



AUDITOR OF STATE

STATE OF OHIO

CHILD PROTECTIVE SERVICES

BEECH ACRES

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



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

**BEECH ACRES
REPORT ON AGREED-UPON PROCEDURES**

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**BEECH ACRES
REPORT ON AGREED-UPON PROCEDURES**

**BOARD OF DIRECTORS
AND ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 1998**

NAME	TITLE	TERM EXPIRATION
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BOARD OF DIRECTORS

Margaret Kyte Richards	Board Chair	January 31, 1999
Woodrow H. Uible	First Vice Chair/Secretary	January 31, 2000
S. Christian Nielsen, III	Treasurer	January 31, 2001
Jacqueline Anderson	Second Vice Chair	January 31, 2001
Eleanor Berghausen	Member	January 31, 2001
Michael J. Barber, M.D.	Member	January 31, 2002
Deborah M. Allsop	Member	January 31, 2000
Eric G. Bruestle	Member	January 31, 1999
William J. Moran	Member	January 31, 1999
Samuel M. Scoggins	Member	January 31, 1999
Virginia A. Haskell	Member	January 31, 1999
Sandy Blanchard	Member	January 31, 2001
David E. Hathaway	Member	January 31, 2002
Peggy S. Pauly	Member	January 31, 2000
William J. Sinkula	Member	January 31, 2001

**BEECH ACRES
REPORT ON AGREED-UPON PROCEDURES**

**BOARD OF DIRECTORS
AND ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 1998**

NAME	TITLE	TERM EXPIRATION
ADMINISTRATIVE PERSONNEL		
James R. Mason	President	August 14, 1989 to Present
Richard Sorg	V. P. of Professional Services	August 14, 1989 to Present
Thomas G. Newton	Chief Financial Officer	December 19, 1998 to October 8, 1999
Patricia J. Portman	Assistant Controller	December 19, 1998 to Present

Agency Address:

Beech Acres
6881 Beechmont Avenue
Cincinnati, Ohio 45230



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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Independent Accountants' Report

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

Dear Director Sensky:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services¹ (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 Beech Acres (Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contract with Magellan Public Solutions Organization (Magellan). Magellan was the third party administrator for Hamilton County Department of Job and Family Services (HCDJFS) formerly known as the Hamilton County Department of Human Services (HCDHS). 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 Beech Acres for the Period to determine whether receipts were properly deposited and recorded in the accounting records of the Placement Agency.
3. We compared the Placement Agency's per diem paid to the foster parents with the corresponding per diem it received from HCDJFS/Magellan to determine the ratio of payments for administration and maintenance.

¹

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

4. We inquired, documented and obtained corroborating information 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.
6. We performed procedures to determine if Medicaid expenses were properly billed to the program.
7. We performed procedures to determine if there was proper monitoring of the Medicaid counseling.

On October 16, 2000, we held an exit conference with the following:

<u>Name</u>	<u>Office/Position</u>
James R. Mason	Beech Acres President
Richard Sorg	Beech Acres V.P. of Professional Services
Ruthann Zins	Beech Acres Chief Financial Officer
Patricia J. Portman	Beech Acres Assistant Controller
Woodrow H. Uible	Beech Acres Board Member
Jessie M. Tower	ODJFS Chief, Bureau of IV-E Plan Administration
Arthur Stackhouse	ODJFS Chief Inspector
Gregory W. Kelly	Auditor of State Assistant Chief Deputy Auditor
Edna Frezgi	Auditor of State Deputy Auditor
Jerry Muskal	Auditor of State Assistant Auditor 3
Rick Johns	Auditor of State Assistant Auditor 3

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

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

JIM PETRO
Auditor of State

October 16, 2000

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

BACKGROUND INFORMATION

The challenge of child welfare reform is formidable and we commend ODJFS on its recent efforts to reform the child welfare system. The Department has invited a comprehensive group of stakeholders to participate in its child welfare reform initiative. On April 6, 1999, the Department Director requested that the Auditor of State assist the Department in its efforts to improve the child welfare system by conducting a performance audit of its child welfare program. In collaboration with ODJFS and the stakeholders group, the child welfare performance audit will identify issues that are preventing effective and efficient delivery of high quality services to children and families, and recommend methods to improve the Department's processes. ODJFS should consider the audit findings and recommendations presented in our report as it attempts to bring about needed improvements and reform. The report will be released in the winter of 2000.

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

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months.

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

In the State of Ohio, the Department of Job and Family Services (formerly ODHS) acts as the single state agency to administer federal payments for foster care, and shall adopt rules to implement this authority.³ Within ODJFS, the program is administered by the Office of Child Care and Family Services.

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

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

³ Ohio Rev. Code Section 5101.141 (A). Rules established pursuant to this authority are found at Ohio Admin. Code Chapter 5101:2-47

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

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Public Children Services Agency Contractual Requirements

PCSA's are authorized to enter into contracts with PCPAs or PNAs to provide care and services which it deems to be in the best interest of any child who needs or is likely to need public care and services.⁵ PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster homes for certification; accept temporary, permanent and legal custody of children; and place children for foster care or adoption.

The Hamilton County Department of Human Services, Hamilton County Mental Health Board and Hamilton County Alcohol and Drug Addiction Services Board "formed an informal Partnership Team for the purpose of contracting for the services of a management services organization to coordinate and administer the delivery of child welfare, mental health and alcohol and drug addiction treatment services to the children and families they serve."⁶ The Partnership Team entered into an agreement with Magellan Public Solutions, Inc. to act as a third party administrator and provide those services. Beech Acres, a PNA contracted with Magellan, the third party administrator for HCCSA, a PCSA.

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 asks that a copy of the last completed audit be submitted with the annual cost report.

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

⁶ Agreement for Magellan Public Solutions, Inc. to Create and Operate a Management Services Organization to Manage "Child Welfare, Mental Health, and Addiction Services" for Consumers of the Hamilton County Department of Human Services, Hamilton County Mental Health Board and Hamilton County Alcohol and Drug Addiction Services Board dated August 27, 1997, p1.

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 at Ohio Admin. Code Section 5101:2-47-24(D). Prior to 5/1/98, the annual filing requirement was contained in Ohio Admin. Code Section 5101:2-47-20(C)(1).

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.

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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

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 and unallowable cost guidelines for use in completing the cost reports are contained in the Ohio Administrative Code and Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*.

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

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

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

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

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).

¹¹ 42 U.S.C. Section 675 (4) (A).

¹² 26 U.S.C. Section 501(c)(3).

¹³ Pursuant to her rulemaking authority under the Single Audit Act, 31 U.S.C. Section 7505, the Secretary of the Department of Health and Human Services has promulgated a regulation which provides that state and local governments, as well as recipients and subrecipients that are non-profit organizations, are subject to the audit requirements contained in the Single Audit Act, 31 U.S.C. Sections 7501 et seq., and OMB Circular A-133. See 45 C.F.R. Section 74.26(b) and (a) (1999), respectively.

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

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

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

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

Reimbursement Process

The reimbursement process begins early each fiscal year when ODJFS disburses funds to the counties under its state plan for foster care approved by the Secretary of the U.S. Department of Health and Human Services. ODJFS submits quarterly reports to the U.S. Department of Health and Human Services (HHS) for reimbursement of federal financial participation (FFP) in foster care payments¹⁶ made to the PCPAs and PNAs.

In 1998, the FFP was 58% for maintenance payments¹⁷ made and 50% for administrative costs¹⁸ incurred under the Title IV-E program.

Each PCSA negotiates a foster care per diem rate (which includes maintenance and administrative costs) for each foster child placed with a PCPAs or PNAs. Maximum allowable federal reimbursement under Title IV-E for maintenance payments and administrative costs are set by ODJFS. The PCPA/PNA may contract with foster parents at a different foster care per diem rate for each foster child.

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

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

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

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Child Welfare Demonstration Project (ProtectOhio)

In October 1997, ODJFS implemented a waiver received from the U.S. Department of Health and Human Services of certain Title IV-E requirements to conduct a Child Welfare Demonstration Project, known as ProtectOhio.¹⁹ The project allows ODJFS to expand the types of services provided and increase the number of children and families served in certain demonstration counties.²⁰

It is concerned with the flexible use of Title IV-E foster care maintenance payments, and the waiver is applied to funds which are used for that purpose, or would have been used in the absence of this project.²¹ To implement ProtectOhio, ODJFS entered into contracts with 14 counties, including an agreement on September 25, 1997, with the Hamilton County Board of Commissioners and Hamilton County Children Services.²² Sections III, IV and V of this agreement describe how Title IV-E funds are to be preallocated to Hamilton County, rather than reimbursed according to the per diem rates described above. Our Review takes into consideration the change in federal funding methodology during the Period.

Allowable Costs

In addition to the Ohio Administrative Code and Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, the terms and conditions of the contract between Magellan and Beech Acres formed the criteria to which we referred during our testing to determine if the expenditures at Beech Acres were used to provide only the administrative and direct service costs necessary to perform the services outlined in the contract.

On January 7, 1998 Beech Acres entered into a contract with Magellan Public Solutions Organization, the third party administrator for HCCSA.²³ Purposes for which funds paid to Beech Acres by Magellan may be used are explicitly outlined in a contract between Magellan Public Solutions and Beech Acres.

“Covered Services” means those child welfare and/or mental health treatment services described below, are Medically/Psychologically/Socially Necessary for Consumers and which are covered under the County Agreement. Covered Services were categorized as follows:

¹⁹ The authority for ODJFS to participate in this project is found in Ohio Rev. Code Section 5101.142.

²⁰ On 2/14/97, Laurence J. Love, Deputy Assistant Secretary for Children and Families, HHS, advised then ODHS Director Arnold R. Tompkins that ODHS' proposed waiver project had been approved, subject to its written acceptance of certain waiver terms. ODHS accepted the terms on March 20, 1997. Specifically waived for the project were the following provisions of the Social Security Act and Program Regulations: 42 U.S.C. Section 672(a), (c) and (e); 42 U.S.C. Section 671(A)(10); and 45 C.F.R. 1356.80(h) (thereby expanding eligibility for services); and 42 U.S.C. 674 Section (a)(3)(E) and 42 U.S.C. Section 677(e)(3) (thereby expanding services).

²¹ Department of Health and Human Services, Administration for Children and Families, Waiver Terms and Conditions, Ohio Child Welfare Wavier Demonstration Project, Section 2 “Implementation,” Paragraph 2.6.

²² This agreement is effective by its terms from October 1, 1997, through September 30, 2002.

²³ Magellan Public Solutions, Inc. had entered into an agreement to Create and Operate a Management Services Organization to Manage “Child Welfare, Mental Health, and Addiction Services” for consumers of the Hamilton County Department of Human Services, Hamilton County Mental Health Board and Hamilton County Alcohol and Drug Addiction Services Board dated August 27, 1997.

**BEECH ACRES
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Day Treatment, Emergency Mental Health Treatment, Group Home, Home & Community Based Therapy, In Home Behavior Management Training, Neighborhood-based Services (Family-to-Family), Pre and Post-Adoptive Counseling and Group Services, Psychiatric Evaluations, Psychological Assessments, Residential Treatment (Level 1, 2 & Crisis Stabilization), Semi-Independent/Independent Living, Sexual Abuse Treatment Services and Therapeutic Foster Care (Levels 1, 2 and 3; and Traditional TFC).

Under Section V (A) (6) of the Magellan contract Beech Acres agreed to “maintain adequate and accurate medical and billing records concerning Consumers receiving Covered Services and shall retain such records for time periods as required by applicable laws.” Furthermore, 45 C.F.R. Section 74.53(b)(1999) generally requires that such records be retained for a period of three years.

Administration of Medicaid Services

Beech Acres also receives Medicaid receipts for reimbursement of medical counseling services provided by Beech Acres to the foster children.

Administrative rules promulgated by the Ohio Department of Job and Family Services, Medicaid Division, place certain requirements on applications for reimbursement by providers.

Ohio Admin. Code Section 5101:3-4-02 generally provides for reimbursement of an eligible provider for certain services provided by non-physicians under the direct or general supervision of a physician, including services provided by social workers for the diagnosis and treatment of mental and emotional disorders as outlined in Ohio Admin. Code Section 5101:3-4-29.

Pursuant to Ohio Admin. Code Section 5101:3-4-29(D), reimbursements for such services under the Medicaid program go to the employing or contracting physician or clinic.

Ohio Admin. Code Section 5101:3-4-29(G) requires that these services, performed by a licensed social worker or CAW, must be billed using the following procedure codes:

- H5010 Therapy, individual, by social worker, per hour.
- H5020 Psychotherapy, group (maximum eight persons per group), by nonphysician, forty-five to fifty minutes, per person, per session.
- H5025 Psychotherapy, group (maximum eight persons per group), by nonphysician, ninety minutes, per person, per session.

ODJFS OVERSIGHT RESPONSIBILITY

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

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

BEECH ACRES SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

In its role as the single state agency²⁴ responsible for the administration of foster care, ODJFS must take the necessary measures to close the significant gaps in monitoring and oversight indicated in that audit and corroborated in this report of agreed upon procedures of Beech Acres and other private agencies.

The above statement reflects a systemic weakness identified in the foster care engagements, however it should be noted HCDJFS/Magellan did enter into a written agreement with Beech Acres.

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

1. Establish through rule, a standard contracting requirement for PCSAs using the services of private agencies that effectively sets forth all applicable compliance requirements, fiscal accountability standards and allowable cost.
2. Design and implement an effective system of program monitoring of public and private agencies to ensure fiscal accountability and program compliance that includes desk reviews of all cost reports and periodic site visits at public and private agencies.
3. Design and implement a cost reimbursement system that properly classifies and allocates cost in a manner that ensures claims are properly submitted in accordance with applicable rules and regulations.
4. Establish guidance that sets forth the minimum standards for public and private agencies to document their fiscal accountability and legal compliance to ODJFS, the Auditor of State or their designated representative during an audit or review.
5. ODJFS should establish by administrative rule, a cap on the percentage of the private agency's allowable administrative cost. This administrative cost cap should be structured in a manner that maximizes the amounts expended for maintenance and other direct services to children, while allowing a reasonable percentage for necessary administrative costs.

RESOLUTION OF QUESTIONED COSTS

Certain deficiencies identified in our Review may require us to report questioned costs to the U.S. Department of Health and Human Services and ODJFS. OMB Circular A-133 defines questioned costs²⁵ 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.”

²⁴ Ohio Rev. Code Section 5101.141(A).

²⁵ Office of Management and Budget (OMB) Circular A-133, Subpart A, .105 Definitions.

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

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

1. Seek full recovery of questioned cost resulting from the Placement Agency's actions, through payment or adjustment.
2. Take measures to rationally allocate the recovered cost among the entities that provided the funding.
3. Reimburse the funding entities by payment or adjustment based on the allocation.

AGENCY INFORMATION

Beech Acres was originally established on December 8, 1849 under the name of The General Protestant Orphan Home. Beech Acres is a private non-custodial agency (PNA), as well as a nonprofit organization which is exempt from federal income tax under Internal Revenue Service Section 501 (c)(3). Beech Acres is licensed by ODJFS to recommend families to become foster families, place children in foster homes, and recommend children for adoption. When a county children service agency needs a home for a foster child, it can contact agencies such as Beech Acres to place the child. The group of family foster homes (private foster network) utilized by Beech Acres has been in place since 1975. Beech Acres places foster children primarily for HCDJFS through Magellan. Beech Acres has provided services to Butler and Clermont County public children services agencies' during the Period.

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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
Beech Acres
Foster Care Statistics**

Characteristic	Statistic
Daily Average Number of Children in Placement	70
Number of Active Licensed Foster Homes	56
Average Per Diem Rate	\$88
Number of PCSA from which agency receives children	3
Required Training for Foster Caregiver Orientation	32 hours
Required Annual Training for Foster Caregiver	40 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	\$2,229,980
Characteristics of Children Placed by Agency	Therapeutic & Emergency

During the Period, Beech Acres staff consisted of 171 people, 26 of whom provided or supported foster care services, including a director, assistant director, administrative assistant, foster care team leader and coordinator, and foster care specialists to provide the needed counseling and case management services to the foster children and foster parents.

Beech Acres revenues were comprised primarily of funds from service reimbursements from the Family and Children First Council and Creative Connections. The total revenue received by Beech Acres for foster care services during the Period of January 1, 1998 to December 31, 1998 was \$1,820,516. Beech Acres also receives Medicaid funds for counseling services that Beech Acres employees provide to foster children.

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.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Table II
Beech Acres
Revenue by Source**

	1998	Percent of Total Revenue
FCFC & Creative Connections ²⁶	\$3,301,683	30
Talbert House ²⁷	1,865,733	16
Hamilton County/Magellan	1,383,997	12
Butler County	404,099	4
Investment Income	2,672,818	24
Public Support ²⁸	1,290,042	12
Other Service Reimbursements	267,217	2
Total Revenue by Source	\$11,185,589	100%

Relevant Individuals and Entities

James R. Mason

James Mason is the Chief Executive Officer of Beech Acres.

Thomas G. Newton

Thomas Newton was the Chief Financial Officer of Beech Acres during 1998.

Patricia J. Portman

Patricia Portman is the Assistant Controller.

²⁶ Family and Children First Council (FCFC) created Family and Children First Management in 7/95 to provide individualized treatment planning for 286 of the most troubled children in the community from five different public agencies. In 11/98 Beech Acres established Creative Connections under contract with FCFC and in partnership with Lighthouse to assume those responsibilities.

²⁷ Talbert House, Cincinnati Public Schools and Beech Acres in a collaborative effort have a contract with Hamilton County Community Mental Health Board to provide partial hospitalization as well as day and wraparound services for children who have severe behavioral problems.

²⁸ Includes bequests, special events, estates and trusts, children's fund and in-kind donations per Beech Acres (The General Protestant Orphan Home) Financial Statements December 31, 1998 and 1997, Statements of Activities.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 1	TEST OF EXPENDITURES IN ACCORDANCE WITH TERMS OF AGREEMENTS AND APPLICABLE LAWS
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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 Beech Acres for each month during the Period (See Issue 5 for reconciliation of payroll disbursements).
2. We examined 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 were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.
4. We examined 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 Beech Acres for the Period and examined 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 were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.
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 determined the percentage of time the cars were used for business and whether personal use was properly disclosed on the employees' W-2.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

10. We read lease agreements and other documentation supporting all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and Beech Acres.

ISSUE 1-1	CHECK AND CREDIT CARD DISBURSEMENTS NOT AUTHORIZED OR WHICH LACK SUPPORTING DOCUMENTATION
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Results:

To be allowable under an award, cost must, among other things be adequately documented.²⁹ All expenditures should be supported by sufficient documentation to demonstrate the proper authorization, approval and purpose of the expenditure.

Furthermore, under Section V (A)(6) of the Magellan contract Beech Acres agreed to "...maintain adequate and accurate medical and billing records concerning Consumers receiving Covered Services and shall retain such records for time periods as required by applicable laws."³⁰

The ninety-seven (97) disbursements examined represented \$215,085 in expenditures. We requested supporting documentation for these expenditure such as invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, an explanation of how the expenditure provided a benefit to program or was necessary to the operation of the foster care program. Beech Acres was unable to provide us with supporting documentation for four expenditures totaling \$1,440. Undocumented expenditures increased the risk that unauthorized or illegal expenditures could occur and go undetected.

Additionally, we found expenditures totaling \$100 for gift certificates which are an unallowed cost³¹ not to be used in completing the ODHS 2910 cost report.

**Table III
Beech Acres
Questioned Costs**

Expenditures without adequate supporting documentation	
Printing	\$515
Arts & Crafts	715
Carpet charges	<u>210</u>
Total Undocumented Expenditures	1,440
Unallowed Expenditures	
Gift Certificate	<u>100</u>
Total Questioned Costs	<u>\$1,540</u>

²⁹ Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (2)(g).

³⁰ 45 C.F.R. Section 74.53(b)(1999) generally requires that such records be retained for a period of three years.

³¹ Ohio Admin. Code Section 5101:2-47-26(A)(7). Prior to 5/1/98 this provision was contained in Oho Admin. Code Section 5101:2-47-64(L).

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Federal Questioned Costs: \$1,540

We classified \$1,440 in expenditures without sufficient documentation and \$100 in unallowable expenditures as questioned cost totaling \$1,540.

Management Comment:

Beech Acres did not adhere to the Magellan contract regarding documentation of allowable direct and administrative costs requirements. The Hamilton County Department of Job and Family Services should require the agencies for which it contracts for placement services, to obtain and submit to HCDJFS an annual financial audit performed in accordance with government auditing standards.

In addition, to the financial statement opinion, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. HCDJFS should review these reports and follow up on any exceptions reported.

ISSUE 1-2	SAFEGUARDING OF CHECKS
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Results:

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

During the Period we noted that there was not a policy on safeguarding and accountability of assets at Beech Acres. Beech Acres was unable to account for nine unrecorded checks we found missing during our test of 7,922 canceled checks. Also, Beech Acres was unable to locate the checks nor provide documentation that the bank had been notified to stop payment on the missing checks. Failure to adequately control all checks and company credit cards exposes the Agency to the risk that theft or unauthorized or unallowable expenditures could occur and go undetected.

Management Comment:

We recommend that Beech Acres adhere to its existing policies and procedures for the safeguarding and accountability of assets, such as checks and agency credit cards. Communication and monitoring of its policy will reduce the risk of unauthorized or unallowable use or theft of agency assets. The policy should establish that agency assets are kept secure and regularly accounted for. We also recommend Beech Acres issue stop payment on the missing checks we identified.

ISSUE 1-3	CHECKS CASHED WITHOUT AUTHORIZED SIGNATURES
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Results:

All checks issued by Beech Acres must be signed by an authorized signatory, according to its policies. All checks must be signed by two authorized signatures when the amount of the check equals or exceeds \$3,500.

During the Period, two checks totaling \$4,354 cleared the bank without proper authorized signatures. On January 15, 1998, a check for \$501 payable to a foster parent was not signed but cleared the bank. On April 30, 1998, a check for \$3,852 (which required two signatures), was signed by only one authorized signatory.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Checks cashed without authorized signatures could lead to potential misuse of funds or the bank could delay payment by returning checks without proper authorized signatures.

Management Comment:

We recommend due care be practiced when authorizing and signing checks. Also, a review for proper authorized signatures be performed prior to mailing checks according to the Agency's policy regarding authorization. Beech Acres should re-communicate its policy with the bank regarding authorized signers.

ISSUE 1-4	TRAVEL ADVANCE NOT REIMBURSED
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Results:

Any outlay of cash with no prospective benefit to the facility or program is considered an unallowable cost when charged against the foster care program.³² Furthermore, all cash advances provided for training, conferences and conventions relating to program activities should be deducted prior to reimbursement of expenses paid by the employee.

The Vice President of Professional Services received a \$106 travel advance (check #51915 dated 5/5/98) to cover expenditures for a workshop in Chicago. Upon his return the Vice President of Professional Services submitted and was reimbursed \$147 (check #52648 dated 6/10/98) for the Chicago trip, however the \$106 travel advance was not deducted from the reimbursement or any other subsequent travel reimbursements.

Federal Questioned Cost: \$106

This outlay of cash for the travel advance did not provide a prospective benefit to the facility or program and was considered unallowed and in violation Ohio Admin. Code Section 5101:2-47-26 (A)(6).

Management Comment:

We recommend Beech Acres take steps to ensure an internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; prevent duplicate reimbursements; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether operations are achieving management's objectives.

The \$106 was repaid to Beech Acres on 10/30/00 and per the Assistant Controller, Beech Acres modified its travel advance procedures to credit travel advances and then deduct those advances from subsequent travel reimbursements.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES
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Objective:

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

³²

Ohio Admin. Code Section 5101:2-47-26(A)(6). Prior to 5/1/98, this provision was contained in Ohio Admin. Code Section 5101:2-47-64(F).

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Procedures Performed:

1. We determined the types of revenue that Beech Acres received during the Period, by scanning the audited financial statements and the supporting general ledger.
2. We identified the sources of receipts received from bank statements and other related records.
3. We obtained documentation from the Hamilton County Auditor and through the Ohio Department of Human Services Medicaid Management Information System to determine the completeness of receipts received and deposited for fees for services and Medicaid.
4. We tested a sample of 10% of the monthly billings by the Placement Agency to HCDJFS/Magellan 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 Beech Acres received as: program service fees from various counties and grants as well as contributions. They did receive Medicaid payments during the Period. We obtained documentation from the County Auditor and the ODJFS Medicaid Management Information Services to determine the completeness of the receipts from the HCDJFS and Hamilton County Community Mental Health Board (HCCMHB). Furthermore, we determined all Medicaid reimbursement and all the HCDJFS/Magellan disbursements to Beech Acres were receipted, deposited and recorded in its accounting records.

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS
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Objectives:

1. To determine whether Beech Acres' per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.
2. To determine the ratio of the per diem payments used for administration and maintenance.

Procedures Performed:

1. We obtained the monthly billing invoices submitted by Beech Acres for foster care services from HCDJFS and Magellan during 1998 and traced them to HCDJFS' and Magellan Public Solutions' Vendor History Report (disbursement journal) and Payment History Report respectively for Beech Acres, detailing the payments to them.
2. We selected a representative sample of children identified by HCDJFS as Title IV-E eligible children being serviced by Beech Acres.
3. We found the child's name on the appropriate month's HCDJFS/Magellan vendor payment history report. We computed the amount of maintenance that would have been paid for each child.
4. We compared payments received by Beech Acres from Magellan to the corresponding Beech Acres billing in the month selected for each child in the sample.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

5. We obtained the contracts or per diem agreements between the Beech Acres and the foster parent for each child in the sample.
6. We obtained and compared the authorized schedule of per diem rates to rates paid per the agreements between Beech Acres and Magellan and between Beech Acres and foster caregivers.
7. We compared the Beech Acres' per diem paid to the foster parents with the corresponding per diem it received from Magellan to determine the ratio of payments for administration and maintenance.

ISSUE 3-1	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE
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Results:

We tested the payments from Magellan Public Solutions (Magellan), the third party administrator for Hamilton County Department of Job and Family Services (HCDJFS) to Beech Acres for a sample of 51 foster children. The payments to the Placement Agency for this sample totaled \$91,216. We noted that the Placement Agency received the correct per diem rates noted in the Magellan contract.

The foster parents in the sample received \$48,338. We noted that these foster parents received the correct per diem rates per the Magellan contract. Of the \$91,216 received from Magellan, the foster parents received \$48,338 or 53 % of the total funds paid to the Placement Agency by Magellan.

The remaining \$42,878 or 47% was retained by Beech Acres and used for administrative costs, other direct services to children, or other purposes.

Management Comment:

ODJFS should establish by administrative rule a cap on the percentage of the private agency's allowable administrative cost. This administrative cost cap should be structured in a manner that maximizes the amounts expended for maintenance and other direct services to children, while allowing a reasonable percentage for necessary administrative costs.

ISSUE 3-2	LACK OF STATEMENT OF UNDERSTANDING (PER DIEM AGREEMENT) WITH FOSTER PARENTS
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Results:

The Placement Agency should ensure the proper authorization and timely updating of rate changes and other changes in the per diem agreement between the Placement Agency and the foster caregiver.

The Statement of Understanding or per diem agreements between an 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 effects the amount paid to foster parents).

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Of the 51 foster care payments in our sample, we did not find Statement of Understanding between the Placement Agency and the foster parent(s) in 30 cases. The per diem rate was omitted from the Statement of Understanding form in 3 cases, and the Statement of Understanding did not reflect a rate increase in 5 cases. We found that the Agency did utilize a foster parent per diem adjustment form when there was a rate increase, however, this form was not used initially for the Therapeutic Foster Care parents because their reimbursement rates seldom changed.

Management Comment:

The Statement of Understanding between the Placement Agency and the foster parent should be completed for placement and subsequent rate changes in a timely manner. This would provide greater assurance to both the Placement Agency and the foster parent that the properly authorized and documented rate would be paid.

ISSUE 3-3	LACK OF DOCUMENTATION FOR DIRECT CLOTHING PURCHASES
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Results:

To be allowable under an award, cost must, among other things be adequately documented.³³ All expenditures should be supported by sufficient documentation to demonstrate the proper authorization, approval and purpose of the expenditure.

Furthermore, under section V (A)(6) of the Magellan contract, Beech Acres agreed to "...maintain adequate and accurate medical and billing records concerning Consumers receiving Covered Services and shall retain such records for time periods as required by applicable laws."³⁴

Clothing allowances for the foster children were requested by the Intake Social Worker at the time of the initial placement, and could go up to \$300. We tested 10 of 29 clothing voucher requests made during the period. We requested documentation to support the nature of the expenditures. Beech Acres was unable to provide us documentation for 7 requests. Clothing voucher requests totaling \$1,900 were not supported by store receipts and foster parents did not retain documentation to support the expenditure for the child's clothing allowance.

Undocumented expenditures increased the risk that unauthorized or illegal expenditures could occur and go undetected.

Federal Questioned Costs: \$1,900

Due to costs not supported by adequate documentation, and expenditures reported on the cost report and charged against the foster care program, Beech Acres was in violation of Section V(A)(6) of its contract with Magellan and OMB Circular A-122 in the amount of \$1,900. The undocumented federal questioned cost totaled \$1,900.

³³ Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (2)(g).

³⁴ 45 C.F.R. Section 74.53(b)(1999) generally requires that such records be retained for a period of three years.

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SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment:

We recommend Beech Acres update its Foster Care Procedural Manual to reflect the current procedures in place for clothing voucher requests and required documentation. For sound internal controls, we further recommend management require the foster parents to submit all receipts to Beech Acres for verification of purchases. This would reduce the risks of unauthorized purchases not relating to the foster child.

ISSUE 4	TEST OF INTERNAL CONTROLS
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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 Directors minutes, personnel records, organizational chart and used this information to identify conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code 5101:2-5-08.
2. We completed an internal control questionnaire, and identified significant weaknesses that existed in the accounting cycle.
3. We inquired, documented and obtained corroborating information 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	FIXED ASSET POLICY
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Results:

A comprehensive written fixed asset policy would increase the Placement Agency's ability to properly account for its fixed assets, and ensure they are adequately safeguarded from loss, theft or unauthorized use.

Per the internal control questionnaire and discussion with the client, the Placement Agency did not have a written fixed asset policy or procedures for the treatment of capital expenditures and repairs. 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.

Management Comment:

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

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 asset, which may 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 would go undetected.

ISSUE 4-2	RECONCILIATION OF ACCOUNTS RECEIVABLE AND PAYMENTS RECEIVED
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Results:

Sound financial management requires timely billing and receipt of payment for the services that they are providing. Upon the introduction of Magellan, third party administrator for Hamilton County, Beech Acres and other agencies experienced significant delays in receiving payments for billing services. According to Beech Acres personnel, Magellan did not provide adequate training and information about the invoicing process. This process resulted in Beech Acres obtaining reports without sufficient detailed information to perform a reconciliation of services provided and payments received in a timely manner. Beech Acres' efforts in communicating with Magellan has not yet resolved this matter.

Significant delays in billing and receiving payments could have an adverse effect in the Agency's operations and ability to provide services.

Management Comment

We recommend appropriate representatives of Beech Acres' management meet with Hamilton County and Magellan to identify the causes of delays in billable services and try to arrive at a timely resolution.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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
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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 Beech Acres were used in accordance with Social Security Act.
5. To determine whether the cost reports submitted to ODJFS by Beech Acres were accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We read the Board of Director's minutes, listing, and organizational chart and used this information to check for conflicts of interest and self dealing transactions prohibited by compliance with Ohio Admin. Code Section 5101:2-5-08.
2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribe in Ohio Admin. Code Chapter 5101:2.
3. We determined whether the PCPA/PNA established a policy on: respite care; alternative care arrangement; residency; training and verification of income and prior childcare experience and if they were authorized and documented.
4. We compared wages paid as identified on the ODHS 2910 cost report to wages paid as identified in the payroll records.
5. We traced potential questioned cost to the cost report.

ISSUE 5-1	COMPLETE AND ACCURATE INFORMATION ON APPLICATIONS
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Results:

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

Our Review found that the Placement Agency did not provide evidence that it took adequate measures to ensure the information on family foster home applications submitted was complete and accurate. Beech Acres did not verify income with the applicant's employer nor did they have documentation of the verification of a pay stub in 4 of the 10 family foster homes files reviewed.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 5-2	PURCHASE OF SERVICE AGREEMENT
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Results:

Ohio Admin. Code Section 5101:2-33-18 (A) states, "Whenever a public children services agency purchases foster care and placement services from another public or private provider of such services, the agency shall enter into a purchase of service agreement with the provider. The purchase of service agreement shall specify that foster care maintenance, administrative case management, and case planning activities as defined in this rule and related administrative activities are being purchased. The PNA entered into a contract with Hamilton County Department of Human Services to provide therapeutic foster care services. Article I of the agreement states... "this agreement will be effective September 1, 1996 through June 30, 1997, unless otherwise terminated or extended by formal agreement."

Beech Acres (PNA) allowed the contract with Hamilton County Department of Human Services (HCDHS) to expire on June 30, 1997 without a renewal. Without a contract in effect from the months of August 1997 to December 1997, the PNA invoiced and received payments from HCDHS for foster care services in the amount of \$79,161.

The PNA invoiced and received payments from HCDHS in the amount of \$23,666 for the first eight days of foster care services during January 1998 before a new contract was executed on 1/7/98 with an effective date of 1/9/98.

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

Management Comment

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

ISSUE 5-3	TITLE IV-E COST REPORT
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Results:

\$3,546 detailed as federal questioned cost in Issue 1-1, 1-4 and 3-3 of this report, was charged against the foster care program, and reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report. Ineligible costs claimed on the cost report could result in overstated Title IV-E reimbursement per diem rates and therefore overstated federal reimbursement.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ODJFS must determine the amount of over reporting by Beech Acres and re-compute the Title IV-E per diem reimbursement rate that should have been paid to Beech Acres during the Period and reimburse HHS, ODJFS or the PCSA for any over reimbursement resulting from the overstated costs.³⁵ Failure to properly classify program costs could result in federal questioned costs and have an adverse effect on the Title IV-E rate setting process.

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

Management Comment

ODJFS should develop and implement an effective process to detect ineligible costs reported for Title IV-E reimbursement. At a minimum, ODJFS should consider a comprehensive review of all cost reports and comparison of those cost reports to audited financial statements. Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

ISSUE 6	TEST OF MEDICAID BILLINGS
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Objective:

To determine if Medicaid billings at Beech Acres were properly billed to the program.

Procedures Performed:

1. We determined if billings were submitted in the correct manner to the Medicaid program by analyzing all Medicaid billings from the Family Preservation Grant for calendar year 1998. We tested documentation of hours billed for the Family Outreach Cost Reimbursement. We also researched the billing procedures between Beech Acres and the Hamilton County Community Mental Health Board (HCCMHB).
2. We determined if Beech Acres received Medicaid reimbursement in compliance with Ohio Admin. Code Sections 5101:3-4-02, 5101:3-4-29(D) and 5101:3-4-29(G).

Results:

During the test of Medicaid billings we found that: Medicaid billings had supporting documentation; procedures codes used for billing were in compliance with the Ohio Administrative Code; Medicaid reimbursements were paid to the employing or contracting physician or clinic; and we found no exceptions during our review of compliance with applicable laws and regulations.

ISSUE 7	TEST OF MEDICAID SERVICES
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Objective:

To ascertain if there was proper documentation of the monitoring of the Medicaid counseling.

³⁵ Pursuant to Ohio Admin. Code Section 5101:2-47-01(L).

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Procedures Performed:

1. We determined if Beech Acres performed the required monitoring in compliance with Ohio Admin. Code Section 5101:3-4-02.
2. We determined if services were being performed on the dates billed for by Beech Acres.
3. We determined if qualified personnel were providing the required service.
4. We determined if the required Medicaid reports were being signed by the required individual.

Results:

We found that Medicaid reimbursed services were: provided by eligible providers or services provided by non-physicians were under the direct or general supervision of a physician; and services billed and reported were documented and supported in the records.

**BEECH ACRES
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Cash Expenditures without Documentation	1-1	14	\$1,540
Travel Advance Not Reimbursed	1-4	16	106
Expenditures for Clothing without Documentation	3-3	19	<u>1,900</u>
TOTAL FEDERAL QUESTIONED COST			<u>\$3,546</u>



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OFFICE OF THE AUDITOR

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BEECH ACRES

HAMILTON 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
DECEMBER 5, 2000**