY of Ohio Board meeting.
** Served as Board Member for SAFY of Ohio and was employed by SAFY of America as Senior Vice President of Treatment Services.

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

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Independent Accountants' Report

Thomas J. Hayes, Director
Ohio Department of 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 Specialized Alternative For Families and Youth of Ohio, Inc. (SAFY of Ohio or Placement Agency) for the period January 1, 1998 through June 30, 1999 ("the Period"). When specific information came to our attention of other potential instances of noncompliance, we extended our testing period to determine if noncompliance did occur. These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contracts with Cuyahoga County Department of Children and Family Services (CCDCFS, or Department) and Franklin County Children Services (FCCS). The applicable laws, regulations and the provisions of its contract are described in the attached *Supplement to Report on Agreed-upon Procedures* under *Legal Authority.*

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

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

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

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

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

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.

On September 11, 2002 we held an exit audit conference with the following:

Name	Office/Position
Ben Brooks	SAFY of America, Board Chairman
Thomas Cullen	SAFY of America, Board Member
Druanne Whitaker	SAFY of America, Chief Executive Officer
Richard Maye	SAFY of America, Senior Vice President of Finances & Operations
Linda Uebel	SAFY of America, Senior Vice President of Treatment
Linda Teeters	SAFY of America, Vice President of Finance
Stephen Mansfield	SAFY of America, Legal Counsel
Kris Dawley	SAFY of America, Legal Counsel
David Robinson	SAFY of America, Legal Counsel
Dan Schultz	Auditor of State, Chief Deputy Auditor
Gregory W. Kelly	Auditor of State, Assistant Chief Deputy Auditor
Patricia Snyder	Auditor of State, Assistant Chief Legal Counsel
Edna Frezgi	Auditor of State, Deputy Auditor
Carolyn Edwards	Auditor of State, Auditor in Charge
Sam Long	Auditor of State, Auditor in Charge
Dan Shook	ODJFS, Representative
Art Stackhouse	ODJFS, Representative

During the course of the audit we requested financial records along with family foster home files to determine compliance with contractual agreements and provisions of applicable laws and regulations. In some instances we were provided incomplete or inaccurate information after numerous requests and in other instances the information was redacted or not provided at all. On March 23, 2001, after requested information had still not been provided voluntarily, the Auditor of State's office issued subpoenas to SAFY of Ohio and affiliated companies SAFY of America and SAFY Holding, Inc. for documents pertinent to the review, so that the audit could proceed. Counsel for SAFY of Ohio and these affiliates agreed that during April, May and June 2001, subpoenaed documents for the period January 1, 1998 through June 30, 1999 would be produced and would include documents of America and Holding which related to SAFY of Ohio.

SAFY of Ohio then produced a number of documents in response to its subpoena, but by the time of the exit conference, many of the documents subpoenaed from SAFY of America and SAFY Holding, Inc. still had not been provided for any time period. Also, additional documents requested by auditors from SAFY of Ohio, SAFY of America and SAFY Holding during the course of the audit had not been provided. As a result, auditors proposed to question substantial costs for which documentation had not been supplied. (See detailed discussion of records production in Issue 4-2).

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
REPORT ON AGREED-UPON PROCEDURES

At the exit conference, the SAFY of America's Board instructed SAFY of America's staff to produce the remaining documents, including those held by its affiliates. Some additional documents though still not complete or totally responsive, were produced pursuant to those instructions, were reviewed and considered in this report.

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

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

JIM PETRO
Auditor of State
October 4, 2002

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
REPORT ON AGREED-UPON PROCEDURES

BACKGROUND INFORMATION

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (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. However, in certain situations when we found instances of noncompliance or questioned costs along with indications that the risk existed in other periods we expanded our testing. This is the twenty-fourth 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 (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]

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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).

PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster homes for certification; accept temporary, permanent and legal custody of children; and place children for foster care or adoption. Cuyahoga County Department of Children and Family Services(CCDCFS), a PCSA, entered into such an agreement with SAFY of Ohio a PNA.[6]

Billing Process

The PCPA or PNA submits an invoice monthly to the PCSA. The invoice contains specific information on each child, his or her per diem rate and the number of days in placement. Each month, the PCSA pays the PCPAs and PNAs based on their previous month's invoice, and reports to ODJFS the amount paid for each child and for other services including, but not limited to, case management, transportation for the children, recruiting and training foster parents.[7]

Reports and Records

Not-for-profit PCPAs and PNAs that provide foster care services for children eligible under the Title IV-E program are required to submit cost reports annually to ODJFS.[8] Costs reported are used to determine a maximum allowable reimbursement rate under the Title IV-E program for foster care maintenance payments and administrative costs. ODJFS requires that the governing body of the PCPA or PNA authorize and review an annual audit with an opinion of the organization's finances by an independent certified or registered public accountant,[9] and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report.

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 . . . "[10]

6 Cuyahoga County Department of Children and Family Services Vendor Agreement for Foster Care, Residential Care, Emergency Shelter, Independent Living, Group Homes and Day Treatment Services between CCDCFS and Specialized Alternatives for Youth originally dated April 30, 1998, for the period January 1, 1998 through December 31, 1998 and dated March 2, 1999 for the period January 1, 1999 through December 31, 1999, with an amendment dated November 14, 1999.

7 Ohio Admin. Code Section 5101:2-47-11(G). Prior to 5/1/98, these requirements were generally contained in Ohio Admin. Code Section 5101:2-47-65(E).

8 Form ODHS 2910 Purchased Family Foster Care Cost Report is applicable to PCPAs and PNAs. Annual filing requirement is found in Ohio Admin. Code Section 5101:2-47-24(D). Prior to 5/1/98, the annual filing requirement was contained in Ohio Admin. Code Section 5101:2-47-20(C)(1).

9 Ohio Admin. Code Section 5101:2-5-08(A) (5). Effective 7/1/00, after the audit period, ODJFS amended this rule to provide that for PCPAs and PNAs with an annual gross income of less than $300,000, it would be sufficient to prepare a written annual financial statement of the PCPA or PNA finances in accordance with generally accepted accounting principles. In addition to having the governing board authorize and review the required financial statements and audits, the amended rule requires agencies to submit them to ODJFS.

10 Office of Management and Budget (OMB) Circular A-110 Uniform "Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations", Subpart C Paragraph 53(b).

Cost Principles

Title IV-E foster care maintenance payments are designed to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.[11] Allowable 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.[12]

Allowable and unallowable cost guidelines for use in completing the cost reports are contained in the Ohio Administrative Code and in the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*. In addition, because the PCPAs and PNAs enjoy federal tax-exempt status, they are directly precluded from assigning any part of their net earnings to the benefit of any private shareholder or individual . . . [13]

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.[14]

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." [15] 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.[16]

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[11] 42 U.S.C. Section 675(4)(A).

[12] 45 C.F.R. Section 1356.60(c)(1999).

[13] 26 U.S.C. Section 501(c)(3).

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

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

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

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

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

Reimbursement Process

Each PCSA negotiates a foster care per diem rate (which includes maintenance and administrative costs) with a PCPA/PNA for each child placed with the agency. The PCPA/PNA submits invoices to the PCSA for payment of the agreed upon foster care per diem amount. Upon payment the PCSA reports the total amount paid to all PCPAs/PNAs on the ODHS 1925 (Title IV-E) Monthly FCM Invoice and submits it to ODJFS for reimbursement. ODJFS reviews the ODHS 1925 for administrative accuracy and pays the PCSA based upon the maximum allowable reimbursement rate set by ODJFS.

ODJFS reimburses the PCSA and submits these costs to HHS for reimbursement on the Title IV-E Foster Care and Adoption Assistance Financial Report, Part I Quarterly Report of Expenditures and Estimates. The federal reimbursement is known as federal financial participation (FFP)[17]. In 1998, the FFP was 58% for maintenance payments[18] made and 50% for administrative costs[19] incurred under the Title IV-E program. HHS disburses funds to ODJFS under the state plan for foster care approved by the Secretary of HHS.

ODJFS requires each PCPA/PNA to submit a ODHS 2910 Purchased Family Foster Care Cost Report that is used to calculate the maximum allowable reimbursement rate the PCSA can receive for foster care services provided by each PCPA/PNA. However, the PCSA and PCPA/PNA may negotiate per diem payment amounts greater than the maximum allowable reimbursement rate set by ODJFS.

Although ODJFS requires the PCPAs/PNAs to report their actual program costs on the ODHS 2910 Purchased Family Foster Care Cost Report there is no verification or reconciliation performed between the costs reported to HHS and claimed for reimbursement on the Title IV-E Foster Care and Adoption Assistance Financial Report, Part I Quarterly Report of Expenditures and Estimates and the costs reported to ODJFS on the ODHS 2910 Purchased Family Foster Care Cost Reports submitted by the PCPAs/PNAs.

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[17] 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.

[18] 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.

[19] 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.

Allowable Costs

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

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

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

Further, during the Period Ohio Admin. Code Section 5101:2-33-18(C)[21] provided that, “Administrative case management and case planning activities” are, among other things, assistance from the providers of services, to the placement worker, under the purchase of services agreement, in activities such as: preparation for and participation in the judicial determination and review process, arranging for discharge and after-care services, development of case plans and coordinating the provider’s role in carrying out those plans.[22]

In its contract with CCDCFS, SAFY of Ohio agreed “The Provider certifies to the Department that for each service specified in Sections 4(A) and (B) at least [specified amount of the billed amount] constitutes a daily payment to foster parent(s) in whose care the Department has placed children covered under this Agreement.” [23]

Also, Section 5 of the contract with CCDCFS states, “The Provider agrees to comply with all federal and state mandates necessary in establishing IV-E reimbursability for all applicable service/programs. The Provider agrees to comply with reporting time deadlines established by the Ohio Department of Human Services (ODHS) and understands that a failure to do so may result in recoupment of those funds actually lost to the Department as a result of a failure to comply with reporting deadlines.”[24]

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

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

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

[23] Section 4, Cost and Delivery of Purchased Services, Paragraph C, Foster Parent Payment, Purchase of Service Agreement, dated 4/30/98 p. 4.

[24] Section 5 (A), Title IV-E Reimbursable Services, Purchase of Service Agreement, dated 4/30/98, pg. 10.

Furthermore, if a IV-E audit results in an adverse finding against the Department due to Provider error, procedures can be implemented including but not limited to the possibility that the Provider may be required to reimburse the Department.[25]

In addition to setting forth the services which are deemed allowable costs for foster care providers, the Purchase of Services Agreement establishes inspection and retention requirements for financial records. In Section 15 of the Agreement, SAFY of Ohio agreed that it would "maintain and preserve all records related to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years."[26]

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."[27]

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.

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[25] Section 5 (C), Title IV-E Reimbursable Services, Purchase of Service Agreement, dated 4/30/98, pg. 11.

[26] Section 15, Availability and Retention of Records, Purchase of Service Agreement, dated 4/30/98, pg. 23.

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

We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with SAFY of Ohio join together to ensure SAFY of Ohio develops and implements a corrective action plan that will result in fiscal accountability[28] and legal compliance[29] in an expeditious manner. Based on the findings we recommend the following:

(1) The PCSAs purchasing services from SAFY of Ohio should determine whether the findings set forth in this report constitutes a breach of their contract, and if so seek an appropriate remedy.

(2) ODJFS should assist the contracting PCSAs in seeking recovery of misspent funds by providing administrative and technical support as needed.

(3) PCSAs should consider no additional placement of children with SAFY of Ohio until fiscal accountability and legal compliance is achieved through the corrective action plan.

(4) Based on the relevant findings in our report ODJFS should assess whether SAFY of Ohio should be allowed a Title IV-E reimbursement rate.

(5) Based on the relevant findings in our report ODJFS should perform an independent assessment of SAFY of Ohio to determine if it is suitable to be certified by ODJFS to perform foster care functions as set forth in Ohio Admin. Code Section 5101:2-5-03.

AGENCY INFORMATION

SAFY of Ohio is a private noncustodial agency (PNA) that was incorporated on October 17, 1983 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3). SAFY of Ohio was licensed by ODJFS to operate a group home, to operate or provide independent living arrangements, recommend families to become foster families, and to place children for foster care or adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as SAFY of Ohio to place the child. The group of family foster homes (private foster network) has been in place since 1984. SAFY of Ohio has provided services to sixty-two public children services agencies. SAFY of Ohio placed foster children and provided services to Adams, Allen, Ashland, Auglaize, Brown, Butler, Clark, Clermont, Clinton, Columbiana, Crawford, Cuyahoga, Darke, Delaware, Erie, Fairfield, Franklin, Fulton, Grant, Greene, Guernsey, Hamilton, Hancock, Hardin, Henry, Hocking, Huron, Jackson, Jefferson, Knox, Licking, Lorain, Lucas, Marion, Medina, Meigs, Mercer, Miami, Montgomery, Morgan, Morrow, Muskingum, Noble, Ottawa, Pike, Portage, Preble, Putnam, Richland, Ross, Sandusky, Scioto, Seneca, Shelby, Stark, Union, Van Wert, Vinton, Wayne, Warren, Washington, and Wood.

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[28] 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.

[29] 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.

Significant Related Party Transactions[30] with Corporate Officers and Affiliated Organizations:

SAFY of Ohio, a nonprofit organization, was involved in a series of significant related party transactions with its corporate officers and affiliated nonprofit organizations, Specialized Alternatives for Families and Youth of America, Inc. (SAFY of America); SAFY Holding Company, Inc., and National Institute for Alternative Care Professionals (NIFACP) a division of SAFY of America, and Spectacular Adventures for You, Inc., a for-profit organization.

All of the above organizations were located at 10100 Elida Road in Delphos. The Corporate Officers during 1998 and 1999 are noted below:

Corporation	President	Vice-President	Secretary	Treasurer	Assistant Treasurer	Assistant Secretary	Statutory Agent
America	Bruce Maag	Druann Whitaker	Steve Mansfield	Veronica Conley	Steve Mansfield	Veronica Conley	Bruce Maag
Ohio	Bruce Maag	Lisa Bachmann	Steve Mansfield	Veronica Conley	Steve Mansfield	Veronica Conley	Lisa Bachmann
Holding	Ron Jones	Bruce Maag	Steve Mansfield	Steve Mansfield			Ron Jones

SAFY of Ohio was originally named Specialized Alternatives for Youth, Inc., a nonprofit organization incorporated on October 17, 1983 by Bruce and Shirley Maag and Ron Jones, who also served as trustees. Its purpose listed in the articles of incorporation was to provide alternative living situations in lieu of institutional or other secure types of placement for troubled youth through placement in residential settings. On January 12, 1989 an amendment to the articles of incorporation was filed to change the name to Specialized Alternatives for Youth of Ohio, Inc., operate a holding company, and change the address to 10100 Elida Road in Delphos, at that time Bruce Maag, Rose Watt and David Nell were noted as trustees, and served in that capacity until their resignation in 1999.

Also, in January 1989, the property and equipment and related debt were transferred and assumed by SAFY Holding Company; all other assets and debt were retained by SAFY of Ohio, Inc.; and three additional nonprofit corporations were also established SAFY of Michigan, Inc., SAFY of Indiana, Inc. and SAFY of America.[31]

On March 28, 1990 the purpose in the articles of incorporation was amended to delete the holding company, and on July 6, 1994 to change the name to Specialized Alternatives for Families and Youth of Ohio, Inc.

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[30] 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.

[31] Specialized Alternatives for Families and Youth of Ohio, Inc., Audit Report, December 31, 1998, Notes to Financial Statements, Note 4.

During 1994 and 1995 four additional nonprofit corporations were established - SAFY of Texas, Inc. SAFY of South Carolina, Inc. SAFY of Nevada, Inc. and SAFY of Oklahoma, Inc. During 1996, SAFY of Michigan, Inc. ceased operations.[32]

SAFY Holding Company, Inc. (SAFY Holding)

SAFY Holding a nonprofit organization was incorporated under 26 U.S. C. 501(c)(2) on December 6, 1988 by Bruce Maag. Mr. Maag, Rose Watt and Ron Jones served as trustees. It was "organized for the exclusive purpose of holding title to property, collecting income therefrom and turning over the entire amount thereof, less expenses to an organization which itself is exempt under section 501(c) of the Internal Revenue Code of 1986 as amended (or the corresponding provision of any future United States Internal Revenue Law)."[33]

Based on the 1998 and 1999 SAFY Holding board minutes provided, the Board of Trustees consisted of Ron Jones, Steve Mansfield and Bruce Maag.

SAFY Holding owned equipment and vehicles and serviced the related debt. The equipment and vehicles were leased to the affiliated corporations. SAFY of Ohio paid rent of $114,000 each year for the use of equipment and vehicles during 1999 and 1998 and $90,900 in 1997.[34]

Specialized Alternatives for Families and Youth of America, Inc. (SAFY of America)

SAFY of America originally named, Specialized Alternatives for Youth of America, Inc. was incorporated as a nonprofit company on December 6, 1988 by Bruce Maag, along with SAFY Holding. Mr. Maag, Rose Watt and David Nell served as trustees until November 10, 1999. Its purpose listed in the articles of incorporation was to construct, establish, maintain, supervise and operate residential and non-residential programs to encourage a healthy socialization process for troubled, deprived, abused, neglected, abandoned, retarded, handicapped or delinquent youth and other individuals. Bruce Maag the incorporator, was authorized by Specialized Alternatives for Youth, Inc. (SAFY of Ohio) to use the name.

The three members of SAFY of America elect the SAFY of America Board of Trustees. SAFY of Ohio's bylaws name the SAFY of America Board of Trustees as the only members of SAFY of Ohio, who in turn elect Ohio's Board of Trustees.[35] We found certain individuals served on both boards and SAFY of America served as a parent organization to SAFY of Ohio.

Based on the 1998 and 1999 SAFY of America board minutes provided the Board of Trustees consisted of Bruce Maag, Jeff Howison, Robert Vargo, Sue Newland, Rose Watt, David Nell and Dan Combs.[36]

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[32] Specialized Alternatives for Families and Youth of Ohio, Inc., Audit Report, December 31, 1998, Notes to Financial Statements, Note 4.

[33] Articles of Incorporation of SAFY Holding Company, Inc. Third Section.

[34] Note 4 - Related Party Transactions, Notes to Financial Statement, Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998 and 1999.

[35] Letter from Lisa Bachman to ODHS Licensing Specialist dated September 10, 1999.

[36] The November 10, 1999 SAFY of America minutes note the resignation of Dan Combs, Robert (Bob) Vargo, Rose Watt, David Nell and John Leahy.

On February 9, 1990 the amended articles of incorporation were filed to delete the holding company. On July 6, 1994 an amendment to the articles of incorporation was filed to change the name to Specialized Alternatives for Families and Youth of America, Inc.

SAFY of America performed management and administrative services for the affiliated corporations under a Management Services Contract, disbursed all foster parent payments for related companies and provided foster care in Kentucy, Florida, Alabama and Missouri. SAFY of Ohio paid management fees of $3,032,653; $2,776,620 and $2,355,456 to SAFY of America during 1999, 1998 and 1997respectively.[37]

National Institute for Alternative Care Professionals (NIFACP)

The trade name National Institute for Alternative Care Professionals was first used on February 14, 1987 and was registered with the State of Ohio, Secretary of State (SOS) by Bruce Maag as applicant for Turtle Enterprise, Inc. on July 10, 1987. The purpose of the business was conference coordination.

On May 22, 1989 the trade name was assigned to SAFY of America by Bruce Maag, who signed as owner and president. In addition the address was changed to 10100 Elida Rd. in Delphos. The trade name was renewed on April 9, 1992 by Bruce Maag for SAFY of America. On May 8, 1997 there was a change of ownership filed to show the new owner as Specialized Alternatives for Families and Youth of America, Inc. effective July 6, 1994.

NIFACP was responsible for coordinating training by providing the facility, presenters and materials associated with the required training for SAFY of Ohio and all the state affiliates. No contract was provided so we were unable to determine the services which were to be provided.

Turtle Enterprises, Inc.

Turtle Enterprises, Inc. a for profit company was incorporated on January 17, 1979 by Bruce Maag. At the time of incorporation 500 shares of common stock with par value of one dollar ($1.00) were issued with $500 as capital. The purpose listed in the articles of incorporation was to engage in any lawful act or activity under Section 1701.01 to 1701.98, inclusive of the Ohio Revised Code.

On September 29, 1997 a certificate of dissolution by shareholders, signed by Bruce and Shirley Maag was filed with the Secretary of State.

Spectacular Adventures For You, Inc.

Spectacular Adventures For You a for-profit company was incorporated on April 29, 1997 by Stephen Mansfield, Executive Vice President of Operations and Richard Maye, Senior Vice President of Human Resources for SAFY of America during the Period. At the time of incorporation 750 shares of common stock were issued with $20,000 as capital. The purpose listed in the articles of incorporation was to engage in any lawful act or activity under Section 1701.01 to 1701.98, inclusive of the Ohio Revised Code.

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[37] Note 4 - Related Party Transactions, Notes to Financial Statement, Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998 and 1999.

The travel agency was used to make travel arrangements for employees of SAFY of Ohio, SAFY of America, SAFY Holding and all the state affiliates. During the course of the audit we were told Spectacular Adventures for You, Inc. was a division of SAFY of America that also had business income from outside parties. The office moved from the Elida Road address during the course of the audit.

SAFY of Ohio did not directly pay Spectacular Adventures, instead SAFY of Ohio used credit cards to pay for the travel arrangements and made payments directly to the credit card company. Spectacular Adventures for You was compensated by commissions paid by the hotels and airlines used to accommodate the travel.

Clearcreek Valley of Ohio, Inc. (Clearcreek)

Clearcreek was a nonprofit corporation incorporated on July 19, 1990 by Ralph, Wilma and Scott Mets. Its purpose listed in the articles of incorporation was to manage and operate a network of residential care and foster placement for displaced youth. On March 4, 1991 the purpose in the articles of incorporation was changed to include the IRS Section 501(c)(3) exemption and that no part of the net earnings shall inure to the benefit of, or be distributed to its members, trustees, officers or other private persons. In 1995 Clearcreek filed a statement of continued existence and moved to 73 Canal Street in Carroll, Ohio in Fairfield County.

On June 23, 1997 simultaneously with the execution and delivery of an employment and noncompetition agreements for Ralph and Wilma Mets, Clearcreek was merged with SAFY of Ohio. In addition SAFY Holding purchased four vehicles from Clearcreek and one from Ralph Mets for $39,629 and $4,000 respectively.

ODJFS' records showed the agency's closing date as September 12, 1997. On January 22, 2001 the Ohio Secretary of State mailed a cancellation notice to Ralph Mets for failure to file a statement of continued existence which resulted in the cancellation of the incorporation status. This transaction and its impact on SAFY of Ohio is explained fully in Issue 1-3 Unreasonable Costs Paid by SAFY of Ohio For The Takeover of Clearcreek Valley of Ohio, Inc.

Delwood, The Children's Home of Delaware, Inc. (Delwood)

Delwood, originally named the Children's Home of Delaware was incorporated on January 4, 1882 and existed until March 31, 1963. On January 12, 1970, the not-for profit agency, was reinstated and operated until November 1997. It was reinstated on April 6, 1999, but ceased operations in 2000 after the termination of the its management services agreement with SAFY of America.

SAFY of America entered into an management services agreement on May 1, 1997 with Delwood to manage its children residential center, independent living and transitional living facility (group home) and school for troubled youth, located in Delaware, Ohio. SAFY of Ohio's audited financial statements, at December 31 for each year, included an Investment in Delwood of $468, 945 in 1997; $341,276 in 1998 and $80,590 in 1999. In addition, SAFY of Ohio reported excess expenses over revenue for the operation of Delwood of ($341,789) in 1997; ($420,427) in 1998; and ($228,763) in 1999. [38]

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[38] Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998 and 1999, Notes to Financial Statement, Notes 10-11 in 1998, pgs 13-14 and Note 8 in 1999, p. 14.

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
SAFY of Ohio
Foster Care Statistics

Characteristic	Statistic
Daily Average Number of Children in Placement	648
Number of Active Licensed Foster Homes	469
Average Per Diem Rate	$84
Number of PCSAs from Which Agency Receives Children	62
Required Training for Foster Caregiver Orientation	12 Hours
Required Annual Training for Foster Caregiver	12 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	$14,922,091
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

During 1998, SAFY of Ohio's staff consisted of 104 people whom provided foster care services, including Division Directors, and Child Care Workers who provided the needed counseling and case management services to the foster children and foster parents.

SAFY of Ohio's revenues were comprised primarily of funds from Cuyahoga County Department of Children and Family Services and other public children services agencies (PCSAs). The total revenues received by SAFY of Ohio from CCDCFS for foster care services during the period of January 1, 1998 to December 31, 1998 was $3,672,794.

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
SAFY of Ohio
Revenue by Source

	1998	Percent of Total Revenue
Cuyahoga County	$ 3,672,794	24%
Montgomery County	1,913,589	13
Franklin County	1,732,326	12
Hamilton County	1,566,471	11
Butler County	739,552	5
Seneca County	647,540	4
Clermont County	505,422	3
Crawford County	311,728	2
Stark County	243,002	2
Lucas County	241,163	2
Fulton County	202,182	1
Clinton County	149,257	1
Darke County	139,915	1
Morgan County	132,631	1
Auglaize County	107,423	1
Wood County	107,700	1
Jackson County	108,024	1
All other Counties/Governmental Agencies	211,898	12
Grants	155,479	1
Miscellaneous Revenue[39]	212,192	1
Total Revenue by Source	$15,000,288	100%

39 Sources included Runaway Shelter Treatment $121,315, Interest Income $1,048 and Miscellaneous revenue of $89,829.

Relevant Individuals

Bruce Maag

Bruce Maag was one of the three initial incorporators of SAFY of Ohio, along with his wife Shirley Maag, and Ron Jones. Mr. Maag was also one of three of the original trustees for SAFY of Ohio, SAFY of America and SAFY Holding. He served as Chief Executive Officer (CEO) of SAFY of America and a member of the Board of Trustees from its inception through December 1999. In addition, Mr. Maag served as President for all the state affiliated agencies with the exception of SAFY of Texas and SAFY Holding where he served as Vice President.

SAFY of America and SAFY Holding were spin offs from SAFY of Ohio and both were incorporated on December 6, 1988 by Bruce Maag. As founder of SAFY of Ohio and CEO of SAFY of America Mr. Maag exercised great control over the decisions and finances of SAFY of Ohio, SAFY of America, SAFY Holding and all the state affiliates. In addition Stephen Mansfield, Executive Vice President of Operations and Corporate Attorney and Druann Whitaker, Chief Operating Officer reported directly to Mr. Maag until December 22, 1999 when the SAFY of America Board of Trustees accepted his resignation.

We received a copy of Mr. Maag's Contract for Services that included a Supplement Contract which required a severance payment of two (2) months compensation for every twelve (12) months of employment, that would have totaled to approximately $390,000. However, management informed us there was a negotiated severance agreement for which we requested a copy, but it was not provided. Management informed us Mr. Maag was paid severance of $100,000 a year in 1999, 2000 and 2001 for a total of $300,000.

Mr. Maag originally registered the trade name, National Institute for Alternative Care Professionals (NIFACP) in 1987, under Turtle Enterprises, Inc. a for profit company he owned. The trade name is used by the training division of SAFY of America.

Stephen Mansfield

Stephen Mansfield, as a employee of SAFY of America served as Executive Vice President of Operations and Legal Counsel for all the organizations. He was Secretary and Assistant Treasurer for SAFY of America and all the state affiliates and served as Treasurer and Secretary for SAFY Holding.

In addition, on March 14, 2000 he was formally authorized by SAFY of Ohio and SAFY of America's Board to enter into and execute contracts on behalf of the corporations to transact business with any state, county, regional or federal agency, file necessary documents with governmental or taxing authorities and transact with Citizens National Bank of Bluffton any and all business. Mr. Mansfield resigned from the position of Executive Vice President on November 30, 2000, during the course of the audit, but provides legal services on a retainer.

Furthermore, Mr. Mansfield was an incorporator of the travel agency "Spectacular Adventures for You" along with Richard Maye. Mr. Maye was noted as Senior Vice President of Human Resources, and Vice President of Finances. The travel agency was used to make travel arrangement for employees of SAFY of Ohio, SAFY of America, SAFY Holding and all the state affiliates and was located at 10100 Elida Road, until it moved in 2000, during the course of the audit.

Ron Jones

Ron Jones was one of the original trustees of SAFY of Ohio and SAFY Holding and served as a member of the initial Board of Trustees for SAFY of Ohio. Mr. Jones served as President of SAFY Holding Company and was employed by SAFY of America as the Vice President of Operations.

Rose Watt

Rose Watt was one of the initial trustees of SAFY of America and SAFY Holding. She served as a member of the Board of Trustees for both SAFY of America and Ohio until November 1999 when she resigned.

Richard Maye

Richard Maye, currently Senior Vice President of Finances and Operations of SAFY of America was one of the original incorporators of Spectacular Adventures for You, Inc. along with Stephen Mansfield. Mr. Maye served as a member of the original Board of Trustees of SAFY Ohio along with Shirley Maag, Mike Gephart, Ron Jones and Rufus Brassell in 1983.

Mr. Maye also served as Administrator of Delwood when SAFY of America entered into an management services agreement with Delwood, The Children's Home of Delaware, Inc. On March 14, 2000 he was formally authorized by SAFY of Ohio and SAFY of America's Board to enter into and execute contracts on behalf of the corporations to transact business with any state, county, regional or federal agency.

Veronica Conley

Veronica Conley was the Senior Vice President of Fiscal Services for SAFY of America. She also served as the Treasurer and Assistant Secretary for SAFY of America and all the state affiliates. Ms. Conley resigned in November 2000. On March 14, 2000 she was formally authorized by SAFY of Ohio and SAFY of America's Board to file necessary documents with governmental or taxing authorities and transact with Citizens National Bank of Bluffton any and all business.

Druann Whitaker

Druann Whitaker was employed by SAFY of America as Chief Operating Officer and later as Chief Executive Officer when Bruce Maag resigned in 1999. She also served as Vice President for SAFY of America and SAFY of Texas. On March 14, 2000 she was formally authorized by SAFY of Ohio and SAFY of America's Board to enter into and execute contracts on behalf of the corporations to transact business with any state, county, regional or federal agency, file necessary documents with governmental or taxing authorities and transact with Citizens National Bank of Bluffton any and all business.

Lisa Bachmann

Lisa Bachman was employed by SAFY of America as Senior Vice President of Treatment Services and served as a member of the Board of Trustees for SAFY of Ohio. Ms. Bachmann primarily served as the Ohio Program Director while employed by SAFY of America. On March 14, 2000 she was formally authorized by SAFY of Ohio and SAFY of America's Board to enter into and execute contracts on behalf of the corporations to transact business with any state, county, regional or federal agency.

Ralph and Wilma Mets

Ralph Mets the former Executive Director for Clearcreek, along with his wife Wilma entered into separate noncompetition agreements for a period of three years for $30,000 and $20,000 annually respectively. With the execution of the merger agreement between SAFY of Ohio and Clearcreek, Mr. Mets was also paid $40,000 a year for three years for consulting services and $3,180 a month for three years for the lease of the Clearcreek facility.

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 the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes during the Period.

Procedures Performed:

1. We obtained all canceled checks for non-payroll disbursements made by SAFY of Ohio 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 SAFY of Ohio 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 REQUIRED UNDER FEDERAL COST PRINCIPLES AND THE CCDCFS CONTRACT

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.[40]

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 . . . " [41]

The Purchase of Services Agreement with CCDCFS establishes inspection and retention requirements for financial records. It states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."[42] The agreement further states that ' the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."[43]

In addition, under Section 1 of the Agreement, SAFY of Ohio, Inc. was to provide those services as delineated in Section 4 of the Agreement.[44]

We inspected four hundred eighty-seven (487) credit card transactions totaling $38,904 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. SAFY of Ohio was unable to provide us with supporting documentation as requested for nine (9) transactions totaling $244 and was in violation of OMB Circular A-122, Attachment A, Paragraph A (2)(a) and (g).

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

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

42 Section 14, Financial Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

43 Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

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

We inspected four hundred, seventy (470) check disbursements totaling $884,440 in charges. We requested invoices, billing statements, 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. SAFY of Ohio was unable to provide us with supporting documentation as requested for thirty-three (33) transactions totaling $2,260, which included eleven petty cash transactions in the amount of $247, and therefore was in violation of OMB Circular A-122, Attachment A, Paragraph A (2)(a) and (g).

Table III
SAFY of Ohio
Questioned Costs

Undocumented Expenditures	
Credit Card Expenditures	
Geisen House	$ 7
Holiday Inn	6
Smith & Noble	29
Citizens National Bank - Bluffton	5
Shelby Collectibles	64
Phar Mor	77
Comfort Inn	56
	244
Check Disbursements	
Schroder Publications, Inc.	39
Dorr St. Church of God	100
Christopher Conference Center	725
Toledo Metroparks	105
Thomson	140
Trotwood Madison High School	150
Citizens National Bank - Bluffton	754
	2,013
Petty Cash	
Raymond Reddit	5
United States Postal Service	10
Cash	40
C. Moody’s	71
Great America Cookie Co	30
Hancock Fair	36
Peoples Store	3
Miscellaneous	52
	247
Total Undocumented Expenditures	$2,504

Additionally, thirty-five credit card expenditures totaling $2,325, and twenty-eight check disbursements totaling $8,906 and eight petty cash disbursements totaling $107 were not allowable direct services or administrative costs under the CCDCFS contract or OMB Circular A-122. These improper expenditures consisted of donations, gift certificate purchased for staff, staff Christmas party expenses, retirement gifts, late fees, fund raising, promotional material, pet food, Christmas cards and supplies, and lobbying activities. Unallowed expenditures totaled $11,338.

1. Eighteen credit card transactions for $1,084, eight check disbursements for $594, and six petty cash transactions for $68 which were unallowable under OMB Circular A-122, Attachment B, Paragraph 14 which states, in pertinent part, “Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable (but see paragraphs 13 and 30).” Attachment B, Paragraph 13, allows “expenses incurred in accordance with the organization’s established practice and custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance.” 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)(7), which generally disallows the reporting of “Entertainment costs for amusements, social activities, and related costs for staff only.” [45] Unallowed entertainment costs totaled $1,746.

2. Unallowable costs of $619 for thirteen credit card transactions, four check disbursements for $1,731 and one petty cash transaction for $4 were in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, “Costs of goods or services for personal use of the organization’s employees are unallowable regardless of whether the cost is reported as taxable income to the employees.” The agency’s reporting of these expenditures on its ODHS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7), which disallows the reporting of “Entertainment costs for amusements, social activities, and related costs for staff only.” Unallowed costs for personal use totaled $2,354.

3. Two check disbursements for $450, and one petty cash disbursement for $35 for donations were unallowable under OMB Circular A-122, Attachment B, Paragraph 9 which states, “Contributions and donations by the organization to others 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)(6), which disallows the reporting of “Contributions, donations, or any outlay of cash with no prospective benefit to the facility or program.” Unallowed cost for donations totaled $485.

4. Two credit card transactions for $548 and two check disbursements of $1,647 for promotional items were unallowable under OMB Circular A-122, Attachment B, Paragraph 1(f), which states in pertinent part: “Unallowable advertising and public relations costs include the following: ...(3) Costs of promotional items and memorabilia, including models, gifts and souvenirs; (4) Costs of advertising and public relations designed solely to promote the organization.” Public relations and advertising costs are unallowed because the federal government derives no benefit from such costs, unless used: to recruit personnel; acquire scarce items; dispose of scrap or surplus materials; to keep the public and financial community adequately informed.” The agency’s reporting of these expenditures on its ODJFS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(1), which generally disallows the reporting of “Advertising costs, with the exception of service-related recruitment needs, procurement of scarce items, and disposal of scrap and surplus pursuant to this rule.”[46] Unallowed costs for promotional materials totaled $2,195.

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

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

5. Two credit card disbursement for $74 and nine check disbursements for $2,484 for fines, fees, late charges and no shows are deemed unallowable under OMB Circular A-122, Attachment B, Paragraph 16, which states, in pertinent part: “Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable....” Likewise, Ohio Admin. Code Section 5101:2-47-26(A)(8) also states: ”(f)ines or penalties resulting from violations of, or failure to comply with, laws, and regulations” are considered unallowable when completing the ODHS 2910 Purchased Family Foster Care Cost Report. Unallowed cost for fines, fee, late charges and no shows totaled $2,558.

6. One check disbursements for lobbying activity in the amount of $2,000 was deemed unallowable and in violation of OMB Circular A-122, Attachment B, Paragraph 25(a) which states in pertinent part, “Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable, (2) Establishing, administering, contributing to, or paying the expenses of a political party campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections.”

Table IV
SAFY of Ohio
Questioned Costs

Unallowed Expenditures	
Unallowed Entertainment Costs	
Bennigans	$141
Donatos Pizza	35
Krogers - staff Christmas Luncheon	28
Pizza Hut - staff going away luncheon	26
TGI Friday’s - staff Christmas luncheon	118
Red Lobster - staff Christmas dinner	82
Lone Star	22
Max & Erma’s	182
Olive Garden	68
Frisch’s	42
Phar Mor	15
Home Warehouse	74
Michael’s Store	86
Oriental Trading, Inc.	78
Walmart	13
Thirftway	40
Ray’s Marketplace	34
Dew Twe	140
Diana Wenzlick	96
Jean Hammond	27
BPO Elks #75	58
Betrice Schwartz	5
Sam’s Club	51
Current	42
Greenwood Collection	175
Kmart	12
Krogers	23
Big Bear	12
Meijers	5
Food Town	11
Factory Card Outlet	5
	1,746

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
REPORT ON AGREED-UPON PROCEDURES

Table IV
SAFY of Ohio
Questioned Costs

Unallowed Costs for Personal Use	
Bo-Ka Flowers, inc.	35
Meijers	44
Brown's Florist	37
Duran's Greenhouses	38
Helen's Flowers	43
Vintage Coins & Cards	11
BP Oil	10
Lima Mall	200
Tri-County Mall	20
Kens Flower Shop	26
Circuit City	110
Meijers	15
National Flora	259
Mt. Pleasant Florists	31
Touch of Nature	134
Yazcol's Colonial Flowers, Inc.	37
Dayton Mall	1,300
Sidney Foodtown - Cat food	4
	2,354
Unallowed Costs for Donations	
Shelby Children Benefit Fund	150
March of Dimes	300
Sharon King	35
	485
Unallowed Costs for Promotional Material	
CEI Successories	58
Best Buy	490
Harvey Advertising & Design	1,612
Shelby Co. Ares	35
	2,195
Unallowed Expenditures for Fines, Fees & Penalties	
Citizens National - Bluffton	14
Parking and Violations Bureau	60
Bluftton Rental & Leasing, Inc.	25
Business Credit Leasing	50
Pitney Bowes Credit Corporation	9
Modern Copy Systems, Co.	2
Copelco Capital, Inc.	28
Ozzies Topps	25
First Star - Late Fees for Delwood	220
Internal Revenue Service - Penalty for Delwood	165
Hyatt Regency - failure to cancel fee	1,960
	2,558

Table IV
SAFY of Ohio
Questioned Costs

Unallowed Expenditures for Contributions/Donations/Lobbying	
County Action Committee	2,000
Total Unallowed Expenditures	$11,338

Federal Questioned Cost: $13,842

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio for foster care services included the $13,842 in expenditures detailed in Tables III and IV. SAFY of Ohio was unable to provide documentation to adequately demonstrate the programmatic purposes of $2,504 of those expenditures as required by Section 14 and 15 of its contract with CCDCFS and OMB Circular A-122 Attachment A, Paragraph A (2)(a) and (g) and Paragraph A(3) (a)-(c). The remaining $11,338 of those expenditures were unallowed costs as a result of violating OMB Circular A-122 Attachment B, Paragraphs 1(f), 9, 14, 16, 18, and 25(a) and Ohio Admin. Code Section 5101:2-47-26(A) (1), (6), (7), and (8) described above in numbered Paragraphs 1-6. Federal questioned cost totaled $13,842.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to obtain and submit to CCDCFS an annual financial audit performed in accordance with government auditing standards. In addition to the independent auditor’s report on the financial statements, professional standards would require the auditor to report on the Placement Agency’s compliance with laws and regulations and on internal controls. CCDCFS should review these reports and follow up on any exceptions reported. CCDCFS did not have such requirements and as a result, annual audited financial statements and a report on internal controls were not submitted to CCDCFS during the Period.

Furthermore, all PCSAs purchasing services from the Placement Agency should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with SAFY of Ohio and if so seek appropriate remedy. ODJFS should assist the PCSA’s in seeking recovery of the misspent funds by providing administrative and technical support as needed.

ISSUE 1-2	UNALLOWABLE RENTAL COSTS RESULTING FROM LESS-THAN-ARMS-LENGTH LEASES

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.[47]

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 . . . " [48]

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," Attachment B, Paragraph 46(c) states "Rental costs under less-than-arms-length leases are allowable only up the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members; and (iii) an organization and a director, trustee, officer, or key employee or the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

SAFY of Ohio's articles of incorporation, states in pertinent part: "No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to its members, trustees, officers, or other private persons except that the corporation shall be authorized and empowered to make compensation for services rendered and to make payment and distributions in furtherance of the purposes...."[49]

"The allowable costs to acquire facilities and equipment are limited to a fair market value available to the nonprofit organization from an unrelated ("arm's length") third party." [50]

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

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

49 SAFY of Ohio, Inc., Articles of Incorporation, Fourth Paragraph.

50 Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment B, Paragraph 23(a)(1)(f)(iv).

Bruce Maag and Ron Jones were key employees and/or trustees of the affiliated organizations presented below:

Officer	SAFY Holding	SAFY of Ohio	SAFY of America
Bruce Maag	Vice President	Chief Executive Officer	Board Member/Chief Executive Officer
Ron Jones	President		Vice President

In performing our audit procedures we read the audited consolidated financial statements of SAFY of America (parent organization of SAFY of Ohio, see Agency Information) and researched records on file in the Allen County Recorder's Office.

Through the above procedures we identified three less-than-arms-length transactions between Mr. Maag, Mr. Jones, SAFY Holding and SAFY of Ohio. In each of these transactions Messrs. Maag and Jones purchased real estate properties and sold them to SAFY Holding at a profit. SAFY Holding then leased the property to SAFY of Ohio. The costs of these less-than-arms length transactions, including the unallowed profit to Messrs. Maag and Jones, were paid by SAFY of Ohio in the form of lease payments.

The details of these transactions are presented below:

<u>720 W. North Street, Lima, Ohio (SAFY of Ohio's Receiving and Intake Shelter)</u>

1. The March 13, 1989 SAFY Holding Board of Trustees minutes noted a motion made to purchase the North Street property for $40,000, and to obtain a mortgage from Citizens National Bank for $32,000 and enter into a second mortgage with the property owners Ron Jones and Bruce Maag for $4,000. The motion was seconded by Bruce Maag and passed unanimously by Dan Combs, Bruce Maag and Ron Jones.

2. On March 16, 1989, the North Street in Lima was purchased by Bruce and Shirley Maag and Ron and Carol Jones for $30,000.

3. On March 16, 1989 a deed was filed transferring the property to SAFY Holding for $1.00, but the conveyance fee paid to the Allen County Auditor showed the selling price to be $40,000.

4. On March 16, 1989 SAFY Holding Company obtained a $32,000 mortgage from Citizens National Bank of Bluffton, and Bruce Maag and Ron Jones filed a second mortgage of $8,000 for the North Street property to achieve the selling price of $40,000.[51]

In transferring the property to SAFY Holding Jones and Maag signed as the seller as well as the buyer when the North Street property was acquired by SAFY Holding.

[51] The $32,000 mortgage obtained by SAFY Holding at $360 a month was due March 16, 2009 with 12.375% adjustable interest rate from Citizens National Bank of Bluffton. The second mortgage of $8,000 due March 16, 1994, was carried by Bruce Maag and Ron Jones for the property located at 720 W. North Street. The mortgages were signed by Ron Jones as Board Chairman and Daniel R. Combs as Secretary for SAFY Holding. (The $8,000 second mortgage was released, per the Allen County Recorder, on September 24, 1999 after the North Street property was sold for $45,000 to a third party on September 22, 1999. The $32,000 mortgage was released on December 13, 1999.)

Date	Property	Seller	Buyer	Price[52]
3/16/89	North St.	E & D Alstaetter	B & S Maag; R & C Jones	$30,000
3/16/89	North St.	Maags & Jones	SAFY Holding	$40,000
			Profit	**$10,000**

10100 Elida Road, Delphos, Ohio (SAFY of Ohio's Administrative Offices)

1. On October 1, 1988 Bruce and Shirley Maag and Ron and Carol Jones purchased the Elida Road property for $1.00 per the deed, but the conveyance fee paid to the Allen County Recorder showed the purchase price paid was $160,000.

2. On December 1, 1994 Bruce & Shirley Maag and Ron & Carol Jones sold the Elida Road property to SAFY Holding for $1.00 per the deed, but the selling price per the conveyance fee paid to the Allen County Recorder was $270,000.

3. On December 1, 1994 SAFY Holding Company obtained a $368,000 mortgage from Citizens National Bank of Bluffton on the property at Elida Road secured by a SAFY of America promissory note.[53] In addition, on December 15, 1994 Bruce Maag and Ron Jones filed a second mortgage for $87,000 on the 10100 Elida Road property.

4. On December 15, 1994, the proceeds of the $368,000 mortgage obtained by SAFY Holding was used to pay and release the $175,000 mortgage [54] obtained by Bruce & Shirley Maag and Ron & Carol Jones to purchase the Elida Road property.

5. The $87,000 [55] second mortgage payable to Bruce Maag and Ron Jones was paid off and released in October 1995 when SAFY Holding sold the Shawnee Road property.

6. Subsequent to the exit conference, we received a copy of a market value appraisal dated June 30, 1992 in the amount of $260,000 for the Elida property. The appraisal was based on rental income which was established by SAFY Holding and paid by SAFY of Ohio.

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52 The price was calculated based on the conveyance fee paid in accordance with Section 319.202 of the Revised Code to the Allen County Auditor.

53 The $368,000 mortgage obtained by SAFY Holding was secured by a SAFY of America promissory note #79267700/60915-M in the amount of $368,000 maturing on December 1, 2009. The mortgage was signed by Bruce Maag as President and Ron Jones as Secretary of SAFY Holding Company. (The $368,000 mortgage was partially released in October 1995 when SAFY Holding sold the Shawnee Rd. property for $136,200 and the balance in April 1997 when SAFY Holding obtained a $924,898 mortgage secured by promissory note from SAFY of America.)

54 $175,000 mortgage October 2, 1998, with adjustable rate of 11.5%, monthly payment of $1,886, matured on October 3, 2008 from Citizens National Bank of Bluffton. (The $175,000 mortgage was released on December 15,1994, when SAFY Holding obtained a $368,000 mortgage from Citizens National Bank of Bluffton on December 1,1994 secured by a SAFY of America promissory note.)

55 The 7-year second mortgage obtained by SAFY Holding at 7.5% for $87,000 maturing on December 15, 2002 from Bruce Maag and Ron Jones for the 10100 Elida Road property. The mortgage was signed by Ron Jones as President and by Stephen Mansfield as Secretary for SAFY Holding Company, Inc. (The $87,000 second mortgage was released in October 1995 when SAFY Holding sold the Shawnee Rd. property for $136,200 per the conveyance fee.)

This was an inappropriate basis for the appraisal since the rental income was established by a related party through a less-than-arms-length transaction and not a independent third party. We believe the appraiser should have compared similar properties to determine the appraisal value.

In transferring the property to SAFY Holding Jones and Maag signed as the seller[56] as well as the buyer when the Elida Road property was acquired by SAFY Holding. The September 15, 1992 Board of Trustees minutes for SAFY Holding stated in part, "Steve Mansfield and Ron Jones have reviewed the appraisals on the 10100 Elida Road property and 1130 Shawnee Road property. Ron Jones shared that another appraisal needs to be sought to satisfy Citizens National." Subsequently Jones and Maag signed as President and Vice President on the $368,000 mortgage obtained by SAFY Holding secured by a SAFY of America promissory note.

Date	Property	Seller	Buyer	Price[57]
10/1/88	Elida Rd.	Delphos Church	Maags & Jones	$160,000
12/1/94	Elida Rd.	Maags & Jones	SAFY Holding	$270,000
			Profit	**$110,000**

1130 Shawnee Road, Lima, Ohio (SAFY of Ohio's Independent Living)

1. The Shawnee Road property was purchased on January 26, 1990 by Shirley Maag and Carol Jones for $1.00 per the deed, but the conveyance fee paid to the Allen County Recorder showed the purchase price paid was $185,000.

2. On February 2, 1990 Bruce & Shirley Maag and Ron & Carol Jones obtained a $138,750 mortgage from Citizens National Bank of Bluffton for the property at Shawnee Road in Lima. On the same day, Shirley Maag and Carol Jones obtained a second mortgage from the previous owner in the amount of $46,250 for mortgages totaling $185,000, to equal the purchase price.

3. On December 1, 1994 Bruce & Shirley Maag and Ron & Carol Jones sold the Shawnee Road property to SAFY Holding for $1.00 per the deed, but the selling price per the conveyance fee paid to the Allen County Recorder was $200,000.

4. On December 1, 1994 SAFY Holding Company obtained a $368,000 mortgage from Citizens National Bank of Bluffton on the property at Elida Road.[58] In addition, on December 15, 1994 Shirley Maag and Carol Jones filed a second mortgage for $15,000 for the Shawnee Rd. property.

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[56] Deed was signed by Bruce and Shirley Maag and Ron and Carol Jones.

[57] The price was based on the conveyance fee paid in accordance with Section 319.202 of the Revised Code to the Allen County Auditor.

[58] The $368,000 mortgage was secured by a SAFY of America promissory note #79267700/60915-M in the amount of $368,000 maturing on December 1, 2009. The mortgage was signed by Bruce Maag as President and Ron Jones as Secretary of SAFY Holding Company. (The $368,000 mortgage was partially released in October 1995 when SAFY Holding sold the Shawnee Rd. property for $136,200 per the conveyance fee and the balance in April 1997 when SAFY Holding obtained a $924,898 mortgage secured by promissory note from SAFY of America.)

5. In addition, after Bruce Maag and Ron Jones sold the Shawnee property to SAFY Holding on December 1, 1994 they still had mortgages on the Shawnee property in their names. The $46,250 mortgage was paid off and released on December 12, 1994. The $138,750 mortgage was not paid in full and released until August 25, 1995, nine months after the property was transferred to SAFY Holding and the $15,000 second mortgage held by Carol Jones and Shirley Maag was paid and released on October 18, 1995 when the Shawnee property was sold to a third party.

Date	Property	Seller	Buyer	Price[59]
1/26/90	Shawnee	H Venne	S Maag; C Jones	$185,000
12/1/94	Shawnee	Maags & Jones	SAFY Holding	$200,000
			Profit	**$ 15,000**

To determine whether the three less-than-arms-length transactions resulted in questioned costs we requested copies of the lease agreements and schedules of lease payments between SAFY Holding and SAFY of Ohio for the above mentioned properties and any other properties leased from SAFY Holding by SAFY of Ohio.

Even after SAFY of America's board authorized management to make all documents available for review neither the lease agreement nor information on the lease payments were provided.

SAFY of Ohio did not provide the requested information that would enable us to determine the amounts SAFY of Ohio paid to SAFY Holding to lease the three properties listed above. Because of the less-than-arms-length transactions that resulted in $135,000 profit for Messrs. Maag and Jones and SAFY of America and SAFY of Ohio's unwillingness to provide requested documentation we believe there is a significant risk that the transactions resulted in substantial lease payments in excess of the original costs, but can not be accurately determined without the requested documentation.

The lack of cooperation and incomplete information regarding these related party transactions increased the potential risk that additional significant questioned costs may exist. In addition, SAFY Holding may not have reported the proceeds paid to Messrs. Maag and Jones for the sale of the properties or the second mortgages to the Internal Revenue Service.

Federal Questioned Cost: Undetermined Amount Due to Lack of Documentation

Since we were unable to determine if the amounts paid were appropriate based on the original costs we questioned the costs but are unable to determine the amount. The undocumented lease payments were in violation of OMB Circular A-122 Attachment A, Paragraph A (2)(a) and (g) and Paragraph A(3) (a)-(c).

Management Comment:

ODJFS should develop policies and guidelines to ensure that PCPAs/PNAs clearly understand federal and state rules that limit the allowability of costs derived from less-than-arms-length transactions. In addition ODJFS should consider lease agreements between affiliated organizations as an area of high risk and ensure that such transactions are adequately monitored for program compliance.

59 The price was based on the conveyance fee paid in accordance with Section 319.202 of the Revised Code to the Allen County Auditor.

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

ISSUE 1-3	UNREASONABLE COSTS PAID BY SAFY OF OHIO FOR THE TAKEOVER OF CLEARCREEK VALLEY OF OHIO, INC.

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[60]

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 . . . " [61]

The Purchase of Services Agreement with CCDCFS establishes inspection and retention requirements for financial records. It states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."[62] The agreement further states that ' the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."[63]

In addition, under Section 1 of the Agreement, SAFY of Ohio, Inc. was to provide those services as delineated in Section 4 of the Agreement.[64]

Also, 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)[65]

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

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

[62] Section 14, Financial Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

[63] Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

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

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

SAFY of Ohio acquired the foster care network administered by Clearcreek Valley of Ohio Inc. (Clearcreek). SAFY of Ohio entered in agreements with Ralph and Wilma Mets to compensate them for SAFY of Ohio's acquisition of Clearcreek's foster care network. On June 23, 1997 simultaneously with the execution and delivery of an employment and noncompetition agreements for Ralph and Wilma Mets, Clearcreek was merged with SAFY of Ohio.

SAFY of Ohio and Ralph Mets entered into a written agreement whereby Mr. Mets would be paid a salary of $40,000 per year for three years.[66] The agreement required Mr. Mets "... to devote substantially of your business time and attention to your duties as a consultant of the Corporation (SAFY of Ohio)... It is presently intended that your duties under this Agreement shall be focused in the areas of public relations and coordinating contracted services between the Corporation and the referring agencies in the Clearcreek Division." [67] SAFY of Ohio made salary payments to Mr. Mets in the amount of $23,333 (1997)[68], $40,000 (1998) and $40,000 (1999)[69] for a total of $103,333.

We requested that SAFY of Ohio provide documentation such as time and billing records, project status reports, correspondence and work products that would enable us to determine that Mr. Mets provided services that would be an allowable cost to the foster care program. None of these items were provided.

In response to our request Richard Maye, Senior Vice President of Finance and Operations for SAFY of America provided a letter dated June 12, 2002 that stated in pertinent part, "The payments made by SAFY of Ohio, Inc. to Ralph Mets were a prospective benefit to SAFY of Ohio, Inc. At the time of the merger of Clearcreek Valley of Ohio, Inc., operated by Ralph Mets, with SAFY of Ohio, Inc. there were a lot of rumors circulating among foster parents that SAFY of Ohio was going to make a lot of changes in operating procedures. Ralph Mets attended several meetings with foster parents to allay their fears and encourage them to transfer their license to SAFY of Ohio, Inc. This resulted in a smoother transition for all parties and minimized the potential disruption in the continuity of care for the youth in Clearcreek homes. It should also be noted that the merger added vacant useable beds, trained and experienced foster parents and over seventy youth to the rolls all of which resulted in additional revenue to SAFY of Ohio, Inc."

SAFY of Ohio did not provide sufficient documentation to enable us to determine that the $103,333 in salaries for the years 1997-1999 were allowable costs to the foster care program. Therefore the $103,333 for salary payments will be reported as an undocumented federal questioned costs.

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66 Compensation, Employment Agreement dated June 23, 1997, between SAFY of Ohio and Ralph Mets.

67 Terms of Employment and Duties, Employment Agreement dated June 23, 1997, between SAFY of Ohio and Ralph Mets.

68 1997 Form 1099 Miscellaneous Revenue showed a total of $53,333 paid from the effective date of July 1, 1997 to December 31, 1997 for the Employment and Non-compete agreements .

69 The 1998 and 1999 Form 1099 Miscellaneous Revenue were provided and substantiated the agreements and the payment made in 1998 and 1999.

Ralph Mets' written agreement with SAFY of Ohio also called for Mr. Mets to receive $30,000 a year for his agreement not to compete with SAFY of Ohio. The agreement stated in pertinent part, "You (Ralph Mets) agree that during the period you are the Corporation's consultant under this Agreement and for an additional three year period after your [employment] with the Corporation, you will not in any way, directly or indirectly, manage, operate, control, accept employment or a consulting position with, or otherwise advise, assist, or be connected with, or directly or indirectly own or have any other interest in or right with respect to any enterprise that is in competition in any manner with the business of the Corporation or its affiliates within the following counties in the State of Ohio: Franklin, Licking, Muskingum, Morgan, Perry, Fairfield, Pickaway, Ross, Hocking, Athens, Meigs, Morgan, Vinton, Jackson, Pike, Scioto, Gallia and Lawrence."[70] SAFY made payments to Mr. Mets not to compete in the amounts of $30,000 (1997),[71] $30,000 (1998) and $30,000 (1999)[72] for a total of $90,000.

The $90,000 paid to Ralph Mets for his agreement not to compete did not provide goods or services to benefit the foster care program. Therefore the $90,000 will be reported as unallowed federal questioned costs.

Wilma Mets' written agreement with SAFY of Ohio called for Mrs. Mets to receive $20,000 a year for three years for her agreement not to compete with SAFY of Ohio. The agreement stated in pertinent part, "You (Wilma Mets) agree that during a period of six years after the merger of Clearcreek Valley of Ohio, Inc. with Specialized Alternatives for Families and Youth of Ohio, Inc., you will not in any way, directly or indirectly, manage, operate, control, accept employment with or a consult with, or otherwise advise, assist, or be connected with, or directly or indirectly own or have any other interest in or right with respect to any enterprise that is in competition in any manner with the business of the Corporation or its affiliates within the following counties in the State of Ohio: Franklin, Licking, Muskingum, Morgan, Perry, Fairfield, Pickaway, Ross, Hocking, Athens, Meigs, Morgan, Vinton, Jackson, Pike, Scioto, Gallia and Lawrence." [73] SAFY made payments to Mrs. Mets not to compete in the amounts of $20,000 (1997),[74] $20,000 (1998) and $20,000 (1999)[75] for a total of $60,000.

The $60,000 paid to Wilma Mets for her agreement not to compete did not provide goods or services to benefit the foster care program. Therefore the $60,000 will be reported as unallowed federal questioned costs.

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70 Paragraph 6, Noncompetition During Employment, Employment Agreement dated June 23, 1997, between SAFY of Ohio and Ralph Mets.

71 1997 Form 1099 Miscellaneous Revenue showed a total of $53,333 paid from the effective date of July 1, 1997 to December 31, 1997 for the Employment and Non-compete agreements .

72 The 1998 and 1999 Form 1099 Miscellaneous Revenue were provided and substantiated the agreements and the payment made in 1998 and 1999.

73 Noncompetition Agreement dated June 20, 1997, between SAFY of Ohio and Wilma Mets.

74 The 1997 Form 1099 Miscellaneous Revenue was provided and substantiated the agreements and the payment made in 1997.

75 The 1998 and 1999 Form 1099 Miscellaneous Revenue were provided and substantiated the agreements and the payment made in 1998 and 1999.

Federal Questioned Cost: $253,333

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio for foster care services included the $253,333 in expenditures. SAFY of Ohio was unable to provide documentation to adequately demonstrate the programmatic purposes of the $103,333 salary payments to Ralph Mets and the $90,000 and $60,000 noncompete payments to Ralph and Wilma Mets as required by Section 14 and 15 of its contract with CCDCFS and OMB Circular A-122 Attachment A, Paragraph A (2)(a) and (g) and Paragraph A(3)(a)-(c), and Ohio Admin. Code Section 5101:2-47-26(A)(6). Federal questioned costs totaled $253,333.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

ODJFS should develop policies and guidelines to ensure that PCPAs/PNAs clearly understand which costs resulting from mergers and acquisitions of agencies are allowable. In addition, ODJFS should consider the merger and acquisition of private foster care agencies as an area of high risk and ensure such activities are adequately monitored for program compliance.

Furthermore, all PCSAs purchasing services from the Placement Agency should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with SAFY of Ohio and if so seek appropriate remedy. ODJFS should assist the PCSA's in seeking recovery of the misspent funds by providing administrative and technical support as needed.

ISSUE 1-4	UNALLOWABLE FINANCING OF A FINANCIALLY FAILING RESIDENTIAL CENTER

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[76]

SAFY of America, a 501(c)(3) organization, was not certified by ODJFS to provide residential services or operate a foster care network as a PCPA nor PNA as provided by Ohio Admin. Code Section 5101:2-5-02(A) which states, "Any PCPA or PNA with the purpose of performing any of the functions specified in rule 5101:2-5-03 of the Administrative Code shall file an ODHS 1290 "Application for Certification of Agency Functions" with ODHS to be certified to engage in the specific functions which it intends to perform not less than ninety days prior to the intended date of commencing operation. In addition, Ohio Admin. Code Section 5101:2-5-03(E) provides: "Any certificate issued by ODHS, either required or voluntary, shall not be transferable from one agency, owner, operator, corporation, partnership, or association to another." (See Issue 5-1).

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

In accordance with Ohio Admin. Code Section 5101:2-33-18(A)[77], in effect during the Period, CCDCFS set forth the scope of services it intended to purchase from SAFY of Ohio in its cost reimbursement contracts.[78] The scope of services to be provided by SAFY of Ohio and paid for by Cuyahoga County Department of Family and Children Services was set forth in the contract between the two parties. Exhibit 3 of the contract between CCDCFS and SAFY of Ohio effective January 1, 1998 through December 31, 1998 (Purchase of Service Agreement) describes the foster care maintenance, administrative case management, case planning activities and related administrative activities for which CCDCFS intended to reimburse SAFY of Ohio.

In addition, the scope of services to be provided by SAFY of Ohio and paid for by Franklin County Children Services (FCCS) is set forth in the contract between the two parties. The contract between FCCS and SAFY of Ohio effective July 1, 1997 through December 31, 1998 (Placement Services Agreement) describes the direct services for which FCCS intended to pay SAFY of Ohio. The contract states in pertinent part, "Direct Services: services received by children in placement or foster parents, including, but not limited to: respite, foster parent training, foster parent support services, individual, group or family counseling, mentoring, arrangement for and transportation to and from physical and medical treatment, recreational activities, day care and transportation. It does not include day treatment and alcohol and other drug treatment services."[79]

OMB Circular A-122, Attachment B, Paragraph 9 which states, "Contributions and donations by the organization to others are unallowable."

During 1998 SAFY of Ohio received $14,788,096 in funding from county agencies in Ohio for reimbursement of foster care related services provided, which represented over 99% of the $15,000,288 total revenue it reported for the year. CCDCFS and FCCS provided $3,672,794 (24%) and $1,732,326 (12%) respectively of the $15,000,288 total revenue reported on the audited financial statements for the year ended December 31, 1998.

In addition, in 1998 SAFY of America received 59% of its revenue from SAFY of Ohio and 97% as management fees from all related companies.[80] In addition, SAFY of America's line of credit was secured by the accounts receivable and equipment of the affiliated organizations.[81]

SAFY of America entered into a management services contract effective May 1, 1997 with Delwood for a period of ten years.[82] Per the the contract, Delwood was "experiencing financial difficulties" and SAFY of America agreed to "perform all required management, financial, human resource, insurance, programmatic, and administrative functions for Delwood" pursuant to the agreement. [83]

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

78 Section 1, Purchase of Services, Purchase of Service Agreement, dated 4/30/98, pg. 1.

79 Placement Services Agreement, Article I, Section D.

80 Specialized Alternatives for Families and Youth of America, Inc. Audit Report, December 31, 1998, Notes to Financial Statement, Note 9 - Economic Dependence, p. 9.

81 Specialized Alternatives for Families and Youth of America, Inc. Consolidating Audit Report, December 31, 1998, Notes to Financial Statement, Note 12 -Notes Payable, p. 18.

82 Paragraph 1, Term, Management Services Contract entered into between Specialized Alternatives for Families and Youth of America, Inc. and Delwood, The Children's Home of Delaware, Inc. effective May, 1, 1997 (Management Services Contract).

83 Recitals A and B, Management Services Contract.

SAFY of America was given absolute and complete authority to manage the facility, the employees and financial and administrative affairs of Delwood. In addition, SAFY of America was not required to advise or consult with the Delwood Board of Directors concerning matters which may effect the organization (or reorganization) of the administrative staff, the financial aspect of the program or the development or modification of Delwood's existing programs.[84] The management services contract was signed by Bruce Maag, President of SAFY of America and the President of Delwood, The Children's Home of Delaware, Inc.

The management services contract between SAFY of America and SAFY of Ohio, stated "The parties agree that the mutual responsibilities required to be performed pursuant to the terms of this agreement shall not provide either party the authority to act as an agent, partner, or joint venturer of the other or in anyway bind by written or oral agreement, contract or otherwise the other party."[85]

Although, SAFY of America entered into the management services contract with Delwood SAFY of Ohio's financial statements reflected the Investment in Delwood on its Balance Sheet and the revenue and expense for the management of Delwood on its Statement of Revenue, Expenses and Changes in Net Assets at December 31, 1997, 1998 and 1999.

On March 23, 2001 we subpoenaed SAFY of Ohio to provide any and all documents, including but not limited to memos and agreements regarding the acquisition/merger and management of Delwood and its affiliates and documents, including but not limited to loans or mortgage agreements, check stubs, cancelled checks, invoices and billing statements showing payments and/or receipts by or on behalf of SAFY of Ohio, Inc., related to Delwood, which document the $420,427 operating loss reported for this facility in the December 31, 1998, audited financial statements of SAFY of Ohio, Inc.[86]

We received invoices and billing statements showing payments to vendors, the general ledger for Delwood with batched totals but not detailed transactions or the supporting documentation requested, such as a receipt or check register nor did we receive loan or mortgage agreements, cancelled checks, or receipts for or on behalf of Delwood were presented.

We read SAFY of Ohio's audited financial statements and the accompanying notes for the years ended December 31, 1997, 1998 and 1999. We found that SAFY of Ohio made a cash payment to Delwood of $468,945 in 1997 and recorded it as an Investment in Delwood. Delwood made partial repayments to SAFY of Ohio in the amounts of $127,669 in 1998 and $260,686 in 1999. The outstanding balance of $80,590 at December 31, 1999 will be reported as federal questioned costs.

On September 30, 2002 SAFY of America provided a copy of a check from the Board of Trustees for Delwood for $41,655 dated March 4, 2002 payable to SAFY, but did not provide documentation to determine which organization the check was credited to. Therefore, due to inadequate documentation the questioned cost will remain as $80,590.

SAFY of America's management of Delwood resulted in losses in 1997, 1998 and 1999. However, the costs associated with the losses were reflected on SAFY of Ohio's audited financial statements for December 31, 1997, 1998 and 1999 reported operating losses resulting from SAFY of America's Delwood management contract in the amounts of $341,789 (1997), $420,427 (1998) and $228,763 (1999) for a total of $990,979.

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84 Paragraph 2, Management Authority of SAFY, Management Services Contract.

85 Limitation of Liability, Management Services Contract entered into between SAFY of Ohio and SAFY of America signed February 18, 1997.

86 Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998, Statements of Revenue, Expenses and Changes in Net Assets, p.5.

According to a memo from Stephen Mansfield explaining the revenue cycle, all revenue generated by the affiliated organizations was deposited in SAFY of America's sweep account and held there until funds were needed by the affiliate organization to pay expenditures. The transfer of funds was posted as an inter-company transaction. Any excess revenue was maintained in SAFY of America's sweep account. If the cash balance wasn't sufficient to pay the expenditures, SAFY of America drew funds from a line of credit.

SAFY of Ohio's Statement of Cash Flows[87] disclosed proceeds from inter-company advances or liabilities in amounts of $1,005,545 (1997), $1,153,089 (1998) and payment of $165,045 in 1999. Due to the commingling of funds, payment of expenditures for affiliated companies and lack of written policies and procedures for the monthly reconciliation of accounts receivable and payable we requested supporting documentation detailing the inter-company advances. That information was not provided and thus we relied upon audited financial statements which reflected SAFY of Ohio funding Delwood's losses.

A breakdown of the revenue and expenses as presented in SAFY of Ohio's audited financial statements is presented below:

Delwood Revenue and Expenses	**1997**	**1998**	**1999**	**Total**
Revenue	$508,394	$914,392	$803,573	$2,226,359
Personnel Expenses	(627,746)	(968,930)	(819,594)	(2,416,270)
Other Expenses	(222,437)	(365,889)	(212,742)	(801,068)
Operating Income (Loss)	($341,789)	($420,427)	($228,763)	($990,979)

Furthermore, the May 23, 2000 minutes of SAFY of America recorded in part that a notice was sent to terminate Delwood's management services contract which required a 120 day notice. "The Delwood Board is in the process of seeking alternative funding. They (Delwood) have requested SAFY (of America) to send them calculations as to how much they owe us for the interest on the loan. The staff are in the process of closing the program. The school would close in June. We anticipate having no children at the facility after June 9, 2000. We will continue to work with the Delwood Board on payment owed SAFY (of America) and getting SAFY (of America) off of the loan as a co-signer on the mortgage." It was apparent Delwood did not have the ability to meet its financial obligations.

Based on our review it appeared, SAFY of Ohio was able to generate substantial cash earnings to pay management fees to SAFY of America that were used to fund Delwood's operating losses in the amount of $990,979 from May 1, 1997 to December 31, 1999 and $80,590 the outstanding balance of the investment at December 31, 1999 for a total of $1,071,569. This substantial excess should have been spent for the benefit of the foster care program or either returned to CCDCFS and FCCS and other PCSAs.

Furthermore, even if CCDCFS and FCCS had intended to allow the agency to keep the excess revenues for investment it would not have had the authority to waive the federal requirements governing the foster care funds. 42 U.S.C. Section 675(4)(A) 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..." This definition clearly does not include the investment and funding of a financially failing organization on behalf of SAFY of America, particularly when SAFY of America was not certified by ODJFS to provide the services it contracted to provide.

87 Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998, and Decmeber 31, 1999, Statements of Cashflows.

Federal Questioned Cost: $1,071,569

SAFY of Ohio used foster care revenue it received to fund the operations of the fiscally troubled Delwood. The Placement Agency's payments of excess revenues totaling $1,071,569 on behalf of SAFY of America without the knowledge or approval of CCDCFS and FCCS was contrary to the intent of the contracts with CCDCFS and FCCS and unallowable under 42 U.S.C. Section 675(4)(A) and OMB Circular A-122 Attachment A, Paragraph (A) (2)(a) and (g), OMB Circular A-122, Attachment B, Paragraph 9, and Article I, Section D of SAFY of Ohio's contract with FCCS, and Section 1of its contract with CCDCFS and Ohio Admin. Code 5101:2-5-02(A) and 5101:2-5-03(E). Federal questioned costs totaled $1,071,569.

Management Comment:

ODJFS should consider sanctions against SAFY of America for operating a children's residential center when it was not certified to do so in accordance with Ohio Admin. Code Section 5101:2-5-02 (A) and in violation of Ohio Admin. Code Section 5101:2-5-03(E).

CCDCFS, FCCS and the other PCSAs contracting with SAFY of Ohio should determine whether the findings in this report constitutes a breach of its contract, and if so seek appropriate remedy. In addition, ODJFS should, by rule, establish an administrative cost cap that while allowing a reasonable amount of administrative funds for ordinary, reasonable and necessary operation of the foster care networks, would prevent the accumulation of substantial cash earnings (profits) that might be used for unintended purposes in violation of applicable contracts and laws and result in questioned costs. In addition, ODJFS should ensure that personnel reviewing the audited financial statements of agencies are trained to identify and report on potential issues that may result in unallowable expenditures or violations of state and federal compliance requirements.

ISSUE 1-5	UNSUPPORTED EXPENDITURES FOR MANAGEMENT SERVICES FEE PROVIDED BY SAFY OF AMERICA

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[88]

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 . . . " [89]

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

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

In addition, OMB Circular A-122, Attachment A, Paragraph (A)(4)(a) states in pertinent part "A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity in accordance with the relative benefit received."

Specifically regarding related-party transactions, Ohio Admin. Code Section 5101:2-5-08(G) provides 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, unless the services or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA."

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

Also, the Ohio Administrative Code provides that when completing ODJFS cost reports, "(c)ontributions, donations, or any outlay of cash with no prospective benefit to the facility or program" are considered unallowable. (Emphasis added)[90]

As part of its management contract SAFY of America charged SAFY of Ohio twelve dollars ($12) a day per (youth in) placement on a monthly basis beginning January 1, 1997 to December 31, 1999. We reviewed SAFY of Ohio's audited financial statements and notes[91] and found management fees paid by SAFY of Ohio in the amounts of $2,355,456 (1997), $2,776,620 (1998) and $3,032,653 (1999) totaling $8,164,729.

We requested access to SAFY of America's financial records that were needed to examine and test to gain assurance that the costs reported as management fees by SAFY of Ohio on its ODHS 2910 Purchased Family Foster Care Cost Reports each year were both allowable and allocable to SAFY of Ohio's foster care program.

In a letter dated January 30, 2001, Steve Mansfield, General Counsel for SAFY of America refused to provide the information requested and stated, "Since Specialized Alternatives for Families and Youth of Ohio, Inc. is the corporate entity that contracts with the various Ohio County Children Services Agencies, your requests to see the records and minutes of Specialized Alternatives for Families and Youth of America, Inc. and SAFY Holding Co. Inc. had to be refused as being not germaine to audit and administrative review of the Ohio program, the subject of your office's (Auditor of State) review."

On March 23, 2001 we subpoenaed SAFY of Ohio and SAFY of America to provide any and all documents, including but not limited to timesheets or other payroll records, time studies, invoices, check stubs, canceled checks, disbursement journals, budgets, or ledgers which document or support the allowability of the management fees along with the methodology, and cost allocation used to determine the amounts paid or allocated for each foster care division/location in Ohio.

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

[91] Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998 and 1999, Statements of Revenue, Expenses and Changes in Net Assets.

During the exit conference with SAFY of America's management and two of its board members it was agreed that SAFY of America would provided the financial records requested to enable us to test and determine the allowability and allocation of its cost to SAFY of Ohio as it related to the provision of the foster care program. Some additional information, though still not complete or totally responsive, was provided pursuant to those instructions.

SAFY of Ohio paid the monthly management fee based on the number of youth in placement during the month and not on the services provided. Upon further inquiry we found that SAFY of America did not have a rationale or systematic method of allocating it administrative costs related to the provision of foster care to SAFY of Ohio and its other state affiliates.

We randomly selected a sample of SAFY of America' s checks from 1997, 1998, and 1999 and 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. We tested these expenditures for reasonableness, allowability and allocation under the OMB Circular A-122 and Ohio Administrative Code criteria stated above.

In addition we haphazardly selected a sample of 1998 expenditures considered to be high risk for noncompliance such as meals and lodging, recognition and awards, travel and promotion and advertising from SAFY of America's general ledger from the portions we were given access to. In 1998 we tested checks from high risk accounts totaling $145,330 of which $60,038 was questioned costs.

SAFY of America was unable to provide us with supporting documentation or paid for unallowable and/or state specific expenditures, resulting in questioned costs. These questioned costs were used to reduce SAFY of America's total expenditures to reach an allocable base of expenditures for the management fees paid. In 1997 we tested 56 check totaling $29,708 of which $6,994 was questioned costs, in 1998 we tested 187 checks totaling $528,005 of which $85,673 was questioned costs, in 1999 we tested 46 checks totaling $33,443 of which $29,803 was questioned costs.

We found SAFY of America's expenditures included non-foster care related program such as Kreative Learning, a day care center, NIFACP a training division, Spectacular Adventures For You, a travel agency, unallowed costs such as bank charges, and cost which were unallocable, such as foster care programs administered directly by SAFY of America and state specific expenditures. These unallowed or unallocable cost along with the questioned costs from the samples were used to reduce SAFY of America's expenditures to reach an allowable basis of expenditures for allocation to the state foster care affiliates, including SAFY of Ohio.

SAFY of America leased office space and equipment from SAFY Holding. We noted lease payments in the amounts of $ 213,600 (1997), $510,000 (1998) and $510,000 (1999) totaling $1,233,600. We requested documentation to support the lease payments such as lease agreements, documentation supporting the costs of equipment and furnishings and the methodology used to allocate the cost among the departments of SAFY of America. Documentation supporting the costs of building improvements, land and improvements, furniture, computers and software were provided, but not the mortgages or lease agreements. The documentation did not fully support the lease payments in the amounts of $116,365 (1997), $324,748 (1998) and $290,125 (1999) totaling $731,238. Therefore the $731,238 will be considered undocumented federal questioned costs.

In addition, only the expenditures through October 1999 of SAFY of America's check register were tested. We were informed a new accounting system was implemented in 1999. We were promised the check register from the Great Plains accounting system but it was not provided. We were provided a trial balance summary of the general ledger from the Great Plains system which was used along with the general ledger from the old accounting system to reconcile the total expenditures from the general ledger to the audited financial statements. The trial balance summary for 1999 for the Great Plains totaled $1,766,378. We were unable to test the expenditures processed by the Great Plains accounting system, therefore the $1,766,378 will be considered federal questioned costs.

Furthermore, management informed us that during 1999 Bruce Maag, CEO for SAFY of America resigned and was paid $100,000 severance a year in 1999, 2000 and 2001 for a total of $300,000. The 1999 severance payment of $100,000 was reflected on Mr. Maag's W-2, but management informed us it was not paid through the payroll system and included in the 1999 check register not provided for review. It was included in the federal questioned costs.

The following table presents the calculation of the base of expenditures allocable to SAFY of Ohio's foster care program and the resulting questioned costs for 1997, 1998 and 1999.

Allocable Base Calculation	**1997**	**1998**	**1999**
SAFY of America's Operating Expenses (1)	$3,132,505	$4,304,761	$5,153,485
Kreative Learning Expenses	(53,503)	(58,501)	(75,584)
NIFACP Expenses	(104,902)	(186,729)	(180,018)
Spectacular Adventures Expenses	0	(70,507)	(81,257)
Bank Charges	(3,264)	(903)	(1,723)
Direct Cost for Foster Care Programs in Other States	0	(171,816)	0
Specific Director Payroll for States Other Than Ohio	0	(108,697)	(278,273)
Undocumented/Unallowed or Costs for Other States	(6,994)	(85,673)	(29,803)
Undocumented/Unallowed for Meals, Travel, Awards or Other States	0	(60,038)	0
Unsupported Lease Payments	(116,365)	(324,748)	(290,125)
1999 Checks Not Available for Review	0	0	(1,766,378)
Adjusted SAFY of America Allocable Base	$2,847,477	$3,237,149	$2,450,324
X Ohio's Allocation Rate (2)	60%	59%	56%
Recalculated Management Fee	$1,708,486	$1,909,918	$1,372,181
SAFY of Ohio's Management Fee Paid	($2,355,456)	($2,776,620)	($3,032,653)
Questioned Cost	($646,970)	($866,702)	($1,660,472)

(1) Expenditures were obtained from SAFY of America's Audit Reports for December 31, 1997, 1998 and 1999.
(2) Ohio's Allocation rate was determined dividing SAFY of America census days by SAFY of Ohio census days for the year.

Federal Questioned Cost: $3,174,144

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio for foster care services included the $3,159,236 in expenditures. Reviewing the payments from SAFY of Ohio to SAFY of America for management fees pursuant to the previously-quoted standards set forth in OMB Circular A-122 Attachment A, Paragraph A (2)(a) and (g), (3)(a)-(c) and (4)(a) and Ohio Admin. Code Section 5101:2-5-08(G) and (H) and Section 5101:2-47-26(A)(6) we conclude that they constitute federal questioned costs in the amount of $3,159,236.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

SAFY of America and SAFY of Ohio should develop and implement cost allocation methodology with controls to document the allowable costs of the management fees. Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to provide the underlying records of transactions between affiliated organizations that result in cost to any local, state or federal program. In addition ODJFS should consider the related party transactions of private foster care agencies as an area of high risk and ensure such activities are adequately monitored for program compliance.

Furthermore, all PCSAs purchasing services from the Placement Agency should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with SAFY of Ohio and if so seek appropriate remedy. ODJFS should assist the PCSAs in seeking recovery of the misspent funds by providing administrative and technical support as needed.

ISSUE 1-6	UNSUPPORTED ADVANCES PAID TO RELATED COMPANIES

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[92] 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 .." [93]

Also, 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)[94]

The Purchase of Services Agreement establishes inspection and retention requirements for financial records. It states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."[95] The agreement further states that ' the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."[96]

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

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

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

[95] Section 14, Financial Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

[96] Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

SAFY of Ohio's Statement of Cash Flows disclosed payments of inter-company advances of $165,045 for 1999. Due to the commingling of funds, payment of expenditures for affiliated companies and lack of written policies and procedures for the monthly reconciliation of accounts receivable and payable we requested supporting documentation detailing the inter-company advances.

We were provided a copy of SAFY of Ohio's general ledger with monthly totals, but not the detailed transactions or the supporting documentation requested. SAFY of Ohio did not provide documentation to support the inter-company advances of $165,045 paid. The $165,045 was considered inadequately documented for purposes of the cited portions of OMB Circular A-122 and did not demonstrate that the payments it made to the related organizations benefitted SAFY of Ohio's foster care program.

Federal Questioned Cost: $165,045

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio for foster care services included the $165,045 in inadequate and undocumented expenditures. SAFY of Ohio was in violation of Ohio Admin. Code Section 5101:2-47-26(A)(6) and Sections 14 and 15 of its contract with CCDCFS and OMB Circular A-122[97] in the amount of $165,045.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to provide the underlying records of transactions between affiliated organizations also be available for audit. In addition ODJFS should consider the related party transactions of private foster care agencies as an area of high risk and ensure such activities are adequately monitored for program compliance.

Furthermore, all PCSAs purchasing services from the Placement Agency should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with SAFY of Ohio and if so seek appropriate remedy. ODJFS should assist the PCSA's in seeking recovery of the misspent funds by providing administrative and technical support as needed.

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[97] Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment A, Paragraph A(2)(a) and (g) and (3)(a) through (c).

ISSUE 1-7	UNSUPPORTED EXPENDITURES FOR EQUIPMENT PAID TO SAFY HOLDING

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[98] 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. . ." [99]

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

Specifically regarding related-party transactions, Ohio Admin. Code Section 5101:2-5-08(G) provides: "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." Further, Ohio Admin. Code Section 5101:2-5-08(H) states: "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." Ohio Administrative Code Section 5101:2-47-25 states that leased equipment is "allowable to the extent of its use for the program and its reasonableness to sound business policy."

SAFY of Ohio and SAFY Holding entered into a Lease Agreement for vehicles and equipment effective January 1, through December 31, for 1997 and 1998. We were advised by Stephen Mansfield that the 1998 agreement was extended to cover 1999. Schedule A of the agreement included a list of office equipment and furnishings for each division of SAFY of Ohio, but not the date of purchase or acquisition cost. Schedule B noted the fee charged by SAFY Holding for the leased equipment, for SAFY of America, SAFY of Ohio and the other state affiliates. We noted payments made to SAFY Holding for leased equipment and vehicles in the amounts of $90,900 (1997), $114,000 (1998) and $114,000 (1999) totaling $318,900.

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

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

To determine that the fees associated with the lease agreement were reasonable, favorable and competitive to SAFY of Ohio, we subpoenaed SAFY of Ohio to provide any and all documents, describing arrangements for the lease and/or maintenance of equipment by SAFY of Ohio, Inc., or by another entity on behalf of SAFY of Ohio, Inc., which were authorized or in effect during the period January 1, 1998, through June 30, 1999, or for any portion of that period including but not limited to contract agreements with: Edwards Business Machines, Business Credit Leasing, Modern Copy System, Perry Corporation, B.O.P., Inc., Copelco Capital, Inc., Pro-Copy, Olde Cape Colony, and Sims Business Production and SAFY Holding Company, Inc., together with documents showing all payments, made to these organizations during the referenced time period. Documents should include invoices or billing statements, check stub, and canceled checks.

Prior to the exit conference, SAFY of Ohio provided copies of the Lease Agreements with SAFY Holding, but not the date or cost of acquisition for the equipment and furnishings noted in schedule A of the agreement or the methodology used to determine the fee charged for the equipment and vehicles.

On September 30, 2002 we were provided documentation to support the costs of leased equipment, furnishings, and vehicles in the amounts of $48,141 (1997), $49,921 (1998) and $39,426 (1999) totaling $137,488. We did not receive documentation to support leased charges in the amounts of $42,326 (1997), $64,079 (1998), and $74,574 (1999) totaling $180,979. Therefore the $180,979 will be considered undocumented federal questioned costs.

Neither SAFY Holding nor SAFY of Ohio provided us with documentation to determine that the remaining leased equipment costs of $180,979 were reasonable, favorable and competitive to SAFY of Ohio, and were not adequately documented in violation of OMB Circular A-122, Attachment A, Paragraph A (2)(a) and (g).

Because the board of trustees for all the organizations consist of the same individuals, all inter-company financial transactions were considered related party transactions and had the potential of being in violation of Ohio Admin. Code Section 5101:2-5-08(G) and (H) which require all goods and/or services must be provided at a competitive cost or terms favorable to SAFY of Ohio. Documentation was not provided to document SAFY of Ohio's Board of Trustees consideration of the significance of the related party financial transactions, nor compliance with the section of code.

Federal Questioned Cost: $180,979

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio for foster care services included the $318,900 in inadequately documented expenditures. SAFY of Ohio was in violation of Section 14 and 15 of its contract with CCDCFS and OMB Circular A-122, Attachment A, Paragraph A(2)(a) and (g) and Paragraph (A)(3)(a) through (c). SAFY of Ohio was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(6) and/or Ohio Admin. Code Section 5101:2-5-08(G) and (H) with respect to the undocumented expenditures in the amount $180,979.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

In addition to the independent auditor's report on the financial statements, SAFY of Ohio should develop and implement cost allocation methodology with controls to document the allowable costs of the Lease Agreement. Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to provide the underlying records of transactions between affiliated organizations that result in costs to local, state or federal programs also be available for audit. In addition ODJFS should consider the related party transactions of private foster care agencies as an area of high risk and ensure such activities are adequately monitored for program compliance.

Furthermore, all PCSAs purchasing services from the Placement Agency should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with SAFY of Ohio and if so seek appropriate remedy. ODJFS should assist the PCSA's in seeking recovery of the misspent funds by providing administrative and technical support as needed.

ISSUE 1-8	COSTS FOR MAINTENANCE AND REPAIR OF VEHICLES PAID BY SAFY OF OHIO CONTRARY TO LEASE AGREEMENT WITH SAFY HOLDING, A RELATED PARTY

Results:

Paragraph 7 of the 1997 and 1998 Lease Agreement between SAFY of Ohio and SAFY Holding, for vehicles and equipment states in pertinent part: "Lessor [SAFY Holding Company] shall keep all motor vehicles subject to this lease, in good repair and working order. Lessor shall be responsible for all costs in maintaining the automobiles provided under this agreement." SAFY of Ohio was to maintain and repair the equipment, other than vehicles, at its own cost and expense. SAFY Holding was to maintain and repair the vehicles and maintain insurance on all property.

In addition, the 1998 SAFY of Ohio Notes to Financial Statements, stated "SAFY Holding Company, Inc. - owns all equipment and vehicles and services related debt. Equipment and vehicles are leased to the other corporations.[100]

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[101]

Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(6) states in pertinent part, " . . . <u>any outlay of cash</u> with no prospective benefit to the facility or program" are considered unallowable."

[100] Related Party Transactions, Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998, Note 3 pg 11.

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

During the review we found that SAFY of Ohio routinely paid for maintenance and repairs on the vehicles leased from SAFY Holding. SAFY of Ohio paid for the maintenance and repairs, although the cost of maintenance and repairs was included in the lease agreement. Maintenance and repairs paid by SAFY of Ohio in 1998 totaled $9,498.[102] We requested documentation to demonstrate the reimbursement for the repair and maintenance paid by SAFY of Ohio. Documentation was provided to show the reimbursement to SAFY of Ohio for $2,162.

SAFY of Ohio had already paid for these costs through its lease agreement and thus had paid for the same services twice. The duplicate payment for repair and maintenance of vehicles was contrary to the Lease Agreement with SAFY Holding, provided no prospective benefit to the facility or program and is considered a federal questioned cost of $7,336.

Federal Questioned Costs: $7,336

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio for foster care services included the $7,336 in expenditures. Reviewing this transaction pursuant to the previously-quoted standards set forth in OMB Circular A-122 Attachment A, Paragraph A (2)(a) and (g), Ohio Admin. Code Sections 5101:2-47-26(A)(6), and Paragraph 7 of the lease agreement we conclude that the vehicle maintenance and repair payments in the amount of $7,336 made by SAFY of Ohio, to its related party company, SAFY Holding constitutes a federal questioned cost in the amount of $7,336.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

SAFY of Ohio should develop and implement procedures to ensure proper reimbursement of expenditures that should be paid by affiliated organization.

It is further recommended that all expenditures be handled using the appropriate procedures as outlined in the board approved policies and procedures manual for purchases. This would help to ensure the proper authorization, approval and purpose of the expenditure and that transactions are clearly identified in the accounting system.

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[102] $9,498 was the net total of all auto maintenance accounts (81600) listed in the 1998 SAFY of Ohio General Journal.

ISSUE 1-9	INSURANCE PREMIUMS PAID BY SAFY OF OHIO, INC. ON BEHALF OF A RELATED AGENCIES AND OTHER STATES

Results:

Office of Management and Budget (OMB) Circular A-122 “Cost Principles of Non-Profit Organizations,” requires that for a cost to be allowable under an award, cost must, among other factors be reasonable and adequately documented.[103] 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 ..” [104]

In addition OMB Circular A-122, Attachment A, Paragraph (4)(a) states in part “A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity in accordance with the relative benefit received.”

Ohio Admin. Code Section 5101:2-47-26(A)(6) states in pertinent part, “ . . . any outlay of cash with no prospective benefit to the facility or program” are considered unallowable.”

We noted that insurance premiums were paid by SAFY of Ohio in the amount of $73,338 (1997), $79,284 (1998) and $88,023 (1999) totaling $240,645. While reviewing SAFY of Ohio expenditures, we noted payments made to Foster Parent Professionals for a policy with the United National Group Foster Parent Liability Program. Upon further review of the declaration page of the policy, we found these payments were for a insurance policy which covered SAFY of Ohio along with SAFY of America, and all the other state affiliates that were in operation during the period covered. The premiums in the amount of $48,055 were paid solely by SAFY of Ohio, although the other state affiliates benefitted from the policy coverage and should have paid a prorated share of the cost. SAFY of Ohio management confirmed the insurance premiums should have been prorated.

We subpoenaed SAFY of Ohio, but did not receive, as of the date of the issuance of this report, copies of all insurance policies authorized or in effect during the Period and designed to provide coverage for foster parents, building and contents; equipment and vehicles used or leased by or on behalf of SAFY of Ohio, Inc., together with documents showing payments pursuant to these agreements, and the methodology, cost allocation, and supporting documents used to determine the amounts paid or allocated for each foster care division/location in Ohio per the subpoena.

We received the cover page for several insurance policies but no details as who or what was insured and no documentation to support the allocation of the premium to the other affiliates, nor the reimbursement to SAFY of Ohio by the other organizations. Those payments made by SAFY of Ohio for insurance costs were not reasonable, adequately documented and benefitted SAFY of America, SAFY Holding and the other state affiliates.

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

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

Federal Questioned Cost: $240,645

The reimbursement claims submitted on the ODHS 1925 (Title IV-E) Monthly FCM Invoice by PCSAs contracting with SAFY of Ohio included the $240,645 in inadequately documented expenditures. These expenditures were unallowed costs in violation of OMB Circular A-122 Attachment A, Paragraph A (2)(a)and (g) and Paragraph A(3) (a)-(c) and (4)(a), and Ohio Admin. Code Section 5101:2-47-26(A)(6) and constitute federal questioned costs in the amount of $240,645.

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

Management Comment:

We recommend the agency establish accounting policies and procedures that ensure that costs are properly allocated among the affiliated organizations receiving the benefits. We further recommend that SAFY Holding, SAFY of America and the other state affiliates reimburse SAFY of Ohio for costs paid on their behalf.

Furthermore, all PCSAs purchasing services from the Placement Agency should determine whether the federal questioned costs set forth in this issue constitutes a breach of any contract or agreement it may have with SAFY of Ohio and if so seek appropriate remedy. ODJFS should assist the PCSA's in seeking recovery of the misspent funds by providing administrative and technical support as needed.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES

Objective:

To determine whether all receipts and deposits from the applicable public children services agencies to the SAFY of Ohio 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 SAFY of Ohio received during the Period, by scanning the audited financial statements and the supporting general ledger.

2. We identified the source of receipts received from bank statements and other related records.\

3. We obtained documentation from the Cuyahoga County Auditor to determine the completeness of receipts received and deposited for fees for services.

4. We tested a sample of 10% of the monthly billings by the Placement Agency to CCDCFS for foster care placements to determine whether the amounts billed were received, and the receipts were deposited and recorded in the Placement Agency's financial records.

5. We scanned all revenue remittances and the general ledger to determine whether revenue had been recorded in the accounting records of the Placement Agency.

Results:

We documented the types of revenue that SAFY of Ohio received as: program service fees from various counties and governmental agencies, grants and miscellaneous income. They did not receive medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from the CCDCFS. Furthermore, we determined that all CCDCFS disbursements to SAFY of Ohio 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 SAFY of Ohio were used in accordance with the Social Security Act.

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

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

Procedures Performed:

1. We obtained from Cuyahoga County Department of Children and Family Services (CCDCFS) the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to Cuyahoga County Department of Children and Family Services for the months of January 1998 to December 1998 for foster care services. We also obtained from the Cuyahoga County Auditor a vendor payment history report for SAFY of Ohio for the same period and traced these payments to the invoices submitted by SAFY of Ohio.

2. We selected a representative sample of children identified by CCDCFS as Title IV-E eligible children being serviced by SAFY of Ohio. Federal maintenance payments for these children totaled $233,471 or 37% 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 SAFY of Ohio from CCDCFS to the corresponding SAFY of Ohio billing in the billing in 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 SAFY of Ohio 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 SAFY of Ohio and CCDCFS and between SAFY of Ohio and foster caregivers.

9. We compared the SAFY of Ohio's per diem paid to the foster parents with the corresponding per diem it received from CCDCFS to determine the ratio of payments for administration and maintenance.

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

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.[105]

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[106] made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments[107] made and 50% for administrative costs[108] incurred under the Title IV-E program.

We selected a sample of 266 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and CCDCFS submitted $444,557 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 $402,536 and received $233,471 at the 58% FFP reimbursement rate, however the Placement Agency only made maintenance payments to foster parents totaling $233,446. The remaining $169,090 was retained by SAFY of Ohio 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)	$233,471
Required PCSA Match for Federal Financial Participation	169,065
Total Title IV-E Maintenance Claimed by ODJFS	402,536
Amount Paid by PNA to Foster Parents for Maintenance	(233,446)
Overstatement of Maintenance Claim	$169,090

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105 42 U.S.C. Section 675 (4)(A).

106 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.

107 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.

108 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.

Projected Questioned Cost:

We specifically identified $169,090 of maintenance over claimed in our sample. In order to evaluate the potential effect caused by these systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned costs. We used the ratio approach, as illustrated below:

Dollar Amount of Error : Dollar Amount of Sample	$169,090/$402,536	42.01%
Dollar Amount of Population		X $7,985,509
Projected Overstatement of Maintenance Costs		$3,354,712
Projected Overstatement of Maintenance Claimed (58% reimbursement rate x ($3,354,712)		$1,945,733
Allowable Administration Reimbursement (50% reimbursement rate x ($3,354,712)		($1,677,356)
Projected overstatement of Maintenance Claim		$268,377

Federal Questioned Cost: $268,377

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in 42 U.S.C. Section 675(4)(A). In our sample, we found that the maintenance cost claimed for federal reimbursement was overstated by $169,090 and when extended to the population using the ratio approach resulted in questioned costs of $268,377.

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.[109]

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.[110] 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.[111]

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109 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).

110 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.

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

ISSUE 3-2	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE

Results:

We tested the payments from Cuyahoga County Department of Children and Family Services (CCDCFS) to SAFY of Ohio for a sample of 372 foster children. The payments to the Placement Agency for this sample totaled $625,791. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

The foster parents in the sample received $327,595, we noted 300 or 81% of the foster parents received the correct per diem rates per the individual per diem agreements with SAFY of Ohio. The foster parents received $327,595 or 52% of the total funds paid to the Placement Agency by CCDCFS. The remaining $298,196 or 48% was retained by SAFY of Ohio and used for administrative costs, other direct services to children or other purposes.

The amount paid to foster parents raged from 43% to 55% of the stated daily per diem rate, depending on the level of care.

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	FOSTER PARENT PAYMENT

Results:

"Section 4(C) of the contract between the Cuyahoga County Department of Children and Family Services and SAFY of Ohio sets forth minimum daily payments which must be made to foster parents, for specified services.

In 72 of the 372 transactions tested, (19%), SAFY of Ohio did not pay the foster parents the minimum per diem rates required by the contract."

The contract between CCDCFS and SAFY of Ohio sets forth the amounts to be paid as the daily per diem rate for the services specified in the contract. In addition, the contract sets the minimum amount to be paid to foster parents from the daily per diem rate paid to SAFY of Ohio by CCDCFS.[112]

Management Comment:

SAFY of Ohio should adopt per diem rates in accordance with contract requirements. It is further recommended that SAFY of Ohio implement procedures for an effective system for monitoring to ensure that the policies are in place and working properly and to ensure compliance with its contract agreement requirements.

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[112] Cost and Delivery of Purchased Services, Purchase of Services Agreement, Section 4(A) and Foster Parent Payment Section 4(C).

ISSUE 3-4	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 SAFY of Ohio 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 SAFY of Ohio 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 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	BOARD INDEPENDENCE

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."

In addition, 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."

We found the Boards of SAFY of Ohio and its affiliated organizations lacked independence and did not provide effective oversight that would control financial self dealing through less-than-arms-length transactions and questionable business practices which could affect SAFY of Ohio's fiscal accountability and compliance with applicable rules and regulations. We found the following:

1. SAFY of Ohio, SAFY of America and the other state affiliates are separate entities but shared common corporate officers and/or board members. The members of each corporation consists of the Board of Trustees of SAFY of America. The membership elects the Board of Trustees of each corporation for SAFY of Ohio as well as all state affiliates located in Indiana, South Carolina, Texas, Oklahoma, and Nevada.

   SAFY of Ohio funded the start-up costs for SAFY of America, and SAFY Holding. SAFY of America and SAFY Holding were created to facilitate the expansion of foster care agencies across the United States. Therefore the mission and goals of SAFY of America could supersede the best interest of SAFY of Ohio and/or the needs of the individual state affiliate.

2. SAFY of Ohio, SAFY of America and SAFY Holding and the other state affiliates are separate entities but shared common corporate officers. (See the chart in Significant Related Party Transactions[113] with Corporate Officers and Affiliated Organizations.) These corporate officers as employees of SAFY of America and several board members had a direct or indirect financial interest or business or personal relationship which could impair the corporate officer or board member's objectivity.

3. The three members of SAFY of America, Bruce Maag, Rose Watt and Ron Jones, elect the SAFY of America Board of Trustees. SAFY of Ohio's bylaws name the SAFY of America Board of Trustees as the only members of SAFY of Ohio, who in turn elect Ohio's Board of Trustees.[114] We found certain individuals served on both boards and SAFY of America served as a parent organization to SAFY of Ohio.

[113] 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.

[114] Letter from Lisa Bachman to ODHS Licensing Specialist dated September 10, 1999.

4. All the state affiliates, including SAFY of Ohio were required to enter into a management services contract with SAFY of America. SAFY of Ohio paid management fees of $3,032,653; $2,776,620 and $2,355,456 to SAFY of America during 1999, 1998 and 1997 respectively[115] (See Issue 1-5 Unsupported Expenditures for Management Services Fee Provided by SAFY of America).

   The same individuals, the Board of Trustees of SAFY of America and corporate officers had the ability to control or substantially influence the actions of others involving SAFY of Ohio, SAFY Holding and the other state affiliates. All inter-company financial transactions were considered related party transactions and subject to Ohio Admin. Code Section 5101:2-5-08(G) which require all goods and/or services must be provided at a competitive cost or terms favorable to SAFY of Ohio. Furthermore, Ohio Admin. Code Section 5101:2-5-08(H) restricted members of the governing body from voting or participating in the decision making process involving issues in which he/she could benefit financially or materially. Documentation was not provided to document the Board of Trustees' consideration of the significance of the related party financial transactions, nor compliance with the section of code.

5. SAFY Holding a nonprofit organization was incorporated on December 6, 1988 by Bruce Maag. Mr. Maag, Rose Watt (a former board member) and Ron Jones served as trustees. SAFY Holding owned all the equipment and vehicles and leased them to SAFY of Ohio and the other affiliated organizations. Ron Jones, a employee of SAFY of America served as President for SAFY Holding and Bruce Maag served as Vice President.

6. SAFY of America originally named, Specialized Alternatives for Youth of America, Inc. was incorporated as a nonprofit company on December 6, 1988 by Bruce Maag. Mr. Maag, Rose Watt and David Nell (former board members) served as trustees.

7. National Institute for Alternative Care Professionals (NIFACP) a division of SAFY of America, is a registered trade name. On May 22, 1989 the trade name was assigned to SAFY of America by Bruce Maag, who signed as owner and president of Turtle Enterprise a for profit company. On September 29, 1997 a Certificate of Dissolution By Shareholders was signed by Bruce and Shirley Maag for Turtle Enterprise.

8. During the November 10, 1999 SAFY of America board meeting four of the seven board members resigned Dan Combs, Bob Vargo, Rose Watt, and Dave Nell (The resignations were accepted at the SAFY of Ohio board meeting held on November 29, 1999.) On December 22, 1999 the SAFY of America Board of Trustees accepted the resignation of Bruce Maag as CEO.

9. In December 1999 the Council on Accreditation for Children and Families (COA) suspended SAFY accreditation due to membership issues of the Board as written in the by-laws and other leadership issues were noted as the reasons for the suspension. The accreditation was reinstated in August 2000.

10. Spectacular Adventures, a for-profit organization, incorporated by two key employees for SAFY of America, Stephen Mansfield and Richard Maye was used in most instances to make all the travel arrangements for SAFY of Ohio and all the state affiliates. The office for Spectacular Travel was located at 10100 Elida Road, the headquarters for SAFY of Ohio, SAFY of America, and SAFY Holding. Spectacular Travel relocated its offices during the course of the audit.

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115 Specialized Alternatives for Families and Youth of Ohio, Inc. Audit Report, December 31, 1998 and 1999, Notes to Financial Statement, Note 4.

11. Stephen Mansfield, the legal counsel for SAFY of America operated his private law practice from his office provided by SAFY of America located at 10100 Elida Road. Mr. Mansfield terminated his employment with SAFY of America during the course of the audit but still maintains his private law offices at SAFY of America's headquarters. In addition, Mr. Mansfield and his secretary have full access to SAFY of America's supplies and equipment, such as the copier and fax.

    In a letter dated September 30, 2002 SAFY of America included a policy defining the parameters in which a private practitioner can operate within a SAFY facility dated August 1, 2002 and also noted Mr. Mansfield pays rent but no documentation supporting the payment of rent was provided.

12. SAFY of America issued consolidated financial statements for all the affiliated organizations. Consolidated financial statements are usually prepared for several corporate entities operating under common control. In addition SAFY of Ohio and all the other entities issued separate financial statements.

13. In a subpoena issued during the course of the audit, we requested documentation of board members, executive personnel and their immediate family members. It was disclosed one board members' mother and two siblings were foster parents for SAFY of Ohio, another board members' wife was employed as the preschool director and whose son worked as summer help, another board members and a corporate officer's child worked as summer help. We found no evidence that the agency had taken step to implement policies and procedures to reduce the potential problems resulting from employment of relatives at the Placement Agency.

The lack of effective oversight by the Boards of SAFY of Ohio and its affiliates results in a high risk that the related party transactions may be in violation of Ohio Admin. Code Section 5101:2-5-08(G) and (H) as well as may raise issues of private inurement as defined in 26 C.F.R. §1.501(c)(3)-1(d)(1)(ii)(2001), which could result in sanctions by the Internal Revenue Service.

Management Comment:

We recommend SAFY increase the organizational independence of its Board of Trustees. The Board of Trustees could include professionals knowledgeable in the area of foster care and a cross section of business professionals in the community that do not have a direct or indirect financial interest in the Placement Agency. Furthermore, ODJFS should revise its administrative rules by including policies and procedures that would result in a higher level of board independence and financial accountability.

In addition ODJFS should consider board independence and oversight as an area of high risk and develop policies and guidelines to ensure that such transactions are adequately monitored for program compliance.

ISSUE 4-2	SAFY OF OHIO'S PRODUCTION OF FINANCIAL RECORDS

Results:

OMB Circular A-110, Subpart C, Paragraph 53(b) states: "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..."

Furthermore, the Purchase of Services Agreement establishes inspection and retention requirements for financial records. It states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."[116] The agreement further states that ' the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."[117]

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."

Further, accounting standards recognize the relevance of related parties to an audit. "An interest in another entity exists if the other entity holds or utilizes significant resources that must be used for the unrestricted or restricted purposes of the not-for-profit organization, either directly or indirectly by producing income or providing services, or the reporting organization is responsible for the liabilities of the other entity. A reporting organization provides or is committed to provide funds for another entity or guarantees significant debt of another entity." [118]

During the course of the review, beginning on May 22, 2000, we requested credit card statements, canceled checks, contracts, lease agreements, and other financial records along with family foster home files to determine compliance with applicable terms and conditions of contractual agreements, provisions of applicable laws and regulations and proper business purposes. Among documents requested were those showing payments by or to a related party. For items that were not adequately documented or did not appear reasonable we requested supporting documentation, such as contractual agreements, insurance policies, invoices, billing statements, calendar dates of the foster care related events, authorization by the board or responsible party, an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program.

In some instances the information was promised and provided after numerous requests, or partial information was provided, and in other instances the information was redacted or not provided at all, especially transactions paid by or to a related party or to affiliated organizations, such as SAFY of America, SAFY Holding, Spectacular Adventures for You and the National Institute for Alternative Care Professionals (NIFACP) or outside vendors for the benefit of those affiliated organizations. In addition, the related party transactions required documentation to support that services or goods involved were provided at a competitive cost or under terms favorable to SAFY of Ohio.

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116 Section 14, Financial Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

117 Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

118 American Institute of Certified Pubic Accounts (AICPA) Audit and Accounting Guide for Not-For-Profit Organizations, Investments chapter 8, Appendix D.

The Placement Agency refused to provide the information requested and stated, "Since Specialized Alternatives for Families and Youth of Ohio, Inc. is the corporate entity that contracts with the various Ohio County Children Services Agencies, your requests to see the records and minutes of Specialized Alternatives for Families and Youth of America, Inc. and SAFY Holding Co. Inc. had to be refused as being not germaine to audit and administrative review of the Ohio program, the subject of your office's (Auditor of State) review."[119]

On March 23, 2001, after the requested information had still not been provided voluntarily, the Auditor of the State of Ohio's office issued subpoenas to SAFY of Ohio and affiliated companies SAFY of America, Inc. and SAFY Holding, Inc. for documents pertinent to the review, so that the audit could proceed.

The subpoenas sought specified documents relevant to the structure and governance of SAFY operations, the administration of the foster care program by SAFY of Ohio, and its financial transactions, including but not limited to documents stating conditions of separation for Bruce Maag and check stubs and cancelled checks related to that separation, as well as documents, included but not limited to evidence of work product, check stubs, cancelled checks and disbursement journals evidencing related party transactions and supporting the determination of a rate or fee for such transactions. Also among items sought were documents such as receipt ledgers and other books of original entry which reflected all revenue received on behalf of SAFY of Ohio, Inc.

Following discussions with representatives of the subpoenaed entities regarding subpoena compliance, the Auditor of State's office by letter of April 5, 2001, agreed to extend the time for document production to mutually agreeable dates during the months of April, May and June 2001, to limit the scope of documents sought from SAFY of Ohio affiliates to those pertaining to SAFY of Ohio, and to limit documents sought in subpoenas to the period January 1, 1998 through June 30, 1999. This agreement was made expressly "in consideration for your promise to work with us in good faith to comply with the subpoenas, so that this audit may be completed in a timely fashion." By letter of April 18, 2001, counsel for the SAFY entities agreed to the subpoena modifications.

SAFY of Ohio then produced a number of copies of documents in response to its subpoena. However, by the time of the exit conference, on September 11, 2002, the subpoenaed entities had still not produced certain documents, subpoenaed and/or requested on the audit site, including any separation agreements for Bruce Maag, actual documents (other than narratives) supporting the determination of related party fees, consulting fees, and no-compete fees, and evidence of work product, or documents, including receipt ledgers for SAFY of Ohio, and certain other financial records subpoenaed and/or requested from SAFY of America and SAFY Holding, such as general ledgers, receipt ledgers or check registers. As a result, auditors proposed to question substantial costs for which documentation had not been supplied.

At the exit conference, the SAFY of America's Board instructed SAFY of America's staff to produce its remaining documents, including those held by its affiliates. Some additional documents, though still not complete or totally responsive were produced from the time of the exit conference through Friday, October 4, including certain financial documents supporting the actual expenditures of SAFY of America, upon which the management fee for SAFY of Ohio was calculated.

119 Letter from Stephen J. Mansfield, General Counsel, SAFY of America, dated January 30, 2001.

To the extent that expenditures remain inadequately documented, they have been included as questioned costs in this report as we were unable to apply the necessary procedures to determine compliance with applicable terms and conditions of contractual agreements, provisions of applicable laws and regulations and proper business purposes.

Although some additional documentation was ultimately provided, SAFY's initial lack of cooperation with the audit, which resulted in the issuance of subpoenas, and the failure of affiliated companies to timely produce subpoenaed and/or requested documentation relevant to related party transactions raises questions about the independence of SAFY of Ohio from its affiliates. Its significant number of related party transactions could interfere with its ability to engage in objective financial decision-making.

In addition, the delay with which SAFY of Ohio responded to requests for audit information and was not consistent with its obligations under its contract with the Cuyahoga County Department of Children and Family Services contract which states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."[120] The agreement further states that ' the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."[121]

Management Comment:

SAFY of Ohio should maintain and keep its records available in accordance with the requirements of its contract with CCDCFS and OMB Circular A-110. Furthermore, records and their supporting documentation should be presented for review or audit in a timely manner.

ISSUE 4-3	SEGREGATION OF DUTIES

Results:

Proper segregation of incompatible duties is an underlying principle of establishing internal control. Incompatible duties exist when an individual is in the position of being able to commit fraud, misappropriate funds and conceal it.

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.

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120 Section 14, Financial Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

121 Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 4/30/98, pg. 23.

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
REPORT ON AGREED-UPON PROCEDURES

In evaluating the internal controls of SAFY of Ohio, we identified the following concerns:

1. SAFY of Ohio, SAFY of America and SAFY Holding and the other state affiliates are separate entities but shared common corporate officers and/or board members.

2. On March 14, 2000 SAFY of America employees were formally authorized by SAFY of Ohio and SAFY of America's Board to enter into and execute contracts on behalf of the corporations to transact business with any state, county, regional or federal agency, file necessary documents with governmental or taxing authorities and transact with Citizens National Bank of Bluffton any and all business, on behalf of SAFY of Ohio even when entering into contracts with SAFY of America. These employees, Stephen Mansfield, Lisa Bachmann, Veronica Conley, Richard Maye, Druann Whitaker had entered into and executed contracts on behalf of SAFY of Ohio through out the period reviewed from 1997 - 1999.

3. Employees of SAFY of America performed substantial management, financial, human resource, insurance, and administrative functions for SAFY of Ohio and other state affiliates under the management services contract. SAFY of Ohio did not employ fiscal or financial employees and therefore did not have an independent review of these financial transactions. Management fees represented a expense of $3,032,653 and $2,776,620 at December 31, 1999 and 1998 respectively.

4. Funds for all the affiliated companies were commingled along with the chart of accounts, general ledger and the accounting system.

5. Most of the insurance policies named SAFY of America as the insured, when all the affiliated companies were covered based upon our review the declaration or cover page of the insurance policy when they were provided.

6. Payments for numerous expenses for the affiliate agencies were initially paid by SAFY of Ohio. In many instances the expenditures was made by a employee of SAFY of America, reviewed and processed by an employee of SAFY of America who was supervised by a SAFY of America employee. In addition payments for expenses on behalf of SAFY of Ohio were paid by SAFY of America.

   A suspense account was established to record and net the inter-company transactions prior to being posted to the inter-company account. During the course of the audit we informed the suspense account was not reconciled on a monthly or quarterly basis. Inter-company advances represented a liability to SAFY of Ohio of $3,407,172 and $3,572,217 at December 31, 1999 and 1998 respectively. We subpoenaed SAFY of Ohio to provide any and all supporting documentation for the inter-company advances, no documentation was provided.

7. During our Review it was noted that monthly medicaid receipts ranging from $10,000 to $103,122 which totaled $533,483 for 1998 were deposited into the Ohio account. When we inquired about the receipts the agency reported that the receipts were not for SAFY of Ohio, but for SAFY of Oklahoma. There was no explanation given for the posting error.

8. Corporate credit cards were used interchangeably among SAFY of Ohio and SAFY of America employees.

9. Interest earned in the investment sweep account was not allocated to SAFY of Ohio or the various divisions.

10. National Institute for Alternative Care Professionals (NIFACP) a division of SAFY of America, is responsible for coordinating training by obtaining the facility, presenters and materials associated with required training for SAFY of Ohio and all the state affiliates. No contract agreement between SAFY of Ohio and NIFACP was provided to document the terms and conditions of services to be provided. SAFY of Ohio paid $101,845 for training in 1998 according to ODHS 2910 Purchased Family Foster Care Cost Report.

11. SAFY of Ohio leased vehicles and equipment from SAFY Holding. During our review of Board minutes, the board minutes dated February 6, 2001 was the first time a lease agreement between SAFY Holding and SAFY of Ohio was noted.

Thus independent oversight of the transactions was non-existent. If controls are not placed in operation that provide for a segregation of duties over the disbursement and cash receipt cycles there is a possibility of theft or the misappropriation of assets, which could go undetected as well as errors in the reporting of the financial transactions.

Management Comment:

We recommend that the SAFY of Ohio and SAFY of America segregate cash handling and accounting activities in order to eliminate conflicting duties being performed by one person. This will improve the effectiveness of the internal controls. Furthermore, we recommend that money received by SAFY of Ohio be endorsed (for deposit only) and posted daily by different individuals which will promote the segregation of duties. This will reduce the chance of monies being lost or misappropriated. In addition the documentation of SAFY of Ohio's expenses should be reviewed by individuals independent of the record keeping process.

Subsequent to the exit conference SAFY of America provided copies of policies and/or procedures dated July 31, 2002 titled Cash Receipts/Cash Transfers and Bank Reconciliation Process.

ISSUE 4-4	USE OF CORPORATE CREDIT CARDS

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.

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."

We reviewed the Visa credit card statements for twenty-four accounts. We selected credit card expenditures which were not adequately documented and did not appear reasonable considering the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or authorization contrary to policy, we requested supporting documentation, such as invoices.

During the Period we noted the credit cards were used interchangeably between employees and for affiliated companies. Payments for numerous expenses for the affiliate agencies were initially paid by SAFY of Ohio and in many instances without proper supporting documentation. A suspense account was established to record the inter-company transactions, but during the course of the audit we informed the suspense account was not reconciled. Furthermore, in many instances the expenditures were made by a employee of SAFY of America, reviewed and approved by an employee of SAFY of America who was also supervised by a SAFY of America employee.

In addition employees were allowed to make personal purchases and then reimburse the Placement agency, thus circumventing the sales tax laws and regulations.

Management Comment:

We recommend that management draft and the Board of Trustees approve a written policy prohibiting personal use of the corporate credit card. Furthermore, the policy should define what constitutes allowable expenditures and establish responsibility for repaying unallowable expenditures. The policy should require the user to maintain all receipt documentation and submit them for review, to determine compliance with the established policy, to the financial office where they should be maintained. In addition, the policy should detail the financial department’s responsibility for maintaining up-to-date records of all credit card expenditures and management’s responsibility for monitoring these expenditures.

Subsequent to the exit conference SAFY of America provided a copy of “ Fiscal Policies” dated February 4, 2002.

ISSUE 4-5	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.

SAFY of Ohio 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 SAFY of Ohio establish an audit committee. An audit committee could strengthen board oversight by performing the following functions:

- Periodically review the process used to prepare interim financial information submitted to the Board of Trustees;
- Review and evaluate audit results;
- Assure that audit recommendations are appropriately addressed;
- Assure auditors' independence from management; and
- Serve as liaison between management and independent auditors.

The audit committee should include persons knowledgeable of the Placement Agency's operations and in finance and management. The audit committee should meet regularly (perhaps quarterly) to monitor the Placement Agency's financial reporting and internal control activities, and should meet with its independent auditors before and after each audit.

Subsequent to the exit conference in a letter dated September 30, 2002 we were informed SAFY of America formed an audit committee.

ISSUE 4-6	ACCOUNTING POLICES AND PROCEDURES

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. Adequately designed accounting policies and procedures enhance the reliability of the Placement Agency financial reports.

During our audit, SAFY of Ohio did not provide written accounting policies or procedures for:

- the monthly reconciliation of accounts payable and accounts receivable to the general ledger,
- meal reimbursement for the independent living program,
- the methodology or requirements for the write-off of bad debts,
- the usage of company credit cards, and fixed assets.

Failure to adequately safeguard assets may expose the Placement Agency to the risk that theft, or unauthorized or unallowed expenditures could occur and go undetected.

The lack of written policy notification and guidance in accounting procedures could lead to non-compliance with federal or state requirements under the foster care program and inefficient or improper processing of transactions.

Management Comment:

We recommend SAFY of Ohio establish written accounting policies and procedures. Accounting policies should clearly establish the intent of the Placement Agency to comply with all federal and state requirements of the foster care program. Accounting procedures should clearly instruct Placement Agency employees on the proper methods of processing and reporting financial transactions.

Subsequent to the exit conference SAFY of America provided copies of policies and/or procedures dated July 31, 2002 addressing the following accounting policies and procedures:

1. Month End Closing, Balancing and Financial Statement Preparation Process
2. Purchasing Policies
3. Accounts Payable and Cash Disbursements
4. Payroll Procedures
5. Physical Inventories/Controls
6. Cash Receipts/Cash Transfers and Bank Reconciliation Process
7. Fiscal Policies (dated February 4, 2002)

ISSUE 4-7	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 did not maintain a perpetual inventory nor perform an annual fixed asset inventory at the end of the year. Therefore detailed property records to support the general ledger were not available. 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.

In addition, failure to complete an annual physical inventory and maintain accurate accounting records increases the risk that assets which may have been lost, stolen, or improperly used would go undetected. This could over/under state the fixed assets reported by the entity in it's financial statements. The agency was not aware of the risk imposed by not taking a physical inventory nor the benefits of having a fixed asset policy.

Management Comment:

We recommend that SAFY of Ohio 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 accurate reporting of the fixed assets and related depreciation on the financial statements.

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

Subsequent to the exit conference SAFY of America provided copies of policies and/or procedures dated July 31, 2002 titled Physical Inventories/Controls.

ISSUE 4-8	RETENTION POLICY

Results:

OMB Circular A-110, Subpart C, Paragraph 53(b) states: “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...”

Ohio Admin. Code section 5101:2-5-13(A)(23) states, “An agency shall have a written policy regarding access, confidentiality, maintenance, security and disposal of all records maintained by the agency.”[122]

Section 14 of the Agreement states, “The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this Agreement.” Section 15 states, The Provider shall maintain and preserve all records to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years.

Furthermore, SAFY of Ohio’s policy #P-85 requires that all records for discharged minor clients be maintained for seven years after the attainment of the age of majority, or until completion of any audits in process, whichever date is later. It further states that foster home records for Ohio should be maintained for five (5) years.

[122] During the Period, this provision was stated at Ohio Admin. Code Section 5101:2-5-13(A)(21) before 5-2-98 and at 5101:2-5-13(A)(22) from 5-2-98 forward.

During our review we noted:

1. The agency did not maintain the per diem agreements between the agency and the foster parents for 141 out of 372 of the transactions (38%) tested.

2. Agreements between Cuyahoga and SAFY of Ohio for children in our sample were not retained.

The lack of an effective system of monitoring the retention of records impairs the agency's ability to manage costs and ensure that the proper amounts are billed and received for services rendered and is a direct violation of the Cuyahoga County contract agreement.

Management Comment:

We recommend that the Placement Agency implement procedures to ensure that written policies and procedures are adhered to. These policies should include procedures to implement controls for an effective system for monitoring to ensure that the policies are in place and working properly and to ensure compliance with the Placement Agency's policies, Ohio Revised Code and contract agreement requirements.

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 SAFY of Ohio 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 SAFY of Ohio 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	SAFY OF OHIO OPERATED A CHILDREN'S RESIDENTIAL CENTER (CRC) AND GROUP HOME FROM MAY 1997 TO DECEMBER 1998 WITHOUT ODJFS CERTIFICATION

Results:

Ohio Admin. Code Section 5101:2-5-02(A) states, "Any PCPA or PNA with the purpose of performing any of the functions specified in rule 5101:2-5-03 of the Administrative Code shall file an ODHS 1290 "Application for Certification of Agency Functions" with ODHS to be certified to engage in the specific functions which it intends to perform not less than ninety days prior to the intended date of commencing operation.

In addition, "Any certificate issued by ODHS, either required or voluntary, shall not be transferable from one agency, owner, operator, corporation, partnership, or association to another."[123]

Delwood operated a children's residential center (CRC) with a licensed capacity of thirteen (13), a group home with a licensed capacity of six (6) and provided independent living arrangements. The last ODJFS certification for Delwood was from December 1, 1996 to December 1, 1998. Delwood did not operate a family foster care network.

SAFY of America entered into a management services contract effective May 1, 1997 with Delwood for a period of ten years.[124] SAFY of America was given absolute and complete authority to manage the facility, the employees and financial and administrative affairs of Delwood. In addition, SAFY of America was not required to advise or consult with the Delwood Board of Directors concerning matters which may effect the organization (or reorganization) of the administrative staff, the financial aspect of the program or the development or modification of Delwood's existing programs.[125]

In a letter dated October 10, 1997, Water Eisele, Controller for SAFY of America submitted two ODHS 2909 Residential Child Care Facility Cost Reports for Delwood's residential program and group home. The letter stated the reports were for the start up period of Delwood under SAFY of America's management for the period May 1, 1997 to July 31, 1997. ODJFS issued Title IV-E per diem federal reimbursement rates based on the 90 day cost reports, and the rates were effective from September 1, 1997 through August 31, 1998. In December 1998 the minutes of the SAFY of Ohio's board noted ODJFS had inquired as to why Delwood had not been added to SAFY of Ohio's certificate. SAFY of Ohio was licensed to operate a foster care network but was not licensed by ODJFS to operate a children's residential center or group home.

On January 13, 1999 ODJFS issued a Summary of Findings of Noncompliance for Delwood to its Board President. The findings related to "the Delwood board's subjugating the control of Delwood to SAFY" per the management contract in which SAFY was "given control of the operations of Delwood's CRC." The following instances of noncompliance were sited:

> "Reason for rule citation 5101:2-05-08(A)(1-6): Delwood, The Children's Home of Delaware (hereinafter Delwood) has provided ODHS with a management contract that they have with SAFY. Pursuant to Delwood's contract with SAFY, Delwood has relinquished its authority to control any aspect of rule 5101:2-5-08(A)(1-6).

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123 Ohio Admin. Code Section 5101:2-5-03 (E).

124 Term, Paragraph 2, Management Services Contract entered into between Specialized Alternatives for Families and Youth of America, Inc. and Delwood, The Children's Home of Delaware, Inc. effective May, 1, 1997.

125 Management Authority of SAFY, Paragraph 2, Management Services Contract entered into between Specialized Alternatives for Families and Youth of America, Inc. and Delwood, The Children's Home of Delaware, Inc. effective May, 1, 1997.

5101:2-5-08(A)(1& 2): Pursuant to the management contract, Delwood no longer is responsible for any activities related to personnel. The administrator of Delwood's children's residential center (hereinafter CRC) is a SAFY employee.

5101:2-5-08(A)(3): Pursuant to the management contract between SAFY and Delwood, Delwood no longer is responsible for the day-to-day operations of the Delwood CRC.

5101:2-5-08(A)(4 & 5): Delwood no longer is responsible for any financial matters related to the operation of Delwood.

5101:2-5-08(A)(6): Delwood no longer is responsible for the policies for the operation of the Delwood CRC.

Reason for rule citation 5101:2-05-08(B): Pursuant to the management contract between Delwood and SAFY, Delwood's board no longer the governing body of the Delwood CRC.

Reason for rule citation 5101:2-05-08(G & H): Delwood can no longer assure its compliance with either of these rules. SAFY is responsible for all financial aspects of the operation of Delwood.

Reason for rule citation 5101:2-05-08(I): Delwood is no longer responsible for the mission or programs of the CRC."

On January 25, 1999 SAFY responded to the Summary of Finding of Noncompliance with a Corrective Action Plan in which:

"1. Delwood proposes that it withdraw its application to license the facilities within thirty (30) days. Said withdrawal is to coincide with an amended application to be filed by Specialized Alternatives for Families and Youth of Ohio, Inc. (SAFY) to operate the facility under their license.

2. Delwood requests that ODHS grant the parties thirty (30) days which would allow SAFY to submit its amended application to license Delwood facility and at the same time permit Delwood to withdraw its license."

The letter was written on SAFY of America's letterhead, signed by Lisa Bachman, as Vice President of SAFY of Ohio with a signature space for Fran Patrick, Board President Delwood, The Children's Home of Delaware that was left blank and unsigned. The letter was faxed to ODHS by Steve Mansfield, legal counsel for SAFY of America. According to the management services contract SAFY of America was not required to advise or consult with the Delwood Board for the development or modification of Delwood's programs.

On March 4, 1999 ODHS sent a letter to Fran Patrick, Board President of Delwood, stating the January 22, 1999 request for an oral appeal of the findings had been canceled due to submission by your legal counsel of the corrective action plan (CAP) received on or about January 25, 1999. The CAP was approved and should be implemented within 30 days. A copy of the letter was sent to Stephen J. Mansfield at SAFY along with the ODHS 1290 application form to amend SAFY's certificate.

ODJFS received the ODHS 1290 application from SAFY of Ohio requesting "Add Delwood" and certification to operate a children's residential center, but not the group home, signed by Lisa Bachman, Agency Administrator on March 26, 1999 and David Nell, Board President on March 29, 1999. The ODHS 1290 noted the effective dates of policy statements, plans and other documents required by Ohio Administrative Code applicable to the agency's certified functions to ODHS at the time of initial certification or recertification. April 15, 1997 was the effective date most often used for the functions related to acting as a representative of ODHS in recommending family foster homes for certification, to place children for foster care or adoption, to operate or provide independent living arrangements, and to accept temporary, permanent or legal custody of children.

April 1, 1999 was the effective date for the functions related to operate a children's residential center even though SAFY of America had managed the CRC since May 1, 1997. On May 12, 1999 ODJFS issued an amended certificate to SAFY of Ohio to operate a children's residential center known as Delwood.

Delwood's CRC was added to SAFY of Ohio's certificate effective December 1, 1998 to August 2, 1999. SAFY took over Delwood on May 1, 1997 and operated the CRC and the group home without certification by ODJFS to do so, until December 1, 1998.

ODJFS was aware SAFY of America had taken over management of Delwood in October 1997but did not require SAFY to become certified to operate Delwood's CRC until January 1999.

Management Comment:

ODJFS should place a priority on timely and effective enforcement of its licensing rules to ensure that children are not put at risk through placement with individuals or organizations not properly licensed to care for their safety and welfare.

ISSUE 5-2	RESIDENTIAL CARE EXPENSES REPORTED ON ODHS 2910 PURCHASED FAMILY FOSTER CARE COST REPORT

Results:

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)[126]

The instructions for completing the ODHS 2910 Purchased Family Foster Care report states in pertinent part, "This report should be completed by all public and private not-for-profit operators of purchased family foster care (PFFC) networks EXCEPT public children services agencies. Purchased family foster care (PFFC) means family foster care provided by an agency operating two or more family foster homes...[127]

The ODHS 2910 Purchased Family Foster Cost Report is to be used in reporting actual costs incurred in the operation of purchased family foster care program. A separate cost report must be completed for each program. If the family foster care program has three levels of care and three rates, three reports should be completed, one for each level of care. Since each cost report establishes a single approved rate for all homes included on the report, an agency which operates several homes which offer substantially different levels of care with correspondingly different costs should complete a separate cost report for each group of similar homes. Only similar homes should be included in one report.[128]

Since the Cost Report is designed to capture costs incurred only in the operation of a purchased family foster care program, an agency which operates other programs such as a group home, residential center, day treatment, adoption, etc., must separate the costs of operating these other programs from the costs of the program(s) to be reported on the ODHS 2910 before attempting to complete the cost report."[129]

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

[127] ODHS 2910 Instructions (2/98), Introduction.

[128] ODHS 2910 Instructions (2/98), Programs Covered by the Report.

[129] ODHS 2910 Instructions (2/98), Multi-function Agencies and the Reporting of Indirect Cost.

In 1997 SAFY of Ohio entered into a managed care agreement with Crawford County to provide care for approximately thirteen (13) youth. The agreement stated in pertinent part, "SAFY of Ohio, Inc. understands that most of the youth designated for this service will be "high end" users, who may be in psychiatric units; residential units; group homes, or treatment foster homes when they are admitted under this contract."[130]

In 1997 and 1998 SAFY was not licensed for residential care, therefore it contracted with licensed agencies for the care of these children. The cost relating to this agreement was placed on the ODHS 2910 Purchased Family Foster Care Report and not the 2909 Residential Care Report as required. SAFY of Ohio reported residential care expenditures in the amounts $235,178 in 1997and $130,889 in 1998 on the ODHS 2910 Purchased Family Foster Care Reports.

Since the residential care contract expenditures did not provide a benefit to the foster care program, SAFY's reporting of these expenditures on the ODHS 2910 Purchased Family Foster Care Report was in violation of ODJFS rules and of Ohio Admin. Code Section 5101:2-47-26(A)(6).

Management Comment:

SAFY did not adhere to the ODJFS instructions for completing the ODHS 2910 Purchased Family Foster Care Cost Report regarding documentation of allowable direct and administrative cost requirements in the amount of $366,067. ODJFS should determine the federal questioned cost over reported 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.[131]

SAFY of Ohio included all of these expenditures on the ODHS 2910 Purchased Family Foster Care Cost Reports. As a result, these unallowed expenditures may have caused the overstatement of the Title IV-E maximum reimbursement rate and the overpayment of reimbursements claimed.

ISSUE 5-3	INITIATION OF THE HOMESTUDY PRIOR TO THE RECEIPT OF A COMPLETED APPLICATION

Results:

Ohio Admin. Code Section 5101:2-5-20(C) provides: "An agency shall use ODHS 1691 for all initial family foster home applications and for the simultaneous approval of an applicant for adoptive placement.

(1) An agency shall not accept an application for a family foster home certificate and approval for adoptive placement which does not contain complete and accurate information.

(2) An agency shall require that an application be made in the full name of each adult member of a couple, a single person, or each co-parent.

(3) An agency shall not accept more than one application per household.

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

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130 Section 1, paragraph 2 of the contractual agreement with Crawford County Children's Services date 4/2/97.

131 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).

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

Four of the thirty-eight (11%) of the family foster home files reviewed documented that the Bureau of Criminal Identification (BCII) and/or the Federal Bureau of Investigation (FBI) checks were requested prior to the completion of an application for certification as a family foster home.

In another foster parent file the ODHS 1653 “Medical Statement for Foster Care/Adoptive Applicant and All Household Members” was completed prior to the application date. Moreover, the same foster parent was recommended for initial certification over one year after two of the three references were received.

In one of the thirty-eight (3%) family foster home files reviewed the Placement Agency accepted two applications from one family (one in 1992 and the second in 1994).

Management Comment:

SAFY of Ohio should comply with ODJFS rules intended to ensure a thorough and complete foster home homestudy is completed prior to licensing. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-4	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.

Twenty seven of the thirty-eight (71%) of the family foster home files did not document the foster parent’s income as verified. Thirty one of the thirty-eight (82%) of the family foster home files did not document the foster parent’s employment as verified. Failure to verify the completeness and accuracy of information on the Family Foster Home Application increases the risk that unsuitable applicants may be recommended and approved. In addition, ODJFS had not established guidelines and standards for Placement Agencies to document their compliance with this requirement.

Management Comment:

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

ISSUE 5-5	CHANGE OF ADDRESS AND OCCUPANCY

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."

Ohio Admin. Code Section 5101:2-5-30(B) states: "If the change is a change of address, the agency shall require a fire safety inspection or use the ODHS 1348 "Safety Audit" pursuant to paragraph (H) of rule 5101:2-5-20 of the Administrative Code."

Furthermore, Ohio Admin. Code Section 5101:2-5-30(C) states: "An agency shall submit an ODHS 1317 "Recommendation for Certification/Recertification of a Family Foster Home" to ODJFS to recommend any change which would cause a change on the face of the certificate within thirty calendar days of the agency's receipt of notification." Finally, Ohio Admin. Code Section 5101:2-7-14(A) states: "A foster caregiver shall notify the recommending agency in writing prior to allowing any person to reside for more than two weeks in the foster home."

Five of the thirty-eight (13%) family foster home files reviewed failed to provide documentation that a change of address of the foster home was evaluated within thirty days. Moreover, in one (3%) of the foster home files reviewed there was a change of address; however, a fire inspection or safety audit was not completed. Furthermore, in two (5%) of the family foster home files reviewed a foster parent changed addresses; however, an ODHS 1317 form was not completed within thirty calendar days of the agency's receipt of notification.

Finally, in one of the thirty-eight (3%) family foster home files reviewed the Placement Agency did not document when the foster caregiver notified the Placement Agency that another adult was residing in the foster home for more than two weeks.

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

Management Comment:

We recommend that SAFY of Ohio adopt and implement polices and procedures to obtain, document, and evaluate all changes in the family foster home within the specified period. These procedures should enable the agency to determine if the change would affect the type of care the children receive within the home and respond accordingly. We further recommend that the agency establish a system of monitoring controls to ensure continuous compliance.

ISSUE 5-6	INITIAL RECOMMENDATION FOR FOSTER PARENT CERTIFICATION PRIOR TO COMPLETION OF THE HOMESTUDY

Results:

Ohio Admin. Code Section 5101:2-5-20(K) states, “No recommendation for certification shall be made to ODHS prior to the completion of all requirements of Chapters 5101:2-5 and 5101:2-7 of the Administrative Code which are applicable to initial certification and documentation that the applicant is in compliance with the requirements of Chapter 5101:2-7 of the Administrative Code.

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

Furthermore, Ohio Admin. Code Section 5101:2-5-21(D) requires, “The assessment required by paragraph (B) of this rule and documented through the completion of the ODHS 1349, “Family Foster Home Homestudy,” shall include at least one visit by an agency caseworker to the applicant’s home to ensure that the physical facilities of the home are in compliance with the requirements set forth in Chapter 5101:2-7 of the Administrative Code and to determine any placement limitations which the physical environment or space availability of the home may necessitate.”

Finally, Ohio Admin. Code Section 5101:2-5-21(E) states, in pertinent part: “In order to complete the ODHS 1349 an agency caseworker shall interview all members of the household over the age of four years.”

In one of the thirty-eight (3%) family foster home files tested the foster parent was formerly a foster parent with another agency. There was no documentation to show that SAFY of Ohio contacted the other agency to verify that the individual had been a foster parent.

Additionally, the homestudy, which included the documentation of contacts with all references, the physical assessment of the home, and interviews with all members of the household, was completed for this foster parent on November 19, 1998. The family foster home was recommendation for certification on November 17, 1998 prior to completion of the homestudy.

If the agency approves a family foster home prior to completing the homestudy it increases the likelihood that unqualified applicants could perform services for foster children.

Management Comment:

SAFY of Ohio should comply with ODJFS rules intended to ensure a thorough family foster home homestudy is completed prior to licensing. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-7	FAMILY FOSTER HOME RECERTIFICATION ASSESSMENT

Results:

Ohio Admin. Code Section 5101:2-5-24(E) states, “Prior to the recommendation for and expiration of a current certificate, the recommending agency shall complete ODHS 1385 “Family Foster Home Recertification Assessment”, to ensure that the foster caregiver(s) remains in compliance with the requirements set forth in Chapter 5101:2-7 of the Administrative Code.”

Moreover, Ohio Admin. Code Section 5101:2-5-24(F) requires , “An agency reassessment of a family foster home shall include at least one interview with each member of the household (except foster children) over the age of four years currently residing in the home. This may be a joint interview or individual interviews.”

Furthermore, during the period Ohio Admin. Code Section 5101:2-5-24(G) required, in pertinent part: “Prior to recommending a family foster home for recertification an agency shall conduct a safety audit of the foster caregiver’s residence and document that the residence has met all safety standards by.....completing ODHS 1348 “Safety Audit of a Family Foster Home.”[132]

Finally, Ohio Admin. Code Section 5101:2-7-03(B) requires, “As a member of the care and treatment team, a foster caregiver shall participate in an annual review with the recommending agency to evaluate the strengths and growth areas of the family foster home and of the support services of agency representatives to the foster caregiver.”

In two of the thirty-eight (5%) family foster home files reviewed the agency did not complete an ODHS 1385 Family Foster Home Recertification Assessment, which included one interview with each member of the household and an evaluation of strength and growth areas of the family foster homes, prior to the expiration of the family foster home’s certificate. In one of the family foster home files an ODHS 1348 “Safety Audit of a Family Foster Home” form was not completed prior to the recommendation for recertification. Failure to comply with these provisions could result in placing a child in a unsuitable family foster home.

Management Comment:

SAFY of Ohio should develop policies and procedures to ensure the recertification assessment, such as a checklist outlining certification and recertification requirements which establish a system of monitoring controls to ensure continuous compliance with this section of Administrative Code. This will help to ensure that all criteria have been met in a timely manner and documented in the foster caregiver case file.

ISSUE 5-8	NOTICE OF EXPIRATION AND RE-APPLICATION FOR A FAMILY FOSTER HOME CERTIFICATE

Results:

Ohio Admin. Code Section 5101:2-5-24(A) states, in pertinent part, “Not less than 90 or more than 120 days prior to the expiration date of the family foster home certificate the agency should notify the caregiver of the date of expiration of the certificate by using ODHS 1331“Notice of Expiration and Re-application for a Family Foster Home Certificate.”

[132] Effective 7-1-00, the cited rule also required that the safety audit form be completed before or within five working days after any relocation of a family foster home.

In addition, Ohio Admin. Code Section 5101:2-7-14(H)[133] states, “Prior to the expiration date of a family foster home certificate a care giver shall submit ODHS 1331, "Notice of Expiration and Re-application for a Family Foster Home Certificate", to the recommending agency.

Furthermore, Ohio Admin. Code Section 5101:2-7-14(I)[134] states, “Failure of a foster caregiver to submit the reapplication form prior to the expiration date of the current family foster home certificate shall cause the family foster home certificate to expire.”

One of thirty-eight family foster home files reviewed (3%) did not contain a copy of ODHS 1331 “Notice of Expiration and Re-application for a Family Foster Home Certificate” to demonstrate that the foster parent had been notified that the family foster home certificate would expire in 90 to 120 days or the foster parents’ response, on this form, of whether they wanted to continue as foster parents.

As a result of a lack of a response from the foster caregiver as indicated on ODHS 1331 there was a lapse in the certification of the family foster home.

Failure to provide timely notification could result in noncompliance of recertification requirements causing the family foster home certificate to expire.

Management Comment:

SAFY of Ohio should develop policies and procedures to assure the agency provides and receives the ODSH1331 "Notice of Expiration and Re-application for a Family Foster Home Certificate" within the prescribed time frame so that the foster parents license does not expire. We further recommend that the agency establish a system of monitoring controls to ensure continuous compliance.

ISSUE 5-9	RECOMMENDATION FOR CERTIFICATION/RECERTIFICATION OF A FAMILY FOSTER HOME

Results:

Ohio Admin. Code Section 5101:2-5-24(L) states, “The effective date of a family foster home certificate shall be the day of expiration of the previous certificate or the date of receipt of the original ODHS 1317, as evidenced by the ODHS date stamp, if received after the expiration date of the previous certificate, provided that the family reapplied prior to expiration as evidenced by a copy of the ODHS 1331 “Notice of Expiration and Re-application for a Family Foster Home Certificate”. If the family fails to reapply prior to the date of expiration of the previous certificate, the family must apply for initial certification pursuant to rule 5101:2-5-20 of the Administrative Code.”

In one of the thirty-eight (3%) family foster home files reviewed the ODHS 1317 “Recommendation for Certification /Recertification of a Family Foster Home” was not filed with ODJFS within thirty days of notification of the change. Another ODHS 1331 form could not be located demonstrating that the foster parent reapplied prior to expiration of the certificate.

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[133] During the Period, this requirement was contained in Ohio Admin. Code Section 5101:2-7-14(G).

[134] During the Period, this requirement was contained in Ohio Admin. Code Section 5101:2-7-14(H).

In another family foster home file reviewed there was a gap in licensure from March 2nd to March 13th 1996. For this family foster home the agency requested a waiver by ODHS while waiting for the results of a water well test, but there was no response from ODHS approving the waiver noted in the family foster home file. As a result the family foster home certificate should have expired and the family should have reapplied for initial certification.

Failure to notify ODJFS within the prescribed period could require the family foster home to apply for initial certificate. In addition, inaccurate family foster home information at ODJFS, delays in communication, and possible duplicate licensing for the same location could be the results of untimely notification of changes to the face of the certificate.

Management Comment:

SAFY of Ohio should develop policies and procedures to ensure the agency submit the ODHS 1317 "Recommendation for Certification/Recertification of a Family Foster Home" in a timely manner, and that it 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 5-10	ANNUAL ONGOING FOSTER PARENT TRAINING

Results:

During the Period, Ohio Admin. Code Section 5101:2-5-33(B)(2) provided that training plans for each certification year be submitted to ODHS and include, "not less than twelve hours of ongoing annual training to be required by the agency."[135]

One of the thirty-eight (3%) family foster home files reviewed documented that the foster caregiver only received seven hours of on-going annual training for the certification year from August 26, 1992 to August 26, 1993.

Failure to comply with the training requirement may render the foster parent ineligible to care for foster children and increases the risk of inadequate supervision of the foster children.

Management Comment:

SAFY of Ohio should adopt policies and procedures which would enable the agency to ensure compliance with the on-going training requirements of the foster parents in a timely manner; impose remedies for non-compliance, and monitor adherence to the policies and procedures.

[135] Effective 9-1-00, the rule required 24 hours of ongoing training during each certification period.

ISSUE 5-11	ODHS 1653 MEDICAL STATEMENT FOR FOSTER CARE/ADOPTIVE APPLICANT AND ALL HOUSEHOLD MEMBERS

Results:

Ohio Admin. Code Section 5101:2-5-20(D) states, “An agency shall require that the applicant provide a statement for all members of the household on the ODHS 1653 “Medical Statement for Foster Care/Adoptive Applicant and All Household Members”, completed by a licensed physician within six months prior to an initial recommendation by the agency certification. Such statement shall document that the caregiver and all members of the household are free from any physical, emotional, or mental condition which would endanger children or seriously impair the ability of the household to care for a foster child.”

One of thirty-eight (3%) family foster home files reviewed documented a medical statement for a member of the household on June 3, 1992, more than six months prior to the initial recommendation for certification on February 22, 1993.

Failure to obtain medical statements for potential foster caregivers or members of the family foster home within the prescribed timeframe could potentially result in a child being placed in an unsuitable environment, thereby, putting the child at risk.

Management Comment:

We recommend that SAFY of Ohio 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 having all members of the household receive a medical evaluation. Additionally, the medical statement should state that the member of the household is free from any physical, emotional, or mental condition which would endanger children or seriously impair the ability of the household to care for a foster child. This will ensure that applicants, and members of the household, are suitable to care for a foster home and will not cause undue emotional or physical harm to foster children.

SPECIALIZED ALTERNATIVES FOR YOUTH OF OHIO, INC.
REPORT ON AGREED-UPON PROCEDURES

SUMMARY OF FEDERAL QUESTIONED COSTS

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Undocumented & Unallowed Expenditures for 1998	1-1	20	$13,842
Unallowable Rental Costs Resulting from Less-Than-Arms-Length Leases	1-2	26	Undetermined
Unreasonable Costs Paid by SAFY of Ohio for the Takeover of Clearcreek Valley of Ohio, Inc.	1-3	31	
For Fiscal Year 1997			73,333
For Fiscal Year 1998			90,000
For Fiscal Year 1999			90,000
Unallowable Financing of a Financially Failing Residential Center	1-4	34	
For Fiscal Year 1997			341,789
For Fiscal Year 1998			420,427
For Fiscal Year 1999			309,353
Unsupported Expenditures for Management Services Fee Provided by SAFY of America	1-5	38	
For Fiscal Year 1997			646,970
For Fiscal Year 1998			866,702
For Fiscal Year 1999			1,660,472
Unsupported Advances Paid To Related Companies for 1999	1-6	42	165,045
Unsupported Expenditures for Equipment Paid to SAFY Holding	1-7	44	
For Fiscal Year 1997			42,326
For Fiscal Year 1998			64,079
For Fiscal Year 1999			74,574
Costs for Maintenance and Repair of Vehicles Paid by SAFY of Ohio Contrary to Lease Agreement with SAFY Holding, a Related Party for 1998	1-8	46	7,336
Insurance Premiums Paid by SAFY of Ohio, Inc. on Behalf of a Related Agencies And Other States	1-9	48	
For Fiscal Year 1997			73,338
For Fiscal Year 1998			79,284
For Fiscal Year 1999			88,023
ODJFS Systemic Misclassification of Costs Resulted in Overpayment of Title IV-E Maintenance Reimbursement[136]	3-1	51	268,377
TOTAL FEDERAL QUESTIONED COSTS			**$5,375,270**

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

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SPECIALIZED ALTERNATIVES FOR FAMILIES AND YOUTH OF OHIO, INC.

ALLEN 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
OCTOBER 9, 2002