



CHILD PROTECTIVE SERVICES

APPLEWOOD CENTERS, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**APPLEWOOD CENTERS, INC.
REPORT ON AGREED-UPON PROCEDURES**

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**APPLEWOOD CENTERS, INC.
REPORT ON AGREED-UPON PROCEDURES**

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

NAME	TITLE	TERM
BOARD OF TRUSTEES		
Mr. David Doll	President	1/97 - 12/99
Mr. Thomas G. Stafford	Vice Chair	1/97 - 12/99
Mr. Thomas Bechtel	Secretary	1/97 - 12/99
Ms. Cynthia Gardner-Koury	Treasurer	1/98 - 12/00
Mr. Fred Buchstein	Member	1/97 - 12/98
Mr. Hugh Calkins	Member	1/97 - 12/98
Mr. Joseph B. Clough	Member	1/98 - 12/00
Mr. Don Dreier	Member	4/98 - 12/99
Mr. James Halloran	Member	1/98 - 12/00
Mr. James S. Hogg	Member	1/97 - 12/99
Mr. Robert G. Jones	Member	4/98 - 12/01
Mr. Wayne Kilbey	Member	7/98 - 12/01
Ms. Sylvia Korey	Member	4/98 - 12/01
Mr. David Kurtz	Member	1/98 - 12/00
Mr. Hal Myers	Member	1/97 - 12/98
Ms. Madeleine Parker	Member	4/98 - 12/01
Mr. Chuck Richardson	Member	1/97 - 12/99
Ms. Susan Scheutzow	Member	1/97 - 12/99
Mr. Howard S. Siegel	Member	1/97 - 12/98
Mr. Judson E. Smith	Member	1/98 - 12/00
Mr. Seth Taft	Member	1/97 - 12/98
Ms. Gloria Towers	Member	1/97 - 12/98

ADMINISTRATIVE PERSONNEL

Mr. Richard Paulson	Chief Executive Officer/ Chief Operating Officer	10/1/77 - 3/01/01
Ms. Susan St. John	Chief Financial Officer	9/23/91 - 12/22/99

Agency Address
 Applewood Centers, Inc.
 2525 East 22nd St.
 Cleveland, Ohio 44115

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OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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Independent Accountants' Report

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

Dear Director Hayes:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family 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 Applewood Centers, Inc. (Applewood 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 Cuyahoga County Department of Children and Family Services (CCDCFS). 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 Applewood 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 Cuyahoga County Department of Children and Family Services Agency (CCDCFS) to determine the ratio of payments for administration and maintenance.
4. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

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

5. We performed procedures to confirm internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Admin. Code Chapter 5101:2.
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 February 27, 2002 we held a post audit conference with the following:

<u>Name</u>	<u>Office/Position</u>
Debra Ackerman	Applewood Centers, Inc., Chief Financial Officer
Michael Paoella	Applewood Centers, Inc., Budget Manager
Mary Pope	Applewood Centers, Inc., Director of Foster Care
Roberta King	Applewood Centers, Inc., Chief Executive Officer
Rebekah Dorman	Applewood Centers, Inc., Vice President
Joan Griffins	Applewood Centers, Inc., Executive Vice President
Mike Paoella	Applewood Centers, Inc., Accounting Manager
Gregory W. Kelly	Auditor of State, Assistant Chief Deputy Auditor
Carolyn Edwards	Auditor of State, Auditor-In-Charge
Samuel Long	Auditor of State, Staff 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

February 22, 2002

APPLEWOOD CENTERS, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

BACKGROUND INFORMATION

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform investigations utilizing certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months. This is the eighteenth report released of the 25 reports to be issued.

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

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

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

Public Children Services Agency Contractual Requirements

Public Children Services Agencies (PCSAs) are authorized to enter into contracts with a private child placing agency (PCPA) or a private noncustodial agency (PNA) to provide care and services which it deems to be in the best interest of any child who needs or is likely to need public care and services.⁵ PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster homes for certification; accept temporary, permanent and legal custody of children; and place children for foster care or adoption. Cuyahoga County Department of Children and Family Services (CCDCFS), a PCSA, entered into such an agreement with Applewood, a PCPA.⁶

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

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

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

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

⁶ Cuyahoga County Department of Children and Family Services Vendor Agreement for Foster Care, Residential Care, Emergency Shelter, Independent Living, Group Homes and Day Treatment Services, between CCDCFS and Applewood Centers, Inc. originally dated January 27, 1998, for the period January 1, 1998 through December 31, 1998.

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Billing Process

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

Reports and Records

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

OMB Circular A-110 provides, in pertinent part, "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report..."¹⁰

Cost Principles

Title IV-E foster care maintenance payments are designed to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.¹¹ Allowable administrative costs do not include the costs of social services provided to the child, the child's family or foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.¹²

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

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

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

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

¹¹ 42 U.S.C. Section 675(4)(A).

¹² 45 C.F.R. Section 1356.60(c)(3) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

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

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

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

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the Office of Management and Budget (OMB) Circulars A-87 and A-122." ¹⁴ Specifically, ODJFS considers certain costs to be unallowable for purposes of calculating the rate at which foster care maintenance costs can be reimbursed with federal Title IV-E funds including, but not limited to, contributions, donations, or any outlay of cash with no prospective benefit to the facility or program; entertainment costs for amusements, social activities, and related costs for staff only; and costs of activities prohibited under section 501(c)(3) of the Internal Revenue Code.¹⁵ Ohio Admin. Code Section 5101:2-5-08(G) states, "A PCPA or PNA shall not permit public funds to be paid or committed to be paid to any corporation, firm, association or business in which any of the members of the governing body of the agency, the executive personnel or their immediate families have any direct or indirect financial interest, or in which any of these persons serve as an officer or employee, unless the services or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA. The PCPA or PNA shall make a written disclosure, in the minutes of the board, of any financial transaction of the 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.

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

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

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

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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 payments¹⁶ made to the PCPAs or 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 PCPA or PNA. Maximum allowable federal reimbursement under Title IV-E for maintenance payments and administrative costs are set by ODJFS. The PCPA/PNA may contract with foster parents at a different foster care per diem rate for each foster child.

Allowable Costs

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

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

Exhibit 3 of the Agreement is a complete copy of Ohio Admin. Code Section 5101:2-33-18, which is titled "Purchase of Service Agreements for Foster Care and Placement Services." That Ohio Administrative Code section describes foster care maintenance activities as "direct care and indirect management activities associated with room and board, daily supervision and care, and health-related services provided to children who are under the care and responsibility of a children services agency."¹⁹

Further, Ohio Admin. Code Section 5101:2-33-18(C) provides that, "Administrative case management and case planning activities" are, among other things, assistance from the providers of services, to the placement worker, under the purchase of services agreement, in activities such as: preparation for and participation in the judicial determination and review process, arranging for discharge and after-care services, development of case plans and coordinating the provider's role in carrying out those plans.²⁰

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

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

¹⁸ 45 C.F.R. 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.

¹⁹ Ohio Admin. Code Section 5101:2-33-18(B).

²⁰ Ohio Admin. Code Section 5101:2-33-18(C).

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In addition to setting forth the services which are deemed allowable costs for foster care providers, the Purchase of Services Agreement establishes inspection and retention requirements for financial records. In Section 15 of the Agreement, Applewood agreed that it would “maintain and preserve all records related to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years.”²¹

Administration of Medicaid Services

Applewood also receives Medicaid receipts for reimbursement of medical counseling services provided by Applewood 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 non-physician, forty-five to fifty minutes, per person, per session.

H5025 Psychotherapy, group (maximum eight persons per group), by non-physician, ninety minutes, per person, per session.

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

²¹ Section 15, Availability and Retention of Records, Purchase of Service Agreement, dated 1/27/98, pg. 23.

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take in the circumstances.”²²

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 Applewood join together to ensure Applewood develops and implements a corrective action plan that will result in accountability²³ and legal compliance²⁴ in an expeditious manner. Based on the findings we recommend the following:

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

AGENCY INFORMATION

The Applewood is a private custodial placement agency (PCPA), originally incorporated January 1, 1997 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3). Applewood was created through the merger of Children’s Services, Inc. and the Guidance Centers. It provides treatment and traditional foster care options to emotionally-troubled, medically-fragile infants and children, and Therapeutic Foster Care to severely emotionally-disturbed children. Applewood 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 services agency needs a home for a foster child, it can contact agencies such as Applewood to place the child. The group of foster family homes (private foster network) utilized by Applewood has been in place since 1997. Applewood places foster children only for Cuyahoga County Department of Children and Family Services. During the period it also had contracts with the Lorain County Board of Mental Health and Cuyahoga County, to provide mental health medical assistance services.

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:

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

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

24 In Ohio Admin. Code Section 5101:2-47-23.1, Title IV-E Agency Contracting and Contract Monitoring Requirements, effective 12-1-01, ODJFS has set forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services.

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**Table I
Applewood
Foster Care Statistics**

Characteristic	Statistic
Daily Average Number of Children in Placement	130
Number of Active Licensed Foster Homes	114
Average Per Diem Rate	\$42
Number of PCSAs from Which Agency Receives Children	1
Required Training for Foster Caregiver Orientation	24 Hours
Required Annual Training for Foster Caregiver	12 Hours -Traditional Care 24 Hours- Specialized Care
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	\$1,736,809
Characteristics of Children Placed by Agency	Traditional to special levels of care

During the Period, Applewood Center's staff consisted of 19 employees including an CSP worker, foster care supervisory, foster parent trainers, intake, nursing staff, clerical support, business planning, executive, finance, IS, HR, QI, and development to provide the needed counseling and case management services to the foster children and foster parents.

Applewood foster care revenues were comprised primarily of funds received from CCDCFS, and Medicaid. The total revenues received by Applewood's from Cuyahoga County Department of Children and Family Services Board for foster care services during the Period of January 1, 1998 to December 31, 1998 was \$3,883,629.

The following table shows the sources of revenue per the general ledger for the calendar year 1998 and the

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percentage of total revenue for each source.

**Table II
Applewood
Revenue by Source**

	1998	Percent of Total Revenue
Cuyahoga County	\$4,964,320	37.8
Medicaid	4,529,555	34.5
United Way	984,034	7.5
Donations/Private Grants	678,766	5.2
State Grants	528,915	4.0
Grant Income	467,688	3.6
Contract Services	465,858	3.5
Cleveland City Schools	142,184	1.1
Cuyahoga County School Board	122,870	.9
Other Income ²⁵	250,604	1.9
Totals	\$13,134,794	100%

Relevant Individuals

Mr. Richard Paulson

Mr. Paulson was appointed the Chief Executive Officer of Applewood, and retained the title of Chief Operating Officer, in March 1998. Mr. Paulson had served as the Executive Director of Guidance Centers from 1977 until the merger in January 1997 with Children Services, Inc. to form Applewood. From January 1997 until his appointment as Chief Executive Officer, Mr. Paulson served as the Chief Operating Officer at Applewood.

²⁵

Includes revenue from Cleveland School and Cuyahoga School Boards, contractual agreements, insurance providers, foundation, medical mutual, Ohio Dept of Employment Services, Ohio State Dept. of Education and other miscellaneous income.

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Ms. Susan St. John

Ms. St. John was named the Chief Financial Officer in January 1997. Prior to January 1997, Ms. St. John had served as Guidance Center's Chief Financial Officer.

Mr. Mike Paoella

Mr. Paoella has been the Accounting Manager at Applewood since January 1997.

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 Applewood 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 Applewood 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.

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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.

ISSUE 1-1	CHECK AND CREDIT CARD DISBURSEMENTS NOT ALLOWED OR WHICH LACKED SUPPORTING DOCUMENTATION REQUIRED UNDER THE CCDDFS CONTRACT.
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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, it must, among other factors be reasonable and adequately documented.²⁶

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."²⁷

The Purchase of Services Agreement establishes inspection and retention requirements for financial records. It states, "The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."²⁸ The agreement further states that ' the Provider shall maintain and preserve all records related to this Agreement in its possession . . . for a period of not less than three (3) years."²⁹

In addition, under Section 1 of the Agreement, Applewood was to provide those services delineated in

²⁶ OMB Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (2)(a) and (g).

²⁷ OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

²⁸ Section 14, Financial Records, Purchase of Services Agreement, dated 1/27/98, pg. 23.

²⁹ Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 1/27/98, pg. 23.

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Section 4 of the Agreement.³⁰

We inspected two-hundred and eighteen (218) credit card expenditures totaling \$10,149 in charges. We requested supporting documentation for these expenditures such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Applewood was unable to provide us with supporting documentation for six (6) transactions totaling \$1,618.

We inspected two hundred eighty-seven (287) check disbursements totaling \$1,156,436 in charges. We requested supporting documentation for these disbursements such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Applewood was unable to provide us with supporting documentation for ten (10) disbursements totaling \$9,437. For these ten transactions, Applewood provided us with canceled checks but no invoices, receipts or other documentation to support these expenditures.

Because the agency was unable to supply us with adequate documentation, as described above, these expenditures were in direct violation of OMB Circular A-122, Attachment A, Paragraph (A)(2)(g).³¹ Undocumented expenditures totaled \$11,055.

Additionally, expenditures totaling \$5,615 were not allowable direct services or administrative costs under the CCDJFS contract or OMB Circular A-122. These improper expenditures consisted of fund-raising and lobbying activities, flowers, donations and penalties. They were as follows:

1. Four transactions for the purchase of flowers and gifts for staff in the amount of \$749 were deemed unallowable and in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(7) states that "the costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities" are unallowable when completing the ODHS 2910 Purchased Family Foster Care Cost Report.
2. Finance charges, late fees and penalties totaling \$581 incurred during the Period are unallowable under OMB Circular A-122, Attachment B, Paragraph 16, which states, in pertinent part: "Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable..." Likewise, Attachment B, Paragraph 23(a) states in pertinent part: "Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable . . .".
3. Three check disbursements for lobbying activity in the amount of \$4,285 was deemed unallowable and in violation of OMB Circular A-122, Attachment B, Paragraph 25(a) which states in pertinent part, "Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable, (1)Attempts to influence the outcomes of any Federal, State, or local election,

³⁰ See detailed discussion of these agreed-upon services in the "Allowable Costs" Section of this report.

³¹ A-122, 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."

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referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity”

During and subsequent to our fieldwork Applewood Centers, Inc. attempted to respond and/or provide documentation for the costs we questioned. However, for those costs listed in Table III as undocumented expenditures, Applewood was unable to demonstrate its compliance with the relevant sections of its contract with CCDCFS and OMB Circular A-122.

Table III
Applewood
Questioned Costs

Undocumented Credit Card Disbursements	
Wal Mart	\$1,120
Homeplace	206
Fat Cats	152
Brooklyn T.V.	<u>140</u>
Total Undocumented Credit Card Expenditures	<u>1,618</u>
Undocumented Check Disbursements	
Training	\$2,314
Maintenance/Building Repairs	2,833
Clothing	395
Petty Cash	258
Counseling	180
Miscellaneous Expenditures	<u>3,457</u>
Total Undocumented Check Expenditures	<u>9,437</u>
Total Undocumented Expenditures	<u>11,055</u>
Unallowable Expenditures	
Unallowed Personal Use Expenditures	
Flowers/Gifts	<u>749</u>
Total Unallowed Personal Use Expenditures	<u>749</u>
Unallowed Fines and Penalties Expenditures	
Finance Charges and Late Fee	164
Penalties	<u>417</u>
Total Unallowed Fines and Penalties Expenditures	<u>581</u>
Unallowed Lobbying Expenditures	
Community Action Committee - Human Service Levy donation	2,500
Bailey D. Herrington & Assoc - Fund-raising and campaign activities	<u>1,785</u>
Total unallowed Lobbying Expenditures	<u>4,285</u>
Total Unallowed Expenditures	<u>5,615</u>
Total Questioned Costs	<u>\$16,670</u>

During the Period, Applewood received more than 72% of its revenues from residential care, foster care and Medicaid services. Approximately five percent of its revenue came from donations. The expenditure of the

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funds it receives for residential, foster care³², and medicaid services are subject to the terms and conditions of its contracts with county agencies. Furthermore, these programs received Federal Financial Participation through cost reimbursement. Therefore, the cost charged against programs, both the federal portion as well as the state or local match, are subject to Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations." Applewood's accounting system could not clearly provide documentation whether the source of funds expended were from funds subject to contract provisions and OMB Circular A-122 or private donations.

Federal Questioned Cost: 16,670

Due to inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Report and/or charged against the foster care program, Applewood was in violation of Sections 14 and 15 of its contract with CCDCFS in the amount of \$11,055. Through expenditures described in Paragraphs 1-6 above Applewood was also in violation of OMB Circular A-122, Attachment B, Paragraphs 9, 16, 18, 23(a), and (d) 25 and Ohio Admin. Code Section 5101:2-47-26(A)(6- 9) in the amount of \$5,615. The amount of federal questioned costs totaled \$16,670.

Management Comment:

Applewood did not adhere to the CCDCFS contract regarding documentation of allowable direct and administrative costs requirements and financial records retention. Cuyahoga County Department of Children and Family Services should require the agencies for which it contracts for placement services, to obtain and submit to CCDCFS an annual financial audit performed in accordance with government auditing standards.³³ 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. CCDCFS should review these reports and follow up on any exceptions reported. CCDCFS did not have such requirements and as a result, annual audited financial statements with a financial statement opinion and a report on internal controls were not submitted to CCDCFS during the Period.

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 Applewood 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 Applewood 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 Cuyahoga County Auditor to determine the completeness of

³² Purchase of Services Agreement, dated 1/27/98.

³³ In Ohio Admin. Code Section 5101:2-47-26.2, Audits of PCSAs, PCPAs and PNAs, effective 12-1-01, ODJFS has set forth the annual audit requirements.

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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 CCDCFs for foster care placements to determine whether the amounts billed were received, and the receipts were deposited and recorded in the Placement Agency's financial records.
5. We scanned all revenue remittances and the general ledger to determine whether revenue had been recorded in the accounting records of the Placement Agency.

Results:

We documented the types of revenue that Applewood received as--: program service fees from various counties, gifts, investment income and grants. Applewood did receive Medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from CCDCFs.

Furthermore, we determined that all CCDCFs disbursements to the Applewood 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 Title IV-E maintenance funds received by Applewood were used in accordance with the Social Security Act.
2. To determine whether Applewood's per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.
3. To determine the ratio of the per diem payments used for administration and maintenance.

Procedures Performed:

1. We obtained from Cuyahoga County Department of Children and Family Services, the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to Cuyahoga County Department of Children and Family Services for the months of January 1998 to June 1999 for foster care services. We also obtained from the Cuyahoga County Auditor a vendor payment history report for Applewood for the same period and traced these payments to the invoices submitted by Applewood.
2. We selected a representative sample of children identified by CCDCFs as Title IV-E eligible children being serviced by Applewood. Federal maintenance payments to these children totaled \$52,551 or 27% 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 Applewood from CCDCFs to the corresponding Applewood 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

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

ISSUE 3-1	ODJFS SYSTEMIC MISCLASSIFICATION OF COSTS RESULTS IN OVER PAYMENT OF THE TITLE IV-E MAINTENANCE REIMBURSEMENT
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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.³⁴

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 payments³⁵ made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments³⁶ made and 50% for administrative costs³⁷ incurred under the Title IV-E program.

We selected a sample of one hundred thirty-four (134) children eligible for Title IV-E federal maintenance reimbursements. We found that the PCPA billed and CCDCFS submitted \$90,605 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 \$90,605 and received \$52,551 at the 58%FFP reimbursement rate. However, the Placement Agency only made maintenance payments to foster parents totaling \$78,285. The remaining \$12,320 was retained by Applewood and used for administrative costs or other purposes.

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

³⁴ 42 U.S.C. Section 675 (4)(A).

³⁵ 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.

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

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

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

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	\$52,551
Required PCSA Match for Federal Financial Participation	<u>38,054</u>
Total Title IV-E Maintenance Claimed by ODJFS	90,605
Amount Paid by PNA to Foster Parents for Maintenance	<u>(78,285)</u>
Overstatement of Maintenance Claim	<u>\$12,320</u>

Projected Questioned Costs:

We specifically identified \$12,320 of maintenance overclaimed in our sample. In order to evaluate the potential effect caused by these systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned costs.

We used the ratio approach, as illustrated below:

<u>Dollar Amount of Error :</u>		
Dollar Amount of Sample	\$12,320/\$90,605	14.00%
Dollar Amount of Population		X <u>\$969,342</u>
Projected Overstatement of Maintenance Claim		<u>\$135,708</u>
Actual Maintenance Reimbursement Claim (58% reimbursement rate x \$135,708)		\$78,710
Allowable Administrative Reimbursement Claim (50% reimbursement rate x \$135,708)		<u>\$67,854</u>
Overpayment of Maintenance Claim		<u>\$10,856</u>

Federal Questioned Cost: \$10,856

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in section 675 of the Social Security Act. In our sample, we found that the maintenance costs claimed for federal reimbursement were not received by the foster parents and was overstated by \$12,320, and when extended to the population using the ratio approach resulted in questioned costs of \$10,856.

ODJFS should take the Federal Questioned Cost over reported to the County and re-compute the Title IV-E per diem reimbursement rate that should have been paid to the Placement Agency during the Period and

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reimburse HHS, ODJFS or the PCSA for the overstated costs.³⁸

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.³⁹ We further recommend that an adjustment to correct the overpayment of the Title IV-E maintenance reimbursement be made with the U.S. Department of Health and Human Services.

ISSUE 3-2	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE
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Results:

We tested the payments from Cuyahoga County Department of Children and Family Services (CCDCFS) to Applewood for a sample of 157 foster children. The payments to the Placement Agency for this sample totaled \$195,863. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

The foster parents in the sample received \$100,712, and we noted that these foster parents received the correct per diem rates per the CCDCFS contract. Of the \$195,863 received from CCDCFS by the Placement Agency the foster parents received \$100,712 or 51.4% of the total funds paid to the Placement Agency by CCDCFS. The remaining \$95,151 or 48.6% was retained by Applewood and used for administrative costs other direct services to children or other purposes.

The contract between CCDCFS and Applewood sets forth the amounts to be paid as the daily per diem rate for the services specified in the contract. In addition, the contract sets the minimum amount to be paid to foster parents from the daily per diem rate paid to Applewood by CCDCFS.⁴⁰ The amount paid to foster parents ranged from 48% to 63% of the stated daily per diem rate, depending on the level of care.

Management Comment:

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

ISSUE 3-3	ENTRANCE AND EXIT DATES OF PLACEMENT
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³⁸ Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-03(H).

³⁹ In Ohio Admin. Code Section 5101:2-47-26.1, Procedures to Monitor Cost Reports submitted by PCSAs, PCPAs, and PNAs, effective 12-1-01, ODJFS has set forth the cost report monitoring requirements.

⁴⁰ Section 4(A), Cost and Delivery of Purchased Services, and Section 4(C), Foster Parent payment, Purchase of Services agreement, dated 1/27/98 pgs. 3-4.

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Results:

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

We compared 157 placement dates of foster children recorded by CCDCFS and Applewood and found thirty-nine dates where the records did not agree. Inaccurate information about the dates children enter and exit the care of a PCPA/PNA could result in inappropriate administrative decisions and incorrect payments to the PCPA/PNA.

Management Comment:

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

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

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

ISSUE 4-1	SEGREGATION OF DUTIES
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Results:

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An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; to safeguard the entity's assets against loss; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether operations are achieving management's objectives. An effective internal control structure requires segregation between the authorization, recording, and custody of assets. It is management's responsibility to implement procedures and devise control activities that effectively segregate employees' job functions and promote the reliability of data through the performance of internal account reconciliations.

Per inquiry with the Chief Financial Officer and review of Applewood's internal controls, we noted the following:

1. The accounts payable clerk's responsibilities included the posting of accounts receivable and accounts payable, and bank reconciliation.
2. The accounts receivable clerk's responsibilities included posting to the accounts receivable ledgers and completing the monthly bank reconciliation.

If controls are not placed in operation that provide for a segregation of duties over the recording of transactions, processing of checks, and completing the bank reconciliation, there is a possibility for the misappropriation of assets or errors in the accounting system, which could go undetected.

Management Comment:

We recommend that Applewood segregate accounting activities in order to eliminate conflicting duties being performed by one person. This will improve the effectiveness of the internal controls.

ISSUE 4-2	ACCOUNTING PROCEDURES AND POLICIES
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Results:

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

Based on inquiry and observation the Placement Agency maintains a policy and procedure manual on disk. The manual is not distributed to all employees of the Placement Agency. Additionally, we noted the agency was unable to provide us with a written policy with respect to the usage of company credit cards.

The lack of written policies and procedures is an internal control weakness that if corrected would strengthen financial accountability and legal compliance. By not distributing the existing policy and procedure manual to all, employees may have difficulty in carrying out their responsibilities.

Management Comment:

We recommend Applewood develop and implement written accounting policies and procedures that incorporate the applicable federal, state, and county compliance requirements. Additionally, we recommend that Applewood distribute the policy and procedure manual to all employees.

ISSUE 4-3	LACK OF OVERVIEW OR MONITORING IN EXPENDITURE CONTROLS
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Results:

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Applewood's Financial Policy Manual section 12.2.1 states, "All purchases must start with a purchase order." Additionally, Financial Policy Manual section 12.2.6 states, "Completed purchase orders are approved by the Chief Executive Officer. The Accounts Payable/Cash Disbursement Policy requires the accounts payable clerk to run the checks through the check signing machine. It also requires either the Chief Financial Officer or the Executive Director to review invoices and payment request for reasonableness and signify approval by initialing. Furthermore, Applewood maintains a list of preauthorized corporate credit card users.

Upon review of Applewood's expenditures, we noted the following instances:

1. Ninety-one (91) expenditures out of the two hundred eighty-seven (287) expenditures reviewed in Issue 1-1 of this report did not have a corresponding approved purchase order.
2. Mr. James Bennett, Chief Executive Officer, an authorized check signer, retired on June 30, 1998. Applewood continued to use the signature plate of Mr. James Bennett, for two months subsequent to his retirement.
3. One out of the 218 credit card expenditures reviewed in Issue 1-1 of this report were made by an employee not on the preauthorized corporate credit card list. The amount of the unauthorized expenditures totaled \$400.

Failure to approve all purchase orders, adequately control all credit card expenditures, and discontinue the use of Mr. James Bennett's signature plate at the time of his retirement, increases the potential risk for misappropriation of assets.

Management Comment:

We recommend Applewood ensure proper authorization for all expenditures prior to the issuance of all checks and restrict the use and possession of all credit card cards to only authorized individuals. Furthermore, Applewood should implement a policy requiring the discontinuance and destruction of authorized signature plates upon the authorized individual's retirement or termination. The policy should also include procedures on how to approve expenditures prior to receiving a new authorized signature plate.

ISSUE 4-4	RETENTION POLICY
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Results:

Ohio Admin. Code Section 5101:2-5-13 (A)(23) states, "An agency shall have a written policy regarding access, confidentiality, maintenance, security and disposal of all records maintained by the agency."⁴¹

In addition, OMB Circular A-110 requires 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 . . .⁴²

⁴¹ Prior to 7-1-00, this provision was recited at Ohio Admin. Code Section 5101:2-5-13(A)(22).

⁴² 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," Subpart C Paragraph 53(b).

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Section 15 (Availability and Retention of Records) of the contract between Applewood and the Cuyahoga County Department of Children and Family Services states, "The Provider shall maintain and preserve all records related to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years."

These polices should include procedures to implement controls for an effective system for monitoring costs and to ensure that proper amounts are billed and received for services rendered, and that ledgers are updated in a timely manner.

Applewood did not maintain financial records for the time period required by its contact with CCDCFs, nor did it have a written policy regarding records retention, as required by the cited portion of the Ohio Administrative Code. Management was unable to provide the following documentation or financial records.

Supporting documentation for disbursements such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party were not maintained as required. See Issue 1-1 for details.

Management Comment:

We recommend that Applewood, in order to comply with Ohio Admin. Code Section 5101:2-5-13(A)(23), adopt written policies and procedures regarding access, confidentiality, maintenance, security and disposal of all records maintained by the agency. These policies should include procedures to implement controls for an effective system for monitoring costs and to ensure that proper amounts are billed and received for services rendered, and that ledgers are updated in a timely manner. We also recommend that Applewood comply with the records retention period agreed to in its contract with CCDCFs.

ISSUE 4-5	CONFLICT OF INTEREST
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Results:

Applewood's conflict of interest policy states in pertinent part, "Board members or employees may not have a significant financial interest in any property which Applewood purchases, or a direct or indirect interest in a supplier, contractor, consultant or other entity with which Applewood does business." (Emphasis added).

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

Finally, an organization is not considered tax-exempt for purposes of 26 U.S.C. 501(c)(3) if it is organized and operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.⁴³

⁴³ 26 C.F.R. § 1.501(c)(3)-1(d)(1)(ii) (2001).

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In reviewing the expenditures of Applewood, we found:

- Applewood obtained three quotes for computer hardware and software
- William Burkey, Information Specialist Coordinator, who headed the committee assigned to recommend the purchase of hardware and software for the Place Agency was the evaluator of the quotes
- Applewood purchased computer hardware and software from Microcomputer Systems Inc. for \$44,914
- Mr. William Burkey was the proprietor of Microcomputer Systems Inc.

We asked for documentation which shows that the purchase was both competitive and favorable to the agency, none was provided. Because the agency was unable to supply us with adequate documentation, expenditures could be questionable under Ohio Admin. Code Section 5101:2-5-08 (G) and (H) as well as raise questions under the Internal Revenue Code Section 26 C.F.R. §1.501(c)(3)-1(d)(1)(ii)(2001), which could be relevant in any consideration of continued tax exempt status by the Internal Revenue Service.

Management Comment:

We recommend that Applewood abide by its conflict of interest policy and that it improve the policy by requiring employees to submit annual disclosure statements providing sufficient information to monitor any outside employment, activities, or relationships that could potentially create conflicts of interest and for providing notification of potential conflicts to its PCSA. We further recommend that Applewood monitor its transactions with Board members and employees, in accordance with its conflict of interest policy, so as to ensure that its federal tax-exempt status is not jeopardized.

ISSUE 4-6	CONTRACTS
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Results:

Sound business practices dictate that contracts should be executed between parties when goods or services are going to be provided over a period of time. The contracts should define the terms of the agreement. Applewood employed United Way to handle the administration of its unemployment claims. We were told by officials at Applewood that no contract had been entered into with United Way to provide these services.

When contracts are not executed, disagreements could arise between the parties relating to the scope of services which are to be provided as well as financial considerations.

Management Comment:

We recommend that Applewood draft a policy that would dictate when contracts should be executed. The policy should establish who at the Agency is responsible for signing contracts and consider a threshold where Board approval would be needed to enter into a contract.

ISSUE 4-7	RESPITE CARE POLICY
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Results:

Foster care agencies should ensure that a child is placed in a safe environment with a minimal risk of

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physical and emotional harm. This assurance should be extended to include respite care which is defined as, "any alternative care provided for a child placed in a specialized foster home that lasts more than twenty-four consecutive hours when the plan is to return the child to the same specialized foster home at the end of the period of respite care."⁴⁴

The agency routinely granted and documented respite to its foster parents. However, there was no written policy on how to authorize or approve respite care.

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

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

Management Comment:

ODJFS should establish minimum guidelines to be used by Placement Agencies to make and document decisions about respite care that would minimize a foster child's exposure to risk. Those rules should set forth minimum standards to ensure the safety and well being of the children placed in respite care.⁴⁵

ISSUE 4-8	MINUTES OF THE GOVERNING BODY
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Results:

Ohio Administrative Code Section 5101:2-5-08(E) provides, "The minutes of all governing body meetings shall be maintained at the PCPA or PNA in an organized, permanent and current manner and shall include, at a minimum: (1) Dates of meetings; (2) Names of those governing body members present; and (3) Issues discussed and actions taken."

Upon review of Applewood's expenditures, we noted two \$10,000 bonuses payable to Dick Paulson, Chief Operating Officer and Jim Bennett, Chief Operating Officer in recognition of outstanding performance. A memo, dated February 19, 1998, prepared by Fred Buchstein, Board of Trustee Member, stated "In recognition of your outstanding 1997 performance, the Applewood Center's Board of Trustees Executive Committee is pleased to award each of you a five percent pay increase and a \$10,000 bonus." This action was not documented in the official minute record of Applewood.

Failure to document actions of the Board in the official minute record could result in unauthorized transactions and may impair the ability of the public, oversight bodies, and the management of Applewood Center Inc. to determine the official actions approved by the Board.

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

⁴⁵ Since July 1, 2000, ODJFS has required through Ohio Admin. Code Section 5101:2-5-13(A)(6) that agencies have a written policy detailing respite care payments to foster care givers.

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Management Comment:

We recommend Applewood document all official actions taken by the Board of Trustees.

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 Applewood 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 Applewood 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 non-compliance with Ohio Admin. Code Section 5101:2-5-08.
2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribed in Ohio 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 a policy was authorized and documented.
4. We compared wages paid as identified on the ODHS 2910 Purchased Family Foster Care Cost Report(s) to wages paid as identified on the Placement Agency's quarterly 941s or W-3 report.
5. We traced potential questioned costs to the cost report.

ISSUE 5-1	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

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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 Applewood did not take adequate measures to ensure the information on the family foster home applications submitted were complete and accurate. Foster parent income was not verified in four out of eleven family foster home applications files reviewed. Foster parent employment was not verified in three out of eleven 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.

ISSUE 5-2	APPROVAL OF A FOSTER CAREGIVER PRIOR TO THE RESULTS OF THE CRIMINAL RECORDS CHECK
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Results:

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

In five of eleven foster parent files tested the Placement Agency recommended the foster parent for certification which contained no documentation to support that criminal background checks had been conducted by law enforcement agencies on the prospective foster care givers.

Approving prospective foster caregivers prior to receiving a criminal records check increases the risk that an unsuitable foster home could be licensed.

Management Comment

Applewood should establish procedures to ensure compliance with ODJFS rules intended to ensure that criminal background checks are obtained prior to recommending a foster home for licensing. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-3	PLACEMENTS MADE CONTRARY TO AGREED UPON USAGE OF HOME
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Results:

Ohio Admin. Code 5101:2-5-21(G) states: “The determination of the specific number, age, and sex of children

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to be placed in a particular family foster home is a joint responsibility of the foster caregiver and the recommending agency based on the agency's assessment of the foster caregiver's capability and physical facilities as required by Chapter 5101:2-7 of the Administrative Code. [General requirements for initial application for child placement.]” Furthermore, Ohio Admin. Code 5101:2-5-21(H) states: “All placements in a family foster home shall conform with the provisions of paragraph (G) of this rule and with the provisions of rule 5101:2-5-32 of the Administrative Code.”

Ohio Admin. Code Section 5101:2-5-18(E) states: “A request for a waiver of the requirements or prohibitions imposed by Chapter 5101:2-7 of the Administrative Code and related provisions of Chapter 5101:2-5 of the Administrative Code shall be written using ODHS 1317 “Recommendation for Certification/Recertification of a Family Foster Home” and submitted to ODHS, bureau of resource management.”

Ohio Admin. Code Section 5101: 2-7-13(C) states, “The determination of the specific number, age, and sex of children to be placed in a particular family foster home is a joint responsibility of the foster caregiver and the recommending agency based on the agency's assessment of the foster caregiver's capability and physical facilities as required by this chapter.

Ohio Admin. Code Section 5101:2-5-32 (B) states: Not more than five foster children and not more than a total of ten children, including the children of the foster caregiver, shall reside in a family foster home at any one time, except: (1) When a foster caregiver has been certified for less than two years to operate a family foster home, or has less than two years of professional child care experience as documented by the recommending agency, not more than three foster children shall be placed in the home at any one time except sibling groups.

In one out of eleven foster parent files tested, the number of children placed in the home exceeded the allowable number of children (a wavier was requested, however it was denied). It was further noted that in one out of eleven foster parent files tested that the number of children placed exceeded the agreed upon limit.

By not adhering to the established determinations, caregivers may not be able to adequately care for placements in their home or become overburdened when the agreed upon usage of the home were not followed. Additionally, a foster child and the placement agency may be subject to unwarranted risk.

Management Comment:

We recommend Applewood ensure proper placement of children based on the assessments made by the agency. If additional placements are deemed reasonable, the new determination should be agreed upon by both parties and a revised ODHS form 1317 depicting the number, age, and sex of children to be placed in the family foster home should be submitted to ODJFS. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-4	TRAINING REQUIREMENTS
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Results:

During the Period, Ohio Admin. Code Section 5101:2-5-33(A) stated, “A public children services agency (PCSA), private child placing agency (PCPA) or a private noncustodial agency (PNA) shall develop and submit its annual foster caregiver orientation and training plan to ODHS for approval by October fifteenth of

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each year for the next calendar year.” Ohio Admin. Code Section 5101:2-5-33(B)(1)-(2) state, “The training plan is submitted pursuant to paragraph (A) of this rule and shall include, but not be limited to: (1) Not less than twelve hours of initial orientation to be required by the agency. (2) Not less than twelve hours of ongoing annual training to be required by the agency.”⁴⁶

In four out of eleven foster parent files there was no documentation to show that the foster caregivers completed orientation training. All four of these foster caregivers were issued licenses. In one of the eleven foster parent files tested, the foster caregivers failed to obtain the required twelve hours of ongoing annual training. In both instances, Applewood Centers Inc. prepared and submitted corrective action plans for the foster caregivers to receive the required training, but the one set of foster caregivers failed to follow the corrective action plans.

Failure to ensure that foster caregivers receive the required training increases the risk unsuitable foster caregivers could be licensed. Additionally, a foster child and the placement agency may be subject to unwarranted risk.

Management Comment:

We recommend Applewood develop procedures to ensure all foster caregivers complete the required training. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-5	MEDICAL STATEMENTS REQUIRED FOR APPLICANTS
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Results:

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

In one out eleven foster parent files tested, ODHS Form 1653 “Medical Statement for Foster Care Adoptive Applicant and All Household Members” indicated the physician certified that the applicant was not free from any special physical or mental health problems or conditions which might interfere with the health of the children or might prohibit the individual from providing adequate care for children. The physician did not supply any further explanation on the ODHS 1653 why the applicant was unfit for a foster caregiver. In this instance the applicant was licensed as a foster caregiver. Additionally, in one out of eleven foster parent files tested, the applicant was recommended for certification on June 30, 1997 and the corresponding two ODHS 1653 “Medical Statements for Foster Care Adoptive Applicant and All Household Members” were dated November 16, 1996 and November 27, 1996.

Failure to obtain a completed ODHS 1653 statement within six months prior to an initial recommendation for certification or recommending certification for an applicant deemed unfit by a physician increases the risk unsuitable foster caregivers could be licensed.

Management Comment:

⁴⁶ Subsection B(2) of the rule was amended effective 9-1-00, to require 24 hours of ongoing training during each certification period.

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We recommend Applewood develop procedures to ensure all foster caregivers recommended for initial certification are certified as fit to care for a foster child. These procedures should also require a new ODHS 1653 Statement to be received by the Placement Agency when the date of the physician's review exceeds six months. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-6	CHILD PLACEMENT LOGS
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Results:

Ohio Admin. Code 5101:2-5-29(C) provides: "An agency shall maintain in each family foster home record a log of all children placed in the family foster home. The log shall contain, at a minimum: (1) The name of the foster child; (2) The child's date of birth; (3) The date of placement in the family foster home; (4) The date of discharge/removal from the family foster home; and (5) the new location of the child."

In two out of eleven foster parent files tested, the child placement log maintained in the family foster home file did not reflect the correct location of the child.

Improper record keeping could result in erroneous payments to foster parent(s), and/or a placement inconsistent with occupancy limitations.

Management Comment:

Applewood should establish procedures that ensure that child placement logs are updated with information as required by the Ohio Administrative Code. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

Results:

Ohio Admin. Code Section 5101:2-5-20(I) provides: "An agency shall require each foster caregiver to obtain an inspection of the family foster home by a state certified fire safety inspector or the state fire marshal's office, not more than ninety calendar days prior to the agency's recommendation for initial certification, certifying that the family foster home is free from conditions hazardous to the safety of foster children. If a foster caregiver is unable to obtain such an inspection due to the unavailability of a state certified fire safety inspector or the state fire marshal's office and the agency can document in writing when the request was made and the response from the certified fire safety inspector or the state fire marshal's office that such an inspection cannot be completed within ninety calendar days of the request, the recommending agency may conduct an alternative safety audit."

In four out of eleven foster parent files tested there was no documentation supporting that an inspection was completed by a state certified fire safety inspector or the state fire marshal's office or that an alternative safety audit had been conducted.

By not obtaining fire inspections or an alternative safety audit prior to the approval of a foster home there is an increased risk that an unsuitable foster home could be licensed. Additionally, a foster child and the placement agency may be subject to unwarranted risk.

Management Comment:

We recommend Applewood develop procedures to ensure all foster caregivers obtain a fire inspection or alternative safety audit in accordance with the Ohio Administrative Code. We further recommend that the

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ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-8	PLACEMENT OF CHILD PRIOR TO THE EFFECTIVE DATE OF CERTIFICATE
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Results:

Ohio Admin. Code Section 5101:2-5-21(F) provides, in pertinent part: “ No agency shall place a child or cause a child to be placed in a family foster home until . . . (4) The effective date of a family foster home certificate issued by ODHS.”

In one out of eleven foster parent files tested, a foster child had been placed in a foster home on May 3, 1977 and the effective date of the certificate issued by ODJFS (formerly known as ODHS) was May 16, 1977.

Not obtaining a certificate prior to the placement of a child increases the risk that an unsuitable foster home could be licensed.

Management Comment:

We recommend Applewood establish procedures to ensure that certificates are obtained prior to placing a child in a foster home. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-9	INCOME SUFFICIENT TO MEET THE BASIC NEEDS
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Results:

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

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

During our Review we found that Applewood did not document the applicant’s income was sufficient to meet the basic needs of the household in nine of the ten foster home files reviewed, nor did Applewood take adequate measures to ensure the information on the family foster home applications submitted was complete and accurate. In addition, foster parent income and employment was not documented as verified in nine out of ten family foster home applications files reviewed.

Failure to verify the completeness and accuracy of information on the Family Foster Home Application increases the risk that unsuitable applicants may be recommended and approved. In addition ODJFS has 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.

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ISSUE 5-10	TITLE IV-E COST REPORT
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Results:

\$16,670 detailed as federal questioned cost 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. Additionally, \$3,303 was detailed as federal questioned cost in Issues 6-1, and 7-1, was charged against the medicaid program, and/or reported as allowable costs on the 1998 ODMH Med-02 Cost report.

ODJFS must determine the amount of over reporting by Applewood and recompute the Title IV-E per diem reimbursement rate that should have been paid to Applewood during the Period and reimburse HHS, ODJFS or the PCSA for any over reimbursement resulting from the overstated costs.³² 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 review⁴⁶ of all cost reports⁴⁷ 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.

⁴⁶ 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.

⁴⁷ 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.

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ISSUE 6	TEST OF MEDICAID BILLING
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Objective:

To determine if Medicaid billings at Applewood 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 a sample of payments in ODJFS's Medicaid Management Information System (MMIS) for calendar year 1998.
2. We determined if Applewood 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).

ISSUE 6-1	MEDICAID BILLING
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Results:

During 1998, Applewood had contracts with the Cuyahoga County Community Mental Health Board (CCCMHB) and the Lorain County Board of Mental Health (LCBMH) to provide medicaid services. Under these contracts Applewood was required to maintain these invoices for a period of six years.⁴⁸ Applewood was also required to include the duration of service on all records for all service types.⁴⁹ Further, Applewood was required to "document the service type."⁵⁰

In our testing of Medicaid billings at Applewood we requested 1,282 billing invoices for review totaling \$129,442. Applewood was unable to provide us with 23 billing invoices totaling \$3,099. Of the 1,259 billing invoices we reviewed we found one billing invoice dated December 23, 1997 which did not reflect the duration of service which had been provided to a client.

48 For the period July 1, 1997 through June 30, 1998, Section 8 of the Community Mental Health Agency Agreements with Applewood Center dated July 16, 1997 was, and Section 14 of the parties' Community Mental Health Agency Agreement dated July 17, 1998 was applicable for the period July 1, 1998 through June 30, 1999 .

49 Section 9(b)(2) of the Community Mental Health Agency Agreements dated July 16, 1997 for the period of July 1, 1997 through June 30, 1998, and Section 14 in the Community Mental Health Agency Agreement dated July 17, 1998 for the period of July 1, 1998 through June 30, 1999.

50 Sub-provider/community Mental Health Agency Agreement to Provide Community Mental Health Medical Assistance Services , Section 14.

**APPLEWOOD CENTERS, INC.
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Federal Questioned Cost: \$3,099

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable, it must, among other factors be adequately documented.⁵¹ By failing to maintain 23 billing invoices and by inadequately documenting two billing invoices, Applewood was in violation both of the cited OMB cost principle and its contracts with CCCMHB and LCBMH in the amount of \$3,099. The total federal questioned cost totaled \$ 3,099.

Management Comment:

Applewood did not adhere to the CCCMHB and LCBMH contracts regarding documentation of unallowable and undocumented billings in the amount of \$3,099. We recommend that Applewood develop a corrective action plan to ensure continuous compliance.

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.

Procedures Performed:

1. We determined if Applewood performed the required monitoring in compliance with Ohio Admin. Code 5101:3-4-02.
2. We determined if services were being performed on the dates billed for by Applewood
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.

ISSUE 7-1	BILLING ERROR
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Results:

Section 5 of the Cuyahoga County Community Health Agency Agreement to provide community mental health medical assistance services, dated July 1, 1997, states in pertinent part: "The Community Mental Health Agency shall be reimbursed on a fee-for-service basis for honored claims of eligible service expenditures provided for Medicaid eligible individuals."

In one (1) out of 1,259 billing invoices tested, Applewood billed for services which were not provided to a client. In this instance, Applewood Centers, Inc. billed for two days of services provided over a weekend in March 1998 at Applewood Center's residential center to a client. Attendance records maintained at the group home revealed that the client had only spent one day during this weekend and had been off site on the other day. Applewood billed \$204 to Cuyahoga County Community Health Board and received reimbursement for the day the client was off-site. As the client had not received the services for which Applewood billed, Applewood was in violation of this section of the Agreement.

⁵¹ OMB Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (2)(g).

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Federal Questioned Cost: \$204

Billing for services which were not provided was in violation of Applewood's contract with the Cuyahoga County Community Health Board total federal questioned cost totaled \$204.

Management Comment:

We recommend Applewood develop procedures to ensure that only allowable services are billed for.

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SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Undocumented and Unallowed Expenditures	1-1	15	\$16,670
ODJFS Systemic Overpayment of Title IV- E Maintenance ⁵²	3-1	19	10,856
Medicaid Billings	6	36	3,099
Medicaid Services	7	37	<u>204</u>
TOTAL FEDERAL QUESTIONED COSTS			<u>\$30,829</u>

⁵²

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



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OFFICE OF THE AUDITOR

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APPLEWOOD CENTERS, INC.

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 9, 2002**