



**CHILD PROTECTIVE SERVICES SPECIAL AUDIT**

**ADRIEL SCHOOL, INC.  
REPORT ON AGREED-UPON PROCEDURES**

**JANUARY 1, 1998 THROUGH DECEMBER 31, 1998**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**ADRIEL SCHOOL, INC.  
REPORT ON AGREED-UPON PROCEDURES**

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**ADRIEL SCHOOL, INC.  
REPORT ON AGREED-UPON PROCEDURES**

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

<b>NAME</b>	<b>TITLE</b>	<b>TERM</b>
<b>BOARD OF TRUSTEES</b>		
David K. Yoder	President	January 1, 1997 - December 31, 1999
Dwight Spencer	Vice President	January 1, 1996 - December 31, 1998
Mala Longenecker	Secretary	January 1, 1996 - December 31, 1998
Dave A. Link	Treasurer	January 1, 1996 - December 31, 1998
Anita Donnelly	Member	January 1, 1997 - December 31, 1999
Stanton Gurevitz	Member	January 1, 1998 - December 31, 2000
Richard Hemphill	Member*	January 1, 1996 - December 31, 1998
Art Jost	Member*	January 1, 1998 - December 31, 2000
Allen Liechty	Member**	January 1, 1997 - December 31, 1999
Kathy Lowry	Member	January 1, 1996 - December 31, 1998
Randall Nafziger	Member	January 1, 1998 - December 31, 2000
Audrey Oliphant	Member*	January 1, 1997 - December 31, 1999
Eric Whiting	Member	January 1, 1997 - December 31, 1999
Belinda Yoder	Member	January 1, 1997 - December 31, 1999
Phillip Yoder	Member	January 1, 1998 - December 31, 2000
Mary Lee Gecowets	Member***	Emeritus <sup>1</sup>
Miriam Lapp	Member	Emeritus
Ed Nafziger	Member	Emeritus
Thomas Simon	Member	Emeritus
Freda Taylor	Member	Emeritus
Daniel J. Yoder	Member	Emeritus

Shared Board Members with Affiliated Organizations

\* Adriel Foundation

\*\* Shalom Ministries

\*\*\* Ben-El Child Development Center

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<sup>1</sup> Emeritus members are inactive members and do not have terms.

**ADRIEL SCHOOL, INC.  
REPORT ON AGREED-UPON PROCEDURES**

**BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL  
AS OF DECEMBER 31, 1998 (Continued)**

<b>NAME</b>	<b>TITLE</b>	<b>TERM</b>
<b>ADMINISTRATIVE PERSONNEL</b>		
James Burkett	President/CEO	September 1, 1976 - Present
Simon Schlabach	Director of Finance/CFO	June 14, 1982 - Present
Robert Milner	Director of Child & Family Services	July 1, 1996 - Present

Agency Address  
Adriel School, Inc.  
414 N. Detroit Street  
West Liberty, OH 43357



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

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### Independent Accountants' Report

Greg Moody, Director  
Ohio Department of Job and Family Services  
30 East Broad Street  
Columbus, Ohio 43266-0423

Dear Director Moody:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services<sup>2</sup> (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 Adriel School, Inc. (Adriel or Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contract with Champaign County Department of Job and Family Services (CCDJFS) formerly known as Champaign County Department of Human Services (CCDHS). 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 Adriel 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 CCDJFS 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.

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<sup>2</sup> The merger of the Ohio Department of Human Services and the Ohio Bureau of Employment Services to become the Ohio Department of Job and Family Services (ODJFS) took effect July 1, 2000.

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

On October 24, 2000, we held a post audit conference with the following:

<u>Name</u>	<u>Office/Position</u>
James Burkett	Adriel School, Inc. President/CEO
Simon Schlabach	Adriel School, Inc. Director of Finance/CFO
Linda Overly	Adriel School, Inc. Business Manager
Gregory W. Kelly	Auditor of State Assistant Chief Deputy Auditor
Edna Frezgi	Auditor of State Deputy Auditor
Carolyn Curry	Auditor of State Assistant Auditor
Hal Whitehurst	ODJFS Audit Supervisor
Dan Shook	ODJFS Internal Auditor

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

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

JIM PETRO  
Auditor of State

May 10, 2001



**ADRIEL SCHOOL, INC.**  
**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 was released on February 9, 2001.

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform investigations utilizing certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months. This is the ninth 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.<sup>3</sup> 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.<sup>4</sup> Within ODJFS, the program is administered by the Office of Children and Families.

At the local level, each county's public children services agencies (PCSA) or department of human services administers funds provided under Title IV-E of the Social Security Act in accordance with the rules adopted by the state Department of Human Services.<sup>5</sup>

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<sup>3</sup> 94 Stat. 501 (1980), 42 U.S.C. Section 671, as amended.

<sup>4</sup> Ohio Rev. Code Section 5101.141 (A). Rules established pursuant to this authority are found in Ohio Admin. Code Chapter 5101:2-47.

<sup>5</sup> Ohio Rev. Code Section 5153.16 (A) (14).

**ADRIEL SCHOOL, INC.**  
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Public Children Services Agency Contractual Requirements**

Public Children Services Agencies (PCSA) 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.<sup>6</sup> 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. Champaign County Department of Job and Family Services (CCDJFS),<sup>7</sup> a PCSA, entered into such an agreement with Adriel School, Inc., a PNA.<sup>8</sup>

**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.<sup>9</sup>

**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.<sup>10</sup> 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<sup>11</sup> and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report.

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<sup>6</sup> Ohio Rev. Code Section 5153.16 (C)(2)(a)(v).

<sup>7</sup> During the period of this engagement Champaign County Department of Job and Family Services (CCDJFS) was undergoing a separate financial audit conducted by the AOS. We selected CCDJFS' records for testing for Issues 2 and 3, because records were accessible and it was both cost and time efficient to do so.

<sup>8</sup> Champaign County Department of Job and Family Services (Children's Services) entered into a Shared Cost/Managed Care Agreement originally dated June 26, 1996 for the period of July 1, 1996 to June 30, 1997 and renewed July 15, 1997 for the period July 1, 1997 to June 30, 1998 and July 7, 1998 for the period July 1, 1998 to June 30, 1999.

<sup>9</sup> 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).

<sup>10</sup> 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).

<sup>11</sup> 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.

**ADRIEL SCHOOL, INC.**  
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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...”<sup>12</sup>

**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.<sup>13</sup>

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. . .<sup>14</sup>

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.<sup>15</sup>

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.”<sup>16</sup> 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.<sup>17</sup>

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<sup>12</sup> 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).

<sup>13</sup> 42 U.S.C. Section 675 (4)(A).

<sup>14</sup> 26 U.S.C. Section 501(c)(3).

<sup>15</sup> 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.

<sup>16</sup> Prior to 5/1/98, applicable cost guidelines were contained in Ohio Admin. Code Sections 5101:2-47-63 and 5101:2-47-64.

<sup>17</sup> 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.

**ADRIEL SCHOOL, INC.**  
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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 institutions of higher education, hospitals, and other nonprofit organizations. Subpart C of Circular A-110 set forth requirements regarding: financial and program management, property and procurement standards, reports and records and termination and enforcement.

### **Reimbursement Process**

The reimbursement process begins early each fiscal year when ODJFS disburses funds to the counties under its state plan for foster care approved by the Secretary of the U.S. Department of Health and Human Services (HHS). ODJFS submits quarterly reports to the HHS for reimbursement of federal financial participation (FFP) in foster care payments<sup>18</sup> made to the PCPAs or PNAs.

In 1998, the FFP was 58% for maintenance payments<sup>19</sup> made and 50% for administrative costs<sup>20</sup> incurred under the Title IV-E program.

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

### **Allowable Costs**

In addition to the Ohio Administrative Code, the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, which govern allowable costs, and the terms and conditions of the contract between CCDJFS and Adriel<sup>21</sup> formed the criteria to which we referred during our testing to determine if the expenditures at Adriel were used to provide the administrative and direct service costs necessary to perform the services outlined in the contract.

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<sup>18</sup> 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.

<sup>19</sup> 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.

<sup>20</sup> 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.

<sup>21</sup> Champaign County Department of Job and Family Services (Children's Services) entered into a Shared Cost/Managed Care Agreement originally dated June 26, 1996 for the period of July 1, 1996 to June 30, 1997 and renewed July 15, 1997 for the period July 1, 1997 to June 30, 1998 and July 7, 1998 for the period July 1, 1998 to June 30, 1999.

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The contract states that CCDJFS will reimburse Adriel for providing substitute placement-managed care services to the foster children in its care. Respite assessment, family foster care, treatment foster care, residential treatment services, and administrative case management and planning activities are services deemed to be allowable under the CCDJFS contract with Adriel. Purchase of these services is based upon a per diem agreement.

In the contract with CCDJFS, Adriel agreed "to submit a monthly report to the Department, listing individual youth served, costs, and any other information deemed necessary by the Department to secure allowable IV-E and other applicable reimbursements."<sup>22</sup>

**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."<sup>23</sup>

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

We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with Adriel join together to ensure that Adriel develops and implements a corrective action plan that will result in fiscal accountability<sup>24</sup> and legal compliance<sup>25</sup> in accountability and legal compliance in an expeditious manner. Based on the findings we recommend the following:

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<sup>22</sup> Payment for Purchased Services, Champaign County Department of Job and Family Services Shared Cost/Managed Care Agreement, Paragraph 8(A).

<sup>23</sup> Office of Management and Budget (OMB) Circular A-133, Subpart A, .105 Definitions.

<sup>24</sup> ODJFS has proposed Rule 5101:2-33-19, Penalties for Failure to Comply with Fiscal Accountability Procedures, sets forth the penalties that ODJFS may enforce against PCSAs, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability.

<sup>25</sup> ODJFS has proposed Rule 5101:2-47-23.1, Title IV-E Agency Contracting and Contract Monitoring Requirements, which sets forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services.

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- (1) The PCSAs purchasing services from Adriel should determine whether the findings set forth in this report constitute a breach of their contract, and if so seek an appropriate remedy.
- (2) ODJFS should assist the contracting PCSAs in seeking recovery of misspent funds by providing administrative and technical support as needed.

**AGENCY INFORMATION**

Adriel School, Inc. is a private noncustodial agency (PNA) that was established on August 30, 1982 as a nonprofit organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3). Adriel is licensed by the ODJFS to recommend foster families, place children in foster homes, operate a group home, and recommend children for adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as Adriel to place the child. The group of family foster homes (private foster network) has been in place since 1982. Adriel places foster children primarily from CCDJFS. Adriel has provided services to Allen, Athens, Auglaize, Butler, Champaign, Clark, Darke, Defiance, Delaware, Franklin, Fulton, Henry, Hocking, Licking, Logan, Lucas, Madison, Miami, Montgomery, Paulding, Pickaway, Shelby, Williams, and Wood County public children services agencies.

Related Party Transactions<sup>23</sup> with Affiliated Organizations

Adriel was involved in a series of significant related party transactions during the Period with Adriel Foundation, Ben-EI Development Center and Shalom Ministries. All these organizations were noted on Adriel's organizational chart as reporting to Adriel School, Inc. Board of Trustees. Adriel's Director of Finance/CFO also served as a financial liaison and CFO for all three affiliated organizations.

On July 1, 1997, Adriel School, Inc. experienced a change in its financial reporting entity. Ben-EI Child Development Center (Ben-EI) and Adriel Foundation, two divisions of Adriel, were separately incorporated as nonprofit organizations with separate and distinct boards of trustees. The separation of the two entities resulted in the restatement of Adriel School Inc.'s net assets for July 1, 1997.<sup>24</sup> Adriel School, Inc. shared several Board Members with Ben-EI Child Development Center and the Adriel Foundation.

Simon Schlabach served as the Director of Finance/CFO for Adriel. He was CFO for the three affiliated organizations, Ben-EI Child Development Center, Adriel Foundation, and Shalom Ministries. In addition, he was responsible for the coordination and communication of financial information between the organizations.

Ben-EI Child Development Center (Ben-EI)

Ben-EI was incorporated as a nonprofit organization on June 5, 1997 and is certified by the Ohio Department of Mental Health to provide mental health treatment services for youth. Amendments to the articles of incorporation for Ben-EI, are made with the written consent of the Adriel School, Inc. Board of Trustees, and by the affirmative vote of the majority of the Trustees of the corporation.<sup>25</sup>

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<sup>23</sup> 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.

<sup>24</sup> Adriel School, Inc., Financial Statements, June 30, 1998 with Independent Auditor's Report, Notes to the Financial Statements No. 1, p.6

<sup>25</sup> Amendments, Articles of Incorporation of Ben-EI Child Development Center, Section V.

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Adriel Foundation

Adriel Foundation was incorporated as a nonprofit organization on December 12, 1996. The purpose noted in the amended articles of incorporation filed June 26, 1997, was "to support the activities of Adriel School, Inc., a corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, by making grants solely for the purpose of Adriel School, Inc., its successor and any entity controlled or related to it." Adriel Foundation is a repository for the endowed funds of Adriel and a vehicle for fund raising activities.

Shalom Ministries

Shalom Ministries was incorporated as a nonprofit organization on May 18, 1998 and operated a victim offender reconciliation program and a wellness program.

Agreement for Loaning of Employees and Sharing of Expenses

Adriel School, Inc. employs personnel for Adriel Schools as well as for its affiliated organizations, Ben-EI, Adriel Foundation, and Shalom Ministries. The Placement Agency acts as an independent contractor which, for a fee, loans employees to each of the affiliated organizations. Adriel's employees provided financial, administrative and programmatic services to the affiliated organizations. Adriel assumed the obligations of an employer, including but not limited to obligations under the Workers' Compensation and Unemployment Compensation laws with respect to employees loaned to Ben-EI, Adriel Foundation, and Shalom Ministries and shared other expenses.

The fee charged was based upon allocation of time of the person performing the services, including fringe benefits and an allocation of overhead expenses. Adriel was also reimbursed for out-of-pocket expenses incurred in the performance of the services.

Agreements of Service were signed with Ben-EI effective July 1, 1997 through June 30, 1998 and with Ben-EI and Shalom Ministries effective July 1, 1998 through June 30, 1999. Adriel provided these services, for the same fee, to Adriel Foundation and Shalom Ministries without the benefit of an agreement.

Training Services

Adriel School, Inc. entered into an agreement signed November 19, 1997 for the period of November 1, 1997 through June 30, 1998 to provide training services to Ben-EI. Per the agreement, the training covered such areas as first aid, CPR, PCA and other job related topics.

Ben-EI agreed to pay Adriel \$10 per hour. Adriel provided these services, for the same fee, to Shalom Ministries and Adriel Foundation without the benefit of an agreement.

Accounting Services

Adriel School, Inc. entered into an agreement signed November 21, 1997 for the period of October 1, 1997 through June 30, 1998 to provide accounting services to Ben-EI. Per the agreement, Adriel would: 1) post purchase orders and invoices, 2) print weekly cash requirement reports, 3) print a check register after each check run, 4) send voided checks to the agency, 5) prepare and send out 1099's, 6) issue checks only with prior authorization, 7) print a month end open invoice report, and 8) invoice monthly for services provided.

Ben-EI agreed to pay Adriel \$2 for each check processed. Adriel provides these services for the same fee, to Shalom Ministries and Adriel Foundation without the benefit of an agreement.

Mental Health Treatment Services

In an agreement signed August 5, 1997, Adriel School, Inc. contracted with Ben-EI to provide mental health treatment services to youth under it's care. Under the terms of the agreement Ben-EI, certified by the Ohio

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Department of Mental Health, was to provide these services for the period commencing July 1, 1997 through June 30, 1998. The agreement contained rates for each specific level of service.

Referral Agreement

Adriel and Ben-EI also entered a cooperative agreement for the referral of clients. The agreement, signed May 18, 1988, was designed to develop and maintain a network of services to meet specific individual needs and enhance continuity of care. Referrals were made and services provided between the agencies, including the release of information, background information, treatment related client data, treatment objectives, any special requirements, and recommendations on client needs for continuing contact or return to the referral source.

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  
Adriel School, Inc.  
Foster Care Statistics**

<b>Characteristic</b>	<b>Statistic</b>
Daily Average Number of Children in Placement	117
Number of Active Licensed Foster Homes	78
Average Per Diem Rate	\$58
Number of PCSAs from Which Agency Receives Children	24
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	\$2,903,335
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

During the Period, Adriel's foster care staff consisted of thirty (30) employees, who provided direct foster care services, including a president, business coordinator, CFO, program director and assistant director, marketing specialist, consultant/case managers, foster care managers, a training manager, a training supervisor, a training assistant, and others to provide the needed counseling and case management services to the foster children and foster parents.

Adriel's revenue consisted primarily of residential treatment services, other charges for service fees and employee lease reimbursements. The total revenue received by Adriel for foster care services during the Period of July 1, 1997 to June 30, 1998 was \$1,119,201.<sup>26</sup>

During the Period of this engagement, the Champaign County Department of Job and Family Services (CCDJFS) was undergoing a separate financial audit conducted by the Auditor of State. We selected CCDJFS records for testing in Issues 2 and 3, because records were accessible and it was both cost and time efficient to do so.

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<sup>26</sup> Financial information shown is for fiscal year ending June 30, 1998. Records could not be obtained to enable us to report on a calendar year.



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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  
Adriel School, Inc.  
Revenue by Source**

	<b>FY 1998</b>	<b>Percent of Total Revenue</b>
Madison County	\$ 496,675	9
Auglaize County	354,835	6
Champaign County	203,037	4
All other Counties	372,410	7
Managed Care Services	1,119,201	20
Residential Treatment Services	1,551,262	28
Employee Lease Reimbursement	1,125,627	20
All other income <sup>27</sup>	366,520	6
<b>Total Revenue by Source</b>	<b>\$5,589,567</b>	<b>100%</b>

**Relevant Individuals**

James Burkett

James Burkett is the President/CEO of Adriel School, Inc. He has served as President/CEO since 1976.

Simon Schlabach

Simon Schlabach has served as the Director of Finance/CFO for Adriel School, Inc. since 1982. He was CFO for the three affiliated organizations, Ben-El Child Development Center, Shalom Ministries. In addition, he was responsible for the coordination and communication of financial information between the organizations.

Robert Milner

Robert Milner has served as the Director of Child & Family Services since 1996. He is responsible for the out-of-home services provided by Adriel.

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<sup>27</sup> All other income consists of consultation fees, rent, gain on sale of equipment, investment earnings, and miscellaneous revenue.

**ADRIEL SCHOOL, INC.**  
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<b>ISSUE 1</b>	<b>TEST OF EXPENDITURES IN ACCORDANCE WITH TERMS OF AGREEMENTS AND APPLICABLE LAWS</b>
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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 Adriel 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 Adriel for the Period and inspected details of each charge including vendor, amount, and authorization for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.
7. For selected credit card expenditures which did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or expenditures that appeared to be contrary to policy, we requested supporting documentation, such as invoices.
8. We discussed with agency management all credit card expenditures that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined by applicable rule regulations and/or contract provisions.
9. We read lease agreements and other documents supporting all car lease payments. We reviewed documentation supporting how the percentage of time the cars were used for business and personal use was determined and whether personal use was properly disclosed on the employees' W-2.
10. We read lease agreements and other documentation supporting all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and the Placement Agency.

**ADRIEL SCHOOL, INC.**  
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 1-1</b>	<b>CHECK AND CREDIT CARD DISBURSEMENTS NOT ALLOWED OR WHICH LACKED SUPPORTING DOCUMENTATION</b>
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**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.<sup>28</sup> 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 . . ." <sup>29</sup>

We inspected one hundred eighty-nine (189) credit card expenditures totaling \$17,723. 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. Adriel was unable to provide us with the above types of supporting documentation as requested for 17 transactions totaling \$2,041. Because the agency was unable to supply us with adequate documentation, of the type requested, these expenditures were not documented as required by the CCDJFS contract and were in violation of OMB Circular A-122, Attachment A(2)(g).<sup>30</sup> Undocumented expenditures totaled \$2,041.

Additionally, expenditures totaling \$4,213 were not allowable direct services or administrative costs under the CCDJFS contract or OMB Circular A-122. These expenditures consisted of gift certificates for staff, staff Christmas party expenses, staff rewards dinner, non-sufficient funds penalties, and alcohol. They were as follows:

1. Unallowable costs of \$75 for one credit card transaction and \$1,384 for two check disbursements purchased gift certificates for staff and were in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." Unallowed costs for personal use totaled \$1,459.
2. One credit card transaction for \$194 and one check disbursement for \$1,430 were for the cost of a staff Christmas party and reward dinner and were unallowable under OMB Circular A-122, Attachment B, Paragraph 14 which states, "Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable." Furthermore, entertainment costs for amusements, social activities and related costs for staff only are considered unallowable costs for use in completing ODHS 2910 Purchased Family Foster Care Cost Report.<sup>31</sup> Unallowed entertainment costs totaled \$1,524.

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<sup>28</sup> Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment A, Paragraph A (2)(a) and (g).

<sup>29</sup> OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

<sup>30</sup> Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment A, Paragraph (A)(2)(g) states in pertinent part, "To be allowable under an award, costs must meet the following general criteria:....Be adequately documented."

<sup>31</sup> Ohio Admin. Code Section 5101:2-47-26(A)(7).

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3. Seven transactions totaling \$1,120 were for the cost of non-sufficient fund fees and were 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. . .<sup>32</sup> Furthermore, any outlay of cash with no prospective benefit to the facility or program is deemed unallowable<sup>33</sup>
4. There was a purchase of alcohol, included in a credit card transaction, totaling \$10 which is unallowable under OMB Circular A-122, Attachment B, Paragraph 2 which states, "Costs of alcoholic beverages are unallowable."

**Table III  
Adriel School, Inc.  
Undocumented and Unallowed Costs**

<b>Undocumented Expenditures</b>	
Restaurant and Lodging	\$ 801
Transportation	1,077
Miscellaneous Expenditures	<u>163</u>
Total Undocumented Expenditures	<u>2,041</u>
<b>Unallowed Expenditures</b>	
Unallowed Costs for Personal Use - Gift Certificates for Staff	1,459
Unallowed Entertainment Costs -Staff Christmas Party & Reward Dinner	1,524
Unallowed Costs for Interest - Non-sufficient Funds Fees	1,120
Unallowed Costs for Alcoholic Beverages	<u>10</u>
<b>Total Unallowed Expenditures</b>	<u><b>4,213</b></u>
<b>Total Questioned Costs</b>	<u><b>\$6,254</b></u>

**Federal Questioned Costs: \$6,254**

Due to unallowed and inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program, Adriel was in violation of OMB Circular A-122<sup>34</sup> in the amount of \$2,041. Adriel was also in violation of Ohio Admin Code Section 5101:2-47-26 (A)(7) and OMB Circular A-122 Attachment B, Paragraphs 2,14,18, and 23(a) with respect to the unallowed expenditures in the amount of \$4,213 as described above in numbered Paragraphs 1-4. The total federal questioned costs totaled \$6,254.

<sup>32</sup> Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations", Attachment B, Paragraph 16

<sup>33</sup> OAC 5101:2-47-26(A)(6)

<sup>34</sup> Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment A, Paragraph A (2)(a) and (g).

**ADRIEL SCHOOL, INC.  
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**Management Comment**

Adriel did not adhere to OMB Circular A-122 regarding documentation of allowable costs and financial records retention. Champaign County Department of Job and Family Services should enter into a comprehensive contract with agencies (see Issue 3-3) and require the agencies, with which it contracts for placement services, to obtain and submit to CCDJFS an annual financial audit performed in accordance with government auditing standards.<sup>35</sup> 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. CCDJFS should review these reports and follow up on any exceptions reported.

<b>ISSUE 1-2</b>	<b>RELATED PARTY TRANSACTIONS</b>
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**Results:**

Ohio Administrative Code 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 agency.”<sup>36</sup>

In addition, the Ohio Administrative Code provides that when completing ODJFS cost reports, “ any outlay of cash with no prospective benefit to the facility or program” are considered unallowable.<sup>37</sup>

Simon Schlabach served as the Director of Finance/CFO for Adriel since 1982. He was CFO for the three affiliated organizations, Ben-EI Child Development Center, Adriel Foundation, and Shalom Ministries. He was also responsible for the coordination and communication of financial information between the organizations. In addition, Adriel shared board members with Ben-EI, Shalom Ministries, and Adriel Foundation.

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

During the Period the following transactions occurred:

1. Ben-EI, Shalom Ministries, and Adriel Foundation contracted with Adriel to lease employees and share employee expense. Ben-EI also contracted with the Placement Agency to provide training and accounting services. Although Adriel provided the same training and accounting services to Shalom Ministries and Adriel Foundation, it did so without benefit of a contract. Total revenue received for these services was \$213,849.
2. Adriel loaned Ben-EI \$99,438, interest free, on July 1, 1998 with a repayment date of June 30, 2000. It was repaid as agreed. This loan provided no prospective benefit to the Placement Agency.

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<sup>35</sup> ODJFS has proposed Rule 5101:2-47-262, Audits of PCSAs, PCPAs and PNAs, this rule sets forth the annual audit requirements. The effective proposed date has not been set.

<sup>36</sup> Ohio Admin. Code Section 5101:2-5-08(G).

<sup>37</sup> Ohio Admin. Code Section 5101:2-47-26(A)(6).

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3. Ben-El contracted with Adriel to provide mental health treatment, diagnostic assessments and counseling services. Amount paid during the Period for these foster care expenditures totaled \$5,143.
4. Adriel borrowed \$70,000, at 5.5%, from Ben-El on July 1, 1997 to be repaid on June 30, 1999. On June 30, 1998 Adriel purchased computer equipment for Ben-El in the amount of \$29,930. This amount was used to reduce the balance of the \$70,000 notes payable to Ben-El and was not invoiced as required. The balance of the loan, \$40,070, with interest of \$6,054, was repaid by the due date. There was no evidence to support Board approval for this method of repayment.

The failure of management and the board to document that related party transactions were competitive and favorable to the agency is a violation of Ohio Admin. Code Section 5101:2-5-08(G) and increases the risk that transactions resulting in unallowable expenditures and questioned costs could occur.

**Management Comment**

Adriel School, Inc. should obtain, document and maintain quotes or competitive bids from other vendors for services obtained from related parties to help ensure goods and services are provided at a competitive cost or under terms favorable to the agency. This procedure is critical when related party transactions are involved, to ensure compliance with Ohio Admin. Code Section 5101:2-5-08(G) and to avoid any appearance of impropriety. In such transactions, the facts supporting compliance with the Ohio Administrative Code and Board approval for these goods or services should be documented in the Board minutes.

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.

<b>ISSUE 2</b>	<b>TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES</b>
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**Objective:**

To determine whether all receipts and deposits from the applicable public children services agencies to Adriel 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 Adriel 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 Champaign 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 CCDJFS 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.

**ADRIEL SCHOOL, INC.  
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Results:**

We documented the types of revenue that Adriel received as program service fees from various counties, grants and gifts, employee lease reimbursement and investment income. They did not receive Medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from CCDJFS. Furthermore, we determined that all CCDJFS disbursements to Adriel were received, deposited, and recorded in its accounting records.

<b>ISSUE 3</b>	<b>TEST OF PAYMENTS TO FOSTER PARENTS</b>
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**Objectives:**

1. To determine whether Title IV-E maintenance funds received by Adriel were used in accordance with the Social Security Act.
2. To determine whether Adriel'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 Champaign County Department of Job and Family Services the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to Champaign County Department of Job and Family Services for the months of January 1998 to December 1998 for foster care services. We also obtained from the Champaign County Auditor a vendor payment history report for Adriel School, Inc. for the same period and traced these payments to the invoices submitted by Adriel.
2. We selected a representative sample of children identified by CCDJFS as Title IV-E eligible children being serviced by Adriel. Federal maintenance payments for these children totaled \$11,717 or 29% 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 Adriel from CCDJFS to the corresponding Adriel billing in the month selected for each child in the sample.
5. We determined whether the total amount of the federal reimbursement for maintenance (58%) was used for the care of the foster child.
6. We determined whether the total amount of the county's required match to the federal reimbursement for maintenance (42%) was used for the care of the foster child.
7. We obtained the contracts or per diem agreements between Adriel 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 Adriel and CCDJFS and between Adriel and foster caregivers.
9. We compared the Adriel's per diem paid to the foster parents with the corresponding per diem it received from CCDJFS to determine the ratio of payments for administration and maintenance.

**ADRIEL SCHOOL, INC.  
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 3-1</b>	<b>ODJFS SYSTEMIC MISCLASSIFICATION OF COSTS RESULTS IN OVER PAYMENT OF THE TITLE IV-E MAINTENANCE REIMBURSEMENT</b>
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**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.<sup>38</sup>

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

We selected a sample of 16 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and CCDJFS submitted \$21,140 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 \$20,201 and received \$11,717 at the 58% FFP reimbursement rate, however the Placement Agency only made maintenance payments to foster parents totaling \$7,883. The remaining \$12,318 was retained by Adriel and used for administrative costs or other purposes.

Table IV documents the amount of federal questioned costs and overpayment of the Title IV-E federal maintenance reimbursement.

**Table IV  
Overpayment of Title IV-E Maintenance Reimbursement**

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	\$11,717
Required PCSA Match for Federal Financial Participation	<u>8,484</u>
Total Title IV-E Maintenance Claimed by ODJFS	20,201
Amount Paid by PNA to Foster Parents for Maintenance	<u>(7,883)</u>
Overstatement of Maintenance Claim	<u>\$12,318</u>

<sup>38</sup> 42 U.S.C. Section 675 (4)(A)

<sup>39</sup> 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.

<sup>40</sup> 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.

<sup>41</sup> 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.



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**Projected Questioned Costs:**

We specifically identified \$12,318 of questioned costs in our sample. In order to evaluate the potential effect of questioned costs caused by 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:

<u>Dollar Amount of Error:</u>		
Dollar Amount of Sample	\$12,318/\$20,201	60.98 %
Dollar Amount of Population		X <u>\$1,026,831</u>
Projected Overstatement of Maintenance Claim		<u>\$626,162</u>
Actual Maintenance Reimbursement Claim (58% reimbursement rate)		\$363,174
Allowable Administrative Reimbursement Claim (50% reimbursement rate)		<u>\$313,081</u>
Overpayment of Maintenance Claim		<u>\$50,093</u>

**Federal Questioned Costs: \$50,093**

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in section 675 of the Social Security Act. In our sample, we found that the maintenance costs claimed for federal reimbursement were not received and was overstated by \$12,318 and when extended to the population using the ratio approach resulted in federal questioned costs of \$50,093.

ODJFS should take the federal questioned costs 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.<sup>42</sup>

**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.<sup>43</sup> 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.

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<sup>42</sup> Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, the substance of this section was found at Ohio Admin. Code Section 5101:2-47-03(H). This is a better, more precise historical cite for this one subsection.

<sup>43</sup> ODJFS has proposed Rule 5101:2-47-26.1. Procedures to Monitor Cost Reports Submitted by PCSAs, PCPAs, and PNAs, which sets forth the cost report monitoring requirements. The effective date has not been set.

**ADRIEL SCHOOL, INC.**  
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 3-2</b>	<b>RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE</b>
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**Results:**

We tested the payments from Champaign County Department of Job and Family Services (CCDJFS) to Adriel for a sample of 31 foster children. The payments to the Placement Agency for this sample totaled \$39,937. We noted that the Placement Agency received the correct per diem rates noted in the CCDJFS contract.

The foster parents in the sample received \$15,714, and we noted that these foster parents received the correct per diem rates per the CCDJFS contract. Of the \$39,937 received from CCDJFS by the Placement Agency the foster parents received \$15,714 or 39% of the total funds paid to the Placement Agency by CCDJFS. The remaining \$24,223 or 61% was retained by Adriel 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.

<b>ISSUE 3-3</b>	<b>MANAGING CHANGES TO RATES AND PER DIEM AGREEMENTS</b>
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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.

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 Adriel 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 Adriel 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.

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SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 4</b>	<b>TEST OF INTERNAL CONTROLS</b>
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**Objectives:**

1. To identify control weaknesses in the policies and procedures in place at the Placement Agency.
2. To recommend improvements in the internal control system in efforts to eliminate noncompliance, and increase fiscal accountability.

**Procedures Performed:**

1. We read the Board of Trustees' minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.
2. We completed a review of internal controls and identified weaknesses that existed in the accounting cycle.
3. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

<b>ISSUE 4-1</b>	<b>ACCOUNTING POLICIES AND PROCEDURES</b>
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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. Adequately designed accounting policies and procedures enhance the reliability of the Placement Agency financial reports.

Adriel was unable to provide written accounting policies or procedures. Failure to adequately safeguard assets exposes the Placement Agency to the risk that theft, or unauthorized or unallowed expenditures could occur and go undetected.

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:**

Adriel should 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.

<b>ISSUE 4-2</b>	<b>FIXED ASSET POLICY</b>
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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.

**ADRIEL SCHOOL, INC.**  
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Based on inquiry and observation, the Placement Agency did not have a written fixed asset policy or procedures for the treatment of capital expenditures and repairs, nor did they perform an annual fixed asset inventory. The Placement Agency relied upon its external auditors to calculate the fixed asset balances and related depreciation expense and accumulated depreciation reported in the financial statements.

Failure to complete an annual physical inventory and maintain accurate accounting records increases the risk that assets which may have been lost, stolen, or improperly used would go undetected. This could over/under state the fixed assets reported by the entity in its financial statements.

The Placement 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 Adriel develop and implement a fixed asset policy that, at a minimum, provides guidance on the following:

1. The types of fixed asset records to maintain, such as a detailed listing of plant, property and equipment or a current professional appraisal of assets. The list should include beginning balances, additions, deletions (including gains or losses on sales), transfers, ending balances and depreciation expense and accumulated depreciation (where applicable).
2. Categories of fixed assets include land, land improvements, buildings and structures, machinery, equipment, furniture, tools, donated assets and leasehold and leasehold improvements.
3. Basis for valuing assets at either the cost or estimated historical cost and capitalization thresholds which establishes the criteria for when expenditures should be capitalized excluding repairs and maintenance.
4. Depreciation and amortization method, such as straight line over the useful lives of the assets and salvage values, procedures for the depreciation of additions and retirements, and the accounting for fully depreciated assets.
5. Annual fixed asset inventory by visually comparing the asset and the information on the detailed fixed asset listing.
6. Authorized use of its assets, such as a log noting date, person, purpose and location for the use of the asset.

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

<b>ISSUE 4-3</b>	<b>ACCOUNTING POLICIES AND PROCEDURES</b>
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**Results:**

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

During our audit, Adriel was not able to provide us with written accounting policies and procedures in place with respect to the availability and retention of records or the usage of company credit cards. Further, there were cash receipt procedures used during the Period; however, they were not documented or approved by the Board of Trustees.

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

**Management Comment:**

We recommend Boys Village, Inc. develop and implement written accounting policies and procedures that incorporate the applicable federal, state, and county compliance requirements.

<b>ISSUE 5</b>	<b>TEST OF INTERNAL ADMINISTRATIVE CONTROLS OVER COMPLIANCE WITH REQUIREMENTS OF THE TITLE IV-E PROGRAM AND THE OHIO ADMINISTRATIVE CODE CHAPTER 5101:2</b>
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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 Adriel 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 Adriel 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.

**ADRIEL SCHOOL, INC.**  
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 5-1</b>	<b>PURCHASE OF SERVICE AGREEMENTS FOR FOSTER CARE AND PLACEMENT SERVICES</b>
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**Results:**

The Ohio Administrative Code requires public children services agencies to enter into purchase of service agreements with providers of purchased family foster care. The agreement must specify that foster care maintenance, administrative case management, and case planning and related administrative activities are being purchased.<sup>44</sup> In addition, sound business practices and public policy dictate that contracts between parties stipulate issues of fiscal accountability, compliance, and record retention.

Adriel entered into a purchase of service agreement with CCDJFS. The agreement, however, did not include the responsibilities of the contracting parties in regard to fiscal accountability, compliance, and record retention.

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

**Management Comment:**

ODJFS should establish, through rule, a standard contracting requirement for all PCSA's using the services of private agencies that effectively sets forth all applicable compliance requirements, fiscal accountability standards, and allowable costs.<sup>45</sup>

<b>ISSUE 5-2</b>	<b>LACK OF POLICY FOR MEAL REIMBURSEMENT</b>
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**Results:**

The Placement Agency should maintain a written policy for meal reimbursement. The policy should include, but not be limited to, types of allowed and unallowed expenditures, dollar limits on allowed expenditures, and required documentation to support the expenditures.

Adriel spent \$4,638 on meals and entertainment (excluding amounts paid for consultants). Of this amount, \$100 did not have adequate documentation to support the costs and \$10 was spent for a purchase of alcoholic beverages (see Issue 1-1). The agency did not have a written policy defining the requirements for meal reimbursement.

Lack of written policies and procedures governing meal reimbursement increases the risk of excessive spending and/or unallowable charges for business related meals.

**Management Comment:**

Adriel's Board of Trustees should develop and adopt a detailed written policy governing meal reimbursements. The policy should include, but not be limited to, types of allowed and unallowed expenditures, limits on amounts for allowable expenditures, and documentation required to support the expenditures. Policy requirements should be communicated to personnel and reviewed on a regular basis. In addition, procedures should be included to assure supporting documentation is received and maintained in accordance with the Placement Agency's record retention policy.

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<sup>44</sup> Ohio Admin. Code Section 5101:2-33-18(A)

<sup>45</sup> ODJFS has proposed Rule 5101:2-47-231, Title IV-E Agency Contracting and Contract Monitoring Requirements, which sets forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services. The effective date has not been set.

**ADRIEL SCHOOL, INC.**  
**SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 5-3</b>	<b>COMPLETE AND ACCURATE INFORMATION ON APPLICATIONS</b>
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**Results:**

Ohio Administrative 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 take adequate measures to ensure the information on the family foster home applications submitted were complete and accurate. Foster parent income and employment were not documented as verified in eight out of twelve family foster home applications files reviewed.

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

**Management Comment:**

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. In addition the management of the Placement Agency should periodically monitor foster home files to ensure compliance with ODJFS guidelines and standards.

<b>ISSUE 5-4</b>	<b>INITIATION OF THE HOMESTUDY PRIOR TO THE RECEIPT OF A COMPLETED APPLICATION</b>
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**Results:**

Ohio Administrative Code Section 5101:2-5-20(C) provides, in pertinent part, “An agency shall use ODHS 1691 for all initial family foster home applications and for the simultaneous approval of an applicant for adoptive placement. . . . (4) An agency shall not begin a family foster home homestudy prior to the receipt of a completed ODHS 1691.”

Ohio Administrative Code Section 5101:2-48-09(E) states, “Upon receipt of the completed ODHS 1691, the PCSA, PCPA, or PNA shall begin the homestudy process and request the applicant provide additional information including but not limited to: . . . (3) Completed copy(ies) of the bureau of criminal identification and investigation (BCII) and federal bureau of investigation (FBI) prescribed criminal records check form for the applicant and other adult household members, if applicable. . . .”

Four of the twelve foster home files reviewed documented that criminal records checks from the Bureau of Criminal Identification and Investigation (BCII) and the Federal Bureau of Investigation (FBI) were received prior to the completion of an application for certification as a family foster home.

**ADRIEL SCHOOL, INC.  
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Management Comment**

Adriel School, Inc. 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.

<b>ISSUE 5-5</b>	<b>FBI CRIMINAL RECORDS CHECKS FOR PROSPECTIVE FOSTER PARENTS WITHOUT FIVE-YEARS PROOF OF RESIDENCY</b>
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**Results:**

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

Two of twelve of the family foster home files tested did not contain documentation or evidence that the Placement Agency determined whether the foster parents recommended for licensing had resided in Ohio for the five-year period immediately prior to the date of the application seeking to become certified as a foster caregiver.

We determined that the Placement Agency did not document procedures to ensure documentation of proof of residency or previous criminal records check were on file, and did not obtain an FBI criminal records check when such documentation was not provided.

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

**Management Comment:**

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



**ADRIEL SCHOOL, INC.  
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

<b>ISSUE 5-6</b>	LACK OF DOCUMENTATION OF REQUIRED CONTACT WITH ALL APPLICANT REFERENCES
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**Results:**

Prior to making an initial recommendation for certification of a family foster home, all contacts with applicant references shall be documented in the narrative section of the ODHS 1349 "Family Foster Home Study."<sup>46</sup>

One of thirteen foster home files reviewed did not document the contact of all references prior to making an initial recommendation for certification of the family foster home.

Failure to obtain character references for potential foster parents increases the risk that unsuitable applicants may be recommended and approved as a foster caregiver.

**Management Comment:**

Adriel should adopt and implement board approved policies and procedures to ensure the contact of all references for each foster parent applicant. Details of the contact should be documented and maintained on file.

ODJFS should establish guidelines and standards for Placement Agencies to document their compliance with the administrative rules governing third party references. The Placement Agency should establish a system to monitor these procedures to ensure continuous compliance.

<b>ISSUE 5-7</b>	ANNUAL REVIEW
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**Results:**

Ohio Administrative Code Section 5101:2-7-03(B) provides: "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."

One of thirteen family foster home files reviewed did not contain documentation of the annual review for recertification.

Failure to complete an annual review increases the risk that the foster home may not be meeting the requirements of the program or the needs of the child.

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<sup>46</sup> Ohio Admin. Code 5101:2-5-20(H)

**ADRIEL SCHOOL, INC.  
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Management Comments**

Adriel Schools, Inc. should use a check list to ensure all criteria has been met prior to approving a foster parent for recertification. Completion of the check list should be regularly monitored by management to ensure continuous compliance.

<b>ISSUE 5-8</b>	<b>TITLE IV-E PURCHASED FAMILY FOSTER CARE COST REPORT</b>
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**Results:**

\$6,254 detailed as federal questioned costs in Issue 1-1 of this report was charged against the foster care program, and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

ODJFS must determine the amount of over reporting by Boys Village, Inc. and re-compute the Title IV-E per diem reimbursement rate that should have been paid to Boys Village, Inc. during the Period and reimburse HHS, ODJFS or the PCSA for any over reimbursement resulting from the overstated costs.<sup>47</sup> Failure to properly classify program costs could result in federal questioned costs and have an adverse effect on the Title IV-E rate setting process.

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

**Management Comment**

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews<sup>48</sup> of all cost reports.<sup>49</sup> Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

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<sup>47</sup> Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, the substance of this section was found at Ohio Admin. Code Section 5101:2-47-03(H).  
<sup>48</sup> In July 2000 ODJFS implemented a Comprehensive Desk Review process which examines costs reported on the cost report to determine whether the costs are: (1) allowable and presented fairly in accordance with department rules, (2) reasonable, (3) related to foster care and, (4) appropriately classified.  
<sup>49</sup> In June 2000 ODJFS conducted cost report training for providers and implemented Comprehensive Cost Reporting Requirements which requires the provider to submit new information with the cost report, such as related party schedules, Internal Revenue Service (IRS) Form 990, W-2s for reported salaries, foster parent payment listing, and census logs.

**ADRIEL SCHOOL, INC.  
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**SUMMARY OF FEDERAL QUESTIONED COSTS**

**JANUARY 1, 1998 - DECEMBER 31, 1998**

<b>QUESTIONED COSTS</b>	<b>ISSUE NUMBER</b>	<b>PAGE NUMBER</b>	<b>AMOUNT</b>
Undocumented Expenditures	1-1	13	\$2,041
Unallowed Expenditures	1-1	13	<u>4,213</u>
<b>Total Undocumented or Unallowed Expenditures</b>			6,254
ODJFS Systemic Overpayment of Title IV-E			
Maintenance Reimbursement	3-1	18	<u>\$50,093</u>
<b>TOTAL FEDERAL QUESTIONED COSTS</b>			<b><u>\$56,347</u></b>





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**ADRIEL SCHOOL, INC.**

**LOGAN 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  
SEPTEMBER 4, 2001**