



CHILD PROTECTIVE SERVICES

PARMA DALE, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PARMADALE, INC.
REPORT ON AGREED-UPON PROCEDURES**

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**PARMADALE, INC.
REPORT ON AGREED-UPON PROCEDURES**

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

| NAME | TITLE | TERM |
|--------------------------|--|----------------------------|
| BOARD OF TRUSTEES | | |
| Arthur Cobb | Chairperson | 1/1/98 - 12/31/98 * |
| Robert Wiley | Vice Chairperson | 1/1/96 - 12/31/98 * |
| Kathleen Cooney, Sr. | Secretary | 1/1/96 - 12/31/98 * |
| William J. Reidy | Treasurer | 1/1/98 - 12/31/98 * |
| Altier, Patricia A. | Member | 1/1/97 - 12/31/98 |
| Gregory F. Clifford | Member | 1/1/95 - 12/31/98 |
| Patricia Bunn Decensi | Member | 1/1/98 - 12/31/98 |
| Gita P. Gidwana | Member | 1/1/98 - 12/31/98 |
| Mark F. McCarthy | Member | 1/1/95 - 12/31/98 * |
| David Mikolajczyk | Member | 1/1/97 - 12/31/98 * |
| Patrick J. O'Neil, Jr. | Member | 1/1/97 - 12/31/98 |
| Deborah L. Plummer | Member | 1/1/98 - 12/31/98 |
| Paul V. Voinovich | Member | 1/1/97 - 12/31/98 * |
| Thomas J. Mullen | Ex-Officio Voting Member*** | Continuous** ¹ |
| Michael J. Haggerty | Ex-Officio Non-voting Member | Continuous |
| Thomas W. Woll | President / Ex-Officio Non-voting Member | Continuous ** ² |

* Member of the Parmadale Foundation Board of Trustees

** Staff member of the Catholic Charities Services Corporation Board of Trustees.

*** Ex-Officio Voting Trustees shall be (i) the Secretary for Social Concerns of the Dioceses of Cleveland, (ii) the President of Catholic Charities Services Corporation (CCSC), and (iii) the Vice President of CCSC who is so designated by the President of CCSC. The President of CCSC is referred to as the Ex-Officio Non-Voting Trustee.³

¹ He was also the Secretary of Health & Human Services for the Cleveland Catholic Diocese.

² He was also employed as the Director of Children & Family Services for Catholic Charities Services Corporation.

³ Section 2.2 - Composition of the Board of Trustees of the Amended Code of regulations of Parmadale, Inc. date May 17, 1994.

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

| NAME | TITLE | TERM |
|---------------------------------|---|--------------------------------|
| ADMINISTRATIVE PERSONNEL | | |
| Michael Haggerty | Executive Director | 8/21/79 - present ⁴ |
| Anne Mengerink | Associate Executive Director | 5/22/78 - present ⁵ |
| Michelle Medrick | Comptroller | 4/17/89 - present |
| Angelo Bonsutto | Assistant Director | 2/16/81 - present |
| Klavin Boyd | Director of Community Services | 8/27/84 - present |
| Patricia Goetz | Clinical Director | 11/11/96 - 9/24/99 |
| Catherine Bixenstive | Director Community Family Treatment | 12/07/92 - present |
| Jihad Dakkak | Director of Compliance | 2/17/92 - 5/7/2001 |
| Kevin Hodges | Director of Juvenile Court Wrap Around Program | 6/01/87 - present |
| Patricia Sadallah | Director of Training | 8/24/92 - 1/4/2000 |
| Christine Dutridge | Director of Personnel | 10/20/88 - present |
| Thomas Prosinski | Director of Education | 8/15/74 - present |
| Gregory Smith | Director of Services Development | 2/09/98 - 2/08/99 |
| Lynne Della Donna | Director of Volunteers | 4/09/80 - present |
| Susan Graham | Director of Dietary | 1/27/97 - present |
| Judith Bodnar | Director of Child Care | 1/03/77 - present |

Agency Address

Parmadale, Inc.
6753 State Road
Parma, Ohio 44134

⁴ Assumed position of Executive Director effective 11/1/96. As a result of the merger, he became the Vice President for Service Integration. He currently serves as Vice President of Catholic Charities Services Corporation (CCSC).

⁵ After the merger between CCSC and Parmadale (see Related Party Transactions p. 10) Ms. Mengerink assumed the position of Director of Parmadale on January 1, 1999.

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

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

Independent Accountants' Report

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

Dear Director Hayes:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services⁶ (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 Parmadale, Inc. (Parmadale 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 child serving agency (PCSA) 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 Parmadale 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.

⁶ The merger of the Ohio Department of Human Services and the Ohio Bureau of Employment Services to become the Ohio Department of Job and Family Services (ODJFS) took effect July 1, 2000.

4. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures, relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.
5. We performed procedures to confirm internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Admin. Code Chapter 5101:2.
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 April 10, 2002 we held a post audit conference with the following:

| <u>Name</u> | <u>Office/Position</u> |
|------------------|--|
| Keith Johnson | Catholic Charities Services Corp., Chief Financial Officer |
| Michelle Medrick | Catholic Charities Services Corp./Parmadale, Inc., Comptroller |
| Anne Menegerink | Catholic Charities Services Corp./Parmadale, Inc., Director |
| Michael Haggerty | Catholic Charities Services Corp., Executive Vice President |
| Carolyn Edwards | Auditor of State, Auditor in Charge |
| Samuel Long | Auditor of State, Assistant Auditor |

Subsequent to the post audit conference Parmadale, Inc. provided additional documentation for the costs we questioned that was considered in this report.

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

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



JIM PETRO
Auditor of State

April 19, 2002

PARMADALE, 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 twentieth 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.⁷ 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.⁸ 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.⁹

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.¹⁰ 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.

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

⁸ Ohio Rev. Code Section 5101.141 (A). Rules established pursuant to this authority are found in Ohio Admin. Code Chapter 5101:2-47.

⁹ Ohio Rev. Code Section 5153.16 (A)(14).

¹⁰ Ohio Rev. Code Section 5153.16 (C)(2)(a)(v).

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Cuyahoga County Department of Children and Family Services (CCDCFS), a PCSA, entered into such an agreement with Parmadale Inc., a PCPA.¹¹

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.¹²

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.¹³ 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,¹⁴ 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 . . ." ¹⁵

¹¹ Cuyahoga County Department of Children and Family Services (CCDCFS) Vendor Agreement for Foster Care, Residential Care, Emergency Shelter, Independent Living, Group Homes and Day Treatment Services, (Purchase of Service Agreement) between CCDCFS and Parmadale Inc. dated January 27, 1998, for the period January 1, 1998 through December 31, 1998.

¹² 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).

¹³ 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).

¹⁴ 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. Ohio Admin. Code Section 5101:2-47-26.2(A)(1), effective 12-01-01, requires that each PCPA or PNA engage an independent public accountant to conduct an annual audit of its financial statements and its Title IV-E cost report.

¹⁵ 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).

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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.¹⁶ 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.¹⁷

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*.

In addition, because the PCPAs and PNAs enjoy federal tax-exempt status, they are directly precluded from assigning any part of their net earnings "to the benefit of any private shareholder or individual . . ." ¹⁸

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.¹⁹

ODJFS codified the cost principles to which the PCPAs and PNAs are subject to 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." ²⁰ 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.²¹

¹⁶ 42 U.S.C. Section 675(4)(A).

¹⁷ 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.

¹⁸ 26 U.S.C. Section 501(c)(3).

¹⁹ 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.

²⁰ Prior to 5/1/98, applicable cost guidelines were contained in Ohio Admin. Code Sections 5101:2-47-63 and 5101:2-47-64.

²¹ Ohio Admin. Code 5101:2-47-26. Prior to 5/1/98, these requirements were contained in Ohio Admin. Code Section 5101:2-47-64.

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

The Office of Management and Budget Circular A-110 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations* establishes standards for uniform administrative requirements for Federal grants and agreements with institutions of higher education, hospitals, and other nonprofit organizations.

Subpart C of Circular A-110 set forth requirements regarding: financial and program management, property and procurement standards, reports and records and termination and enforcement.

Reimbursement Process

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 payments²² made to the PCPAs or PNAs.

In 1998, the FFP was 58% for maintenance payments²³ made and 50% for administrative costs²⁴ 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, Parmadale 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, or Purchase of Service Agreement). These services are set forth in Section 4 of the Agreement.

²² 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.

²³ 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.

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

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The Agreement provides that CCDCFS will reimburse Parmadale 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 Parmadale will provide foster care maintenance, administrative case management, case planning activities and related administrative activities as set forth in Exhibit 3 of the Agreement.²⁵

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 Admin. 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."²⁶

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 aftercare services, development of case plans and coordinating the provider's role in carrying out those plans.²⁷

In its contract with CCDCFS, Parmadale of Ohio agreed "The Provider certifies to the Department that for each service specified in Sections 4(A) and (B) at least [specified amount of the billed amount] constitutes a daily payment to foster parent(s) in whose care the Department has placed children covered under this Agreement."²⁸

Also, Section 5 of the contract with CCDCFS states, "The Provider agrees to comply with all federal and state mandates necessary in establishing IV-E reimbursability for all applicable service/programs. The Provider agrees to comply with reporting time deadlines established by the Ohio Department of Human Services (ODHS) and understands that a failure to do so may result in recoupment of those funds actually lost to the Department as a result of a failure to comply with reporting deadlines."²⁹

Furthermore, if a IV-E audit results in an adverse finding against the Department due to Provider error, procedures can be implemented including but limited to the possibility that the Provider may be required to reimburse the Department.³⁰

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.

²⁵ Section 4 of the Purchase of Service Agreement, dated 1/27/98, pg. 23.

²⁶ Ohio Admin. Code Section 5101:2-33-18(B). Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8/1/02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12/1/01.

²⁷ Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8-1-02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12-1-01.

²⁸ Section 4, Cost and Delivery of Purchased Services, Paragraph C, Foster Parent Payment, Purchase of Service Agreement, dated 1/27/98 p. 4.

²⁹ Section 5 (A), Title IV-E Reimbursable Services, Purchase of Service Agreement, dated 1/27/98, pg. 10.

³⁰ Section 5 (C), Title IV-E Reimbursable Services, Purchase of Service Agreement, dated 1/27/98, pg. 11.

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In Section 15 of the Agreement, Parmadale 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.”³¹

Administration of Medicaid Services

Parmadale also receives Medicaid receipts for reimbursement of medical counseling services provided by Parmadale 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 CSW, 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 costs³² as follows:

“Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.”

³¹ Section 15, Availability and Retention of Records, Purchase of Service Agreement, dated 1/27/98, pg. 23.

³² Office of Management and Budget (OMB) Circular A-133, Subpart A, .105 Definitions

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The foster care program in Ohio is funded 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 Parmadale join together to ensure Parmadale develops and implements a corrective action plan that will result in fiscal accountability³³ and legal compliance³⁴ in an expeditious manner.

Based on the findings we recommend the following:

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

AGENCY INFORMATION

Parmadale is a private child placing agency (PCPA) that was founded in 1925. Parmadale was incorporated as a nonprofit organization exempt from federal income tax under Internal Revenue Service Section 501 (c)(3) on February 20, 1990. Parmadale is licensed by ODJFS to recommend foster families, place children in foster homes, operate a group home, accept referrals for residential treatment, and recommend children for adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as Parmadale to place the child. Parmadale placed foster children primarily for Cuyahoga County Children Services. Parmadale has also placed children for 18 other county agencies: Columbiana, Erie, Franklin, Lucas, Coshocton, Guernsey, Tuscarawas, Summit, Lake, Portage, Medina, Stark, Trumbull, Huron, Van Wert, Holmes, Lorain and Ottawa counties.

³³ 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 PCSA's, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability.

³⁴ 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.

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Related Party Transactions³⁵ with Affiliated Organizations

Catholic Charities Services Corporation (CCSC)

During the Period, Parmadale engaged in the following activities with Catholic Charities Service Corporation:

- (1) Provided services to the clients in Medina at an annual cost of \$17,176.
- (2) Parmadale was a subrecipient of a grant from United Way. CCSC collected all monies and allocated funds to Parmadale on a monthly basis. \$525,040 was received during the Period.
- (3) CCSC donated \$157,530 in 1998 for general operations.
- (4) Provided Medicaid services for CCSC clients.
- (5) Rented office space from Parmadale for a total cost of \$15,600 in 1998.
- (6) CCSC contracted on behalf of Parmadale with Adrian Dominican Sisters for an executive secretary, at an annual cost of \$32,279.
- (7) Parmadale purchased property in the amount of \$82,000 which was in turn deeded to CCSC.
- (8) Parmadale leased its office from CCSC at a cost of \$15,000 per month.
- (9) Parmadale purchased liability insurance from Diocesan Insurance Service Corporation (DISC) which is a division within CCSC.

CCSC merged with Parmadale and assumed controlling interest over Parmadale Foundation, effective January 1, 1999.³⁶

Parmadale Foundation

Parmadale Foundation (Foundation) was an affiliate of Parmadale and shared common control, had common board members, and an economic interest. The Foundation was a tax exempt, nonprofit corporation founded in 1995 by Parmadale to provide funds and financial resources for the benefit of Parmadale and its programs. All assets were held for the benefit of Parmadale, however the Foundation's board restricted their use. Funds were made available for the Foundation Board approved projects and were not intended to support the ongoing operations of Parmadale, Inc.

³⁵ Per FASB Statement of Standards, Appendix B, related party transactions are transactions between principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

³⁶ The Parmadale Foundation financial statements for the years ended December 31, 1998 and 1997 includes the following disclosure: "In January 1999, the Foundation was terminated as part of the merger between Parmadale and Catholic Charities. Foundation assets were subsequently transferred to Catholic Charities."

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

The following table shows statistical information about the agency for 1998 taken from the ODHS 2910 Purchased Family Foster Care Cost Report and other documentation provided by the Placement Agency:

**Table I
Parmadale, Inc.
Foster Care Statistics**

| Characteristic | Statistic |
|---|---|
| Daily Average Number of Children in Placement | 180 |
| Number of Active Licensed Foster Homes | 110 |
| Average Per Diem Rate | \$59 |
| Number of PCSAs from Which Agency Receives Children | 19 |
| Required Training for Foster Caregiver Orientation | 25-40 Hours |
| Required Annual Training for Foster Caregiver | 18 - 24 Hours |
| Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report | \$2,606,486 |
| Characteristics of Children Placed by Agency | Traditional to Intensive levels of care |

During the Period, Parmadale foster care staff consisted of 47 employees who either provided direct foster care services or were involved in the operation of the foster care program, including a director of laundry, home management coordinator, housekeeper, painter, maintenance worker, maintenance mechanic, assistant maintenance, supervisor, utility worker, kitchen helper, dietary clerk, food service supervisor, director of dietary, cook, food service assistant, director of education, activities director, administrative assistant, lifeguard, director of volunteers, youth intervention specialist, clinical director, quality assurance coordinator, intake director, personnel assistant, switchboard operator, assistant to finance, administrative assistant, director of personnel, director of service development, data analysts, staff trainer, comptroller, director of support services, records clerk, computer operations/coordinator, organizational development consultant, accounts receivable accountant, executive director, compliance coordinator assist., management information service coordinator, senior accountant, director, coordinator of foster care, assistant foster care coordinator, and foster care worker to the foster parents.

Approximately half of Parmadale's revenues was comprised of funds received from Cuyahoga County Department of Children and Family Services. The total foster care, and residential care revenue received by Parmadale from Cuyahoga County Department of Children and Family Services Board totaled \$8,846,511 for the Period.

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

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

**Table II
Parmadale, Inc.
Revenue by Source**

| | 1998 | Percent of Total Revenue |
|------------------------------|---------------------|---|
| Cuyahoga County | \$ 8,846,511 | 61% |
| Summit County | 665,337 | 5 |
| Franklin County | 451,388 | 3 |
| Lorain County | 304,825 | 2 |
| Lucas County | 126,066 | 1 |
| Columbiana County | 148,066 | 1 |
| Portage County | 110,943 | 1 |
| Erie County | 106,035 | 1 |
| All other Counties | 544,346 | 4 |
| Medicaid | 1,023,886 | 7 |
| Grants & Reimbursements | 1,382,299 | 9 |
| Childcare User Fees | 369,050 | 2 |
| Other Revenues ³⁷ | 420,503 | 3 |
| Totals | \$14,501,253 | 100% |

Relevant Individuals

Michael Haggerty

Mr. Haggerty was the executive director until March 31, 1999. His responsibilities as Executive Director included oversight of the agency, approving vouchers for payment, signing checks for both the general and payroll accounts. He currently holds the title of Executive Vice President at Catholic Charities Services Corporation.

Anne Mengerink

Ms. Mengerink was the associate executive director of Parmadale, Inc. for the Period. Her major functions were under general policy direction from the executive director to provide administrative support wherever and whenever needed but particularly in the areas of clinical, medical and intake services. Ms. Mengerink was responsible for Nursing, Community Family Treatment & Counseling, Wraparound, Foster Care, and In-Home Staff. Ms. Mengerink assumed the position as Director on March 31, 1999.

³⁷

Includes proceeds from investments, interest, and gain on sale of fixed/obsolete assets.

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

Michelle Medrick

Ms. Medrick was the chief fiscal officer of Parmadale, Inc. Her major functions were under the general supervision of the executive director. She reviewed the fiscal records and provided reporting of the agency's financial data.

Thomas Woll

Mr. Woll was the president at Parmadale. He served as President of Parmadale and as a staff member to the board of trustees for Catholic Charities Service Corporation during the 1998 calendar year. Mr. Woll was also an Ex-Officio Non-voting member to the board of trustees of Parmadale and a member of its Executive Committee. Mr. Woll was employed by Catholic Charities Service Corporation as the Senior Director of Family Services.

Mark F. McCarthy

Mark F. McCarthy, a partner of Arter & Hadden law firm, was a member of the Parmadale board of trustees as well as the vice chairman for Catholic Charities Service Corporation.

Thomas Mullen

Thomas Mullen was an Ex-Officio Voting member of the board of trustees for Parmadale. He was also the Secretary of Health & Human Services for the Cleveland Catholic Diocese.

| | |
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| 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 Parmadale 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).

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

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

| | |
|------------------|--|
| ISSUE 1-1 | CREDIT CARD AND CHECK DISBURSEMENTS NOT ALLOWED OR WHICH LACK SUPPORTING DOCUMENTATION REQUIRED UNDER THE CCDCFS CONTRACT |
|------------------|--|

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations," requires that for a cost to be allowable, it must, among other factors be reasonable and adequately documented.³⁸

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 . . ." ³⁹

³⁸ OMB Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (2)(a) and (g).

³⁹ OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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."⁴⁰ 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."⁴¹ In addition, under Section 1 of the Agreement, Parmadale was to provide those services delineated in Section 4 of the Agreement.⁴²

We inspected nine hundred and sixty-five (965) credit card expenditures totaling \$101,925 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. Parmadale was unable to provide us with the above types of supporting documentation for one hundred-nine (109) transactions totaling \$17,003 and was in direct violation of sections 14 and 15 of its contract with CCDCFS and OMB Circular A-122, Attachment A(2)(a) and (g).

We inspected four hundred eighty-one (481) check disbursements examined totaling \$1,314,000 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. Parmadale was unable to provide us with supporting documentation for thirty (30) disbursements totaling \$47,211. For these thirty transactions, Parmadale 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)⁴³. Undocumented expenditures totaled \$64,214.

Additionally, there were sixty-four (64) expenditures totaling \$32,018 that were not allowable direct services or administrative costs under the CCDCFS 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. Five disbursements for donations totaling \$1,245 were unallowable under OMB Circular A-122, Attachment B, Paragraph 9 which states, "Contributions and donations by the organization to others are unallowable."

⁴⁰ Section 14, Financial Records. Purchase of Services Agreement, dated 1/27/98, pg. 23.

⁴¹ Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 1/27/98, pg.23.

⁴² See detailed discussion of these agreed-upon services in the "Allowable Costs" Section of this report.

⁴³ 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."

PARMA DALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

2. Forty-one transactions for the purchase of flowers, gifts/gift certificates for staff and board members, in the amount of \$16,463 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." Unallowed expenditures for personal use totaled \$16,463.
3. There were thirteen transactions totaling \$13,334 for golf outings, baseball tickets, holiday parties, and supplies for staff. OMB Circular A-122, Attachment B, Paragraph 14 states: "The costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable. Furthermore, entertainment costs for amusements, social activities and related costs for staff only are considered unallowable costs for use in completing ODHS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7)⁴⁴ Unallowed expenditures for personal use totaled \$13,334.
4. One check disbursement for \$115 for a membership to the Independence Chamber of Commerce was unallowable under OMB Circular A-122, Attachment B, Paragraph 30 (d), which states: "Costs of membership in any civic or community organization are allowable with prior approval by the Federal cognizant agency." Unallowed expenditures for memberships totaled \$115.
5. One check disbursements for fund-raising activity totaling \$526 which was deemed unallowable and in violation of OMB Circular A-122, Attachment B, Paragraph 23 (3)(c)(b) which states "Cost of organized fund-raising including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable. Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(6) states in pertinent part, ". . . any outlay of cash with no prospective benefit to the facility or program" are considered unallowable."
6. There were two transactions for unallowed advertisement in the amount of \$335. OMB Circular A-122 Attachment B, Paragraph(1)(c) states in pertinent part, "The only allowable advertising costs are those which are solely for: (1) The recruitment of personnel required for the performance by the organization of obligations arising under a sponsored award . . . "

⁴⁴

Prior to 5/1/98, the rule was stated at Ohio Admin. Code section 5101:2-47-64(G).

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

**Table III
Parmadale, Inc.
Questioned Costs**

| Undocumented Credit Card Expenditures | |
|--|--------------|
| Dining Expenditures | |
| Perkins | \$17 |
| Eat N Park | 39 |
| TGI Friday | 465 |
| Massimo Da Milano | 42 |
| Gardenia Diamond Café | 19 |
| CMA Ristorante Roma | 35 |
| Cleveland Hilton South | 57 |
| Tommy's Cleveland | 24 |
| Stancatos Restaurant | 242 |
| Martini Ristourant | 116 |
| Red Lobster | 115 |
| Holiday Inn | 21 |
| Lenox Inn | 52 |
| The Cooker | 43 |
| Applebees | 50 |
| Longhorn Steaks | 35 |
| Winking Lizard | 233 |
| Fast Eddies | 11 |
| Damon Industries | 1,406 |
| Honey Baked Ham | 13 |
| | <u>3,035</u> |
| Lodging Expenditures | |
| Cross County Inn | 51 |
| Omni Hotel | 575 |
| Marriott Hotels | 924 |
| Hyatt Hotel | 516 |
| | <u>2,066</u> |
| Educational Material Expenditures | |
| Borders Bookstore | 115 |
| EGI Drawing Board | 85 |
| Wal-Mart | 295 |
| Barnes and Noble Bookstore | 50 |
| | <u>545</u> |

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

**Table III
Parmadale, Inc.
Questioned Costs**

| Undocumented Credit Card Expenditures | |
|--|---------------|
| Travel Expenditures | |
| Reservation change fee | 75 |
| Park and Fly - Airport Parking Expense | 40 |
| Superamerica - Gasoline Purchase | 11 |
| Continental | 446 |
| TWA - St. Louis | 695 |
| Continental Airlines | 498 |
| Delta Airlines | 96 |
| | <u>2,061</u> |
| Computer Expenditures | |
| CC*PC Mall | 139 |
| Top Choice System | 594 |
| Tiger Direct | 97 |
| Micro Center | 2,435 |
| Macola | 1,683 |
| Buy.com | 322 |
| | <u>5,270</u> |
| Supplies Expenditures | |
| Builders Square | 26 |
| State Fairs Homes | 21 |
| JCPenny | 150 |
| Sears Roebuck | 271 |
| | <u>468</u> |
| Miscellaneous Expenditures | |
| Sun TV | 189 |
| Toys R Us | 2,397 |
| Incom | 165 |
| The American Red Cross | 155 |
| Life Events | 355 |
| Bonnie Speed Delivery | 131 |
| Cuyahoga Community College | 109 |
| Kaufman's Electronic | 57 |
| | <u>3,558</u> |
| Total Undocumented Credit Card Expenditures | <u>17,003</u> |

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

**Table III
Parmadale, Inc.
Questioned Costs**

| Undocumented Check Disbursements | |
|---|----------------------|
| Dining Expenditures | |
| Northern Haserot | 2,032 |
| Outback Steakhouse | 260 |
| | <u>2,292</u> |
| Department Store Expenditures | |
| Bestway Merchandise | 1,873 |
| Mill Distributing Inc. | 3,219 |
| J.C. Penny | 3,942 |
| Foley Associates | 1,748 |
| Sears Commercial Credit | 3,604 |
| Hattenbach Company | 3,644 |
| | <u>18,030</u> |
| Services and Supplies Expenditures | |
| Lakeside Services Inc. | 2,126 |
| Spectrum Customer Services | 1,813 |
| Sav-Mor Supply Inc. | 1,904 |
| BK. Supply Co. | 1,937 |
| | <u>7,780</u> |
| Contractual Services Expenditures | |
| Parmadale Center | 3,438 |
| Psychology Department | 1,909 |
| Howard Wershbale Company | 1,673 |
| Cooper & Lybrand | 1,452 |
| Nova Southeastern University | 1,206 |
| | <u>9,678</u> |
| Miscellaneous Expenditures | |
| Sheldon's Plaques Inc. - Award Plaques for volunteers | 327 |
| Famicos Foundation - First/Last rent for independent living child | 300 |
| Joe Botsko | 1,907 |
| Mokitas Center | 973 |
| Liberty Textile Company | 1,291 |
| Meyer Vogelpohl | 1,111 |
| BDR*Bottom Line Personnel | 69 |
| Borders Bookstore | 16 |
| Payne Melco Calendars - 1999 Calendars for Agency Staff | 1,122 |
| Das Gift Haus - no details | 10 |
| Paxton Corporation | 2,052 |
| Advertising Expenditures | 220 |
| Robert Charles Coin Co. | 53 |
| Total Undocumented Check Disbursements | <u>47,211</u> |

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

**Table III
Parmadale, Inc.
Questioned Costs**

| | |
|--|------------------------|
| Total Undocumented Expenditures | <u>64,214</u> |
| Unallowed Expenditures | |
| Unallowed Expenditures for Contributions/Donations | |
| Donations | 945 |
| Donation to the Robert Wood Johnson Foundation | 100 |
| The St. Ann Foundation | <u>200</u> |
| | <u>1,245</u> |
| Unallowable Expenditures for Personal Use | |
| Flowers | 1,466 |
| Cleveland Clerk of Court - Parking Violations | 90 |
| Gifts/Gift certificates for employees/Board | 14,863 |
| The Coin Deport | <u>44</u> |
| | <u>16,463</u> |
| Unallowable Expenditures for Entertainment | |
| Golf Outings | 500 |
| Campaign (Trip to Indians Charitable Combined game in Detroit) | 1,430 |
| Abracadabra It's Music - Entertainment | 325 |
| Gino's - Employee Incentive Plaques | 4,600 |
| Sheldon's Plaques Inc. - Employee Incentive Plaques | 2,845 |
| Parma Chamber of Commerce - Employee Luncheon | 450 |
| Olive Garden - Secretary Day recognition lunch | 250 |
| Event Source - Christmas Party | 1,634 |
| S. S. Kemp & Company - Party Supplies | 1,100 |
| Holiday Supplies/Decorations | <u>200</u> |
| | <u>13,334</u> |
| Unallowed Membership Expenditures | 115 |
| Unallowed Fund-raising Expenditures | 526 |
| Unallowed Expenditures for Advertisement | |
| Advertisement and Public Relations | 300 |
| Catholic Action Commission - Advertisement | <u>35</u> |
| | <u>335</u> |
| Total Questioned Unallowed Expenditures | <u>32,018</u> |
| Total Questioned Costs | <u><u>\$96,232</u></u> |

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Federal Questioned Costs: \$96,232

The reimbursement claims submitted on ODHS 1925 “(Title IV-E) Monthly FCM Invoice” by PCSA’s contracting with Parmadale, Inc. for foster care services included the \$96,232 in expenditures detailed in Table III. Parmadale, Inc. was unable to provide documentation to adequately demonstrate the programmatic purposes of \$64,214 of those expenditures as required by OMB Circular A-122, Attachment A, Paragraph A(2)(a) and (g) and Sections 14 and 15 of its contract with CCDCFs. The remaining \$32,018 in expenditures were unallowable costs as a result of violating OMB Circular A-122 Attachment B, Paragraph 1(c), 9, 14, 18, 23(3)(c)(b), 30(d), and/or Ohio Admin. Code Section 5101:2-47-26(A)(7). Federal questioned costs totaled \$96,232.

Management Comment:

Parmadale 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.⁴⁵ 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 1-2 | RELATED PARTY TRANSACTIONS |
|------------------|-----------------------------------|

Results:

Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 18 states, “Costs of goods or services for personal use of the organization’s employees are unallowable regardless of whether the cost is reported as taxable income to the employees.”

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

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

⁴⁵ 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.

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

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

In evaluating the make up of Parmadale's organization, we identified that Parmadale's Board President, Thomas Woll who was also employed by CCSC was paid \$16,480 for his assistance with the merger between Parmadale and CCSC. In addition, we noted the following issued involving Mr. Woll:

- Ex-Officio Non-voting Member to the Board of Trustees of Parmadale, Inc.
- Staff member of the Executive Committee at Parmadale.
- In his capacity as President of Parmadale, was authorized to execute financial transactions on Parmadale's behalf, including but not limited to, borrow and execute notes, and drafts or agreements. He was the authorized signatory signer on the checking account and had authorization to use credit cards assigned to the various departments at Parmadale.
- Employed by Catholic Charities Services Corp. where he served as Senior Director of Family Services.
- The required related party disclosures were not made to the board.
- Mr. Woll was also a staff member to the Board of Trustees of the Catholic Charities Services Corp.
- He was instrumental in the merger between CCSC and Parmadale. The services provided by the President resulted in a merger that was financially unfavorable to Parmadale.
- All travel expenses relating to the merger were paid by Parmadale.
- He was also paid a stipend from Parmadale, relating to the merger, which was not board approved in the amount of \$16,480.
- There was no documentation to support the services to be rendered were in addition to Thomas Woll's regular duties to support the payment of the stipend.

Federal Questioned Costs: \$16,480

The reimbursement claims submitted on ODHS 1925 "(Title IV-E) Monthly FCM Invoice" by PCSAs contracting with Parmadale, Inc. for foster care services included \$16,480 in expenditures that were unallowable as a result of violating OMB Circular A-122 Attachment A, Paragraph (A)(3)(a)-(c), and Attachment B, Paragraph 18, and Ohio Admin. Code Section 5101:2-5-08 (H) and (G). Federal Questioned Costs totaled \$16,480.

Management Comment:

We recommend Parmadale monitor its transaction with related parties to ensure that its federal tax exempt status is not jeopardized and an independent Board of Trustees establish a policy which prohibits any benefit of private interests to designated individuals such as, the creator or his family, shareholders of the organization, board members or persons controlled, directly or indirectly, by such private interest.

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| ISSUE 1-3 | CAPITAL EXPENDITURES WITHOUT PRIOR APPROVAL |
|------------------|--|

Results:

"Capital expenditures for improvements to land, buildings, or equipment which materially increases their value or useful life are unallowable as a direct cost except with prior approval of the award agency."⁴⁶

⁴⁶ Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment B, Paragraph 15(4)(d).

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

During our review, we noted that Parmadale paid \$8,105 for carpeting (leasehold improvement) for a building which was leased from Catholic Charities Services Corporation without prior approval from Cuyahoga County, the awarding agency. All expenditures were posted as a direct cost on the ODHS 2910 Purchased Family Foster Care Cost Report.

Federal Questioned Cost: \$8,105

The reimbursement claims submitted on ODHS 1925 "(Title IV-E) Monthly FCM Invoice" by PCSAs contracting with Parmadale, Inc. for foster care services included \$8,105 in unallowable expenditures. The cost of capital improvement is unallowable without prior approval from the awarding agency, and the cost of expenditures which are not the agency's are deemed unallowable for cost reporting purposes, therefore Parmadale was in violation of OMB Circular A-122, Attachment B, Paragraph 15(4)(d) in the amount of \$8,105.

Management Comment:

We recommend the agency establish accounting policies and procedures that ensure only allowable program costs are reported on the ODHS 2910 Purchased Family Foster Care Cost Report. We further recommend that the agency take measures to ensure that all expenditures are properly approved as required by OMB Circular A-122.

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| ISSUE 1-4 | ERROR RESULTING IN OVERSTATEMENT OF WAGES ON THE COST REPORT |
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Results:

Ohio Admin. Code Section 5101:2-47-25(J) "Salaries" include all remuneration, paid currently or accrued, for services rendered during the period of the cost report or budget . . . The costs of such compensation are allowable to the extent that the compensation is reasonable for the services rendered and is supported by documented payroll vouchers or a generally accepted method of documentation. Payroll must be further supported by time and attendance or equivalent records for individual employees. Salaries of employees chargeable to more than one program or cost center will be supported by appropriate time distribution record. The method used should produce an equitable distribution of time and effort. Compensation for owners is allowable provided the service performed is a necessary function."⁴⁷

The agency prepared a spread sheet which allocated all salaries to various programs. The amount allocated for Title IV-E was reported as \$493,740, however when the Placement Agency submitted the cost report it reported \$513,777. Therefore, the ODHS 2910 Purchased Family Foster Care Cost Report was overstated by \$20,037.

Federal Questioned Cost: \$20,037

Due to the overstatement of salary costs reported on the cost report and charged against the foster care program, Parmadale was in violation of Ohio Admin. Code Section 5101:2-47-25(J) in the amount of \$20,037 which could adversely affect the title IV-E rate setting process. ODJFS should adjust the reported cost by the amount overstated, recalculate the Title IV-E reimbursement rate, and determine if the cost resulted in an over reimbursement.

⁴⁷

Prior to 5/1/98, this provision appeared at Ohio Admin. Code Section 5101:2-47-63.

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

Management Comment:

We recommend that Parmadale establish accounting policies and procedures that ensure program costs for wages are equitably and accurately allocated to the correct programs. It is further recommended that management periodically monitor for continuous compliance.

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| ISSUE 1-5 | MALPRACTICE INSURANCE PAID FOR INDEPENDENT CONTRACTOR |
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Results:

OMB Circular A-122, Attachment B, Paragraph 22(g) which disallows malpractice insurance unless it meets the following exception, "Medical liability (malpractice) insurance is an allowable cost of Federal research programs only to the extent that the Federal research programs involve human subjects or training of participants in research techniques"

26 C.F.R. § 1.6041.2(a)(1), provides that wages, as defined in 26 U.S.C Section 3401, are to be reported on a form W-2, or all other payments of compensation are to be reported on a form 1099. Employers are required to report on an informational return (form 1099) remuneration paid in excess of \$600 per calendar year to independent contractors.⁴⁸

Parmadale contracted for the services of four medical professionals who were considered independent contractors. However, Parmadale paid malpractice insurance on behalf of only one doctor in the amount of \$10,300. This amount was not included on the form 1099 that was issued for this individual.

There was no language in the Sub-Provider/Community Mental Health Agency Agreement to provide community mental health medical assistance services that stated Parmadale shall be responsible for providing malpractice insurance for an independent contractor.⁴⁹ Further, there was no language in the Independent Contractor Agreement that required Parmadale to provide Malpractice insurance.⁵⁰

Failure to comply with IRS rules and regulations in 26 U.S.C. Section 6041A(a) and 26 C.F.R. § 1.6041-1(2001) by not reporting wages could result in interest and penalties to Parmadale and/or the independent contractor.

Federal Questioned Cost: \$10,300

Parmadale was in violation of OMB Circular A-122, Attachment B, Paragraph 22(g), and 26 U.S.C. Section 6041A(a) and 26 C.F.R. Section 1.6041-1(2001) in the amount of \$10,300 which could adversely affect the Title IV-E rate setting process. ODJFS should adjust the reported cost by the amount overstated, recalculate the Title IV-E reimbursement rate, and determine if the cost resulted in an over reimbursement.

Management Comment:

We recommend that the agency establish accounting policies and procedures to ensure that only allowable program costs are reported on the ODHS 2910 Purchased Family Foster Care Cost Report.

⁴⁸ 26 U.S.C. Section 6041A(a); 26 C.F.R. § 1.6041-1(2001).

⁴⁹ Sub-Provider Community Mental Health Agency Agreement to Provide Community Health Medical Assistance Services Paragraph(8). Effective July 1, 1997 and 1998.

⁵⁰ Letter of Agreement between Dr. Ester Koffman and Parmadale dated 8/2/90.

PARMADALE, INC.
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In addition Parmadale should comply with IRS rules that govern reporting of compensation and withholding of taxes.

Failure to comply with IRS rules and regulations that govern wage reporting and tax deductions could result in substantial interest and penalties and increase administrative costs to the agency. Furthermore, we recommend that Parmadale take immediate steps to issue a corrected form 1099 for the doctor and submit copies to the Internal Revenue Service. Parmadale should develop and implement accounting controls to ensure that amounts reported on 1099s are in compliance with IRS rules and regulations. This report will be referred by the Auditor of State's office to the Internal Revenue Service for its consideration.

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| 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 the Parmadale 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 Parmadale 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 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 Parmadale received as: program service fees from various counties, gifts and grants, and medicaid payments in 1998. 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 Parmadale were receipted, deposited and recorded in its accounting records.

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| ISSUE 3 | TEST OF PAYMENTS TO FOSTER PARENTS |
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Objectives:

1. To determine whether Title IV-E maintenance funds received by Parmadale were used in accordance with the Social Security Act.
2. To determine whether Parmadale per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.

**PARMADALE, INC.
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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 Parmadale for the same period and traced these payments to the invoices submitted by Parmadale.
2. We selected a representative sample of children identified by CCDCFS as Title IV-E eligible children being serviced by Parmadale. Federal maintenance payments to these children totaled \$183,061 or 38% of the sample.
3. We found the child's name on the appropriate month's ODJFS 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 Parmadale from CCDCFS to the corresponding Parmadale billing in the month selected for each child in the sample.
5. We determined whether the total amount of the federal reimbursement for maintenance (58%) was used for the care of the foster child.
6. We determined whether the total amount of the county's required match to the federal reimbursement for maintenance (42%) was used for the care of the foster child.
7. We obtained the contracts or per diem agreements between the Parmadale 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 Parmadale and CCDCFS and between Parmadale and foster caregivers.
9. We compared the Parmadale 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.

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| 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.⁵¹

⁵¹ 42 U.S.C. § 675 (4)(A).

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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 payments⁵² made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments⁵³ made and 50% for administrative costs⁵⁴ incurred under the Title IV-E program.

We selected a sample of 237 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and CCDCFS submitted \$369,723 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 \$315,622 and received \$183,061 at the 58% FFP reimbursement rate, however the Placement Agency only made maintenance payments to foster parents totaling \$172,979. The remaining \$142,643 was retained by Parmadale and used for administrative costs or other purposes.

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

Table V
Overpayment of Title IV-E Maintenance Reimbursement

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| Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation) | \$183,061 |
| Required PCSA Match for Federal Financial Participation | <u>132,561</u> |
| Total Title IV-E Maintenance Claimed by ODJFS | 315,622 |
| Amount Paid by PNA to Foster Parents for Maintenance | <u>(172,979)</u> |
| Overstatement of Maintenance Claim | <u>\$142,643</u> |

Projected Questioned Costs:

We specifically identified \$142,643 of maintenance over claimed in our sample. In order to evaluate the potential effect caused by these systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned costs.

⁵² 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.

⁵³ 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.

⁵⁴ 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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We used the ratio approach, as illustrated below:

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| <u>Dollar Amount of Error:</u> | | |
| Dollar Amount of Sample | \$142,643/\$315,622 | 45.19 % |
| Dollar Amount of Population | | X <u>\$1,640,261</u> |
| Projected overstatement of Maintenance Claim | | \$741,234 |
| Actual Maintenance Reimbursement Claim (58% reimbursement rate x 741,234) | | \$429,916 |
| Allowable Administrative Reimbursement Claim (50% reimbursement rate x 741,234) | | <u>\$370,617</u> |
| Overpayment of Maintenance Claim | | <u>\$59,299</u> |

Federal Questioned Costs: \$59,299

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in section 675 of the Social Security Act.⁵⁵ In our sample, we found that the maintenance cost claimed for federal reimbursement was overstated by \$142,643 and when extended to the population using the ratio approach resulted in questioned costs of \$59,299.

ODJFS should take the Federal Questioned Cost over reported to the County and recompute the Title IV-E per diem reimbursement rate that should have been paid to the Placement Agency during the Period and reimburse HHS, ODJFS or the PCSA for the overstated costs.⁵⁶

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.⁵⁷ We further recommend that an adjustment to correct the overpayment of the Title IV-E maintenance reimbursement be made with the U.S. Department of Health and Human Services.

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| 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 Parmadale, Inc. for a sample of 319 foster children. The payments to the Placement Agency for this sample totaled \$480,728. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

⁵⁵ 42 U.S.C. § 675 (2001).

⁵⁶ 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).

⁵⁷ 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.

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

The foster parents in the sample received \$224,670. We noted that these foster parents received the correct per diem rates per the CCDCFs contract. Of the \$480,728 received from CCDCFs by the Placement Agency, the foster parents received \$224,670 or 47% of the total funds paid to the Placement Agency by CCDCFs. The remaining \$256,058 or 53% was retained by Parmadale and used for administrative costs, other direct services to children or other purposes.

The contract between CCDCFs and Parmadale sets forth the amounts to be paid as the daily per diem rate for the services specified in the contract. In addition, the contract set the minimum amount to be paid to foster parents from the daily per diem rate paid to Parmadale by CCDCFs.⁵⁸ The amount paid to foster parents ranged from 38% to 45% 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.⁵⁹

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| ISSUE 3-3 | LACK OF PER DIEM AGREEMENTS WITH FOSTER PARENTS |
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Results:

Per diem agreements between a Placement Agency and foster parents should represent the agreement of both parties to the terms of the foster care relationship. The Placement Agency should update their per diem agreements with the foster parents when changes occurred (increases or decreases in the assessed level of care rate which effects the amount paid to foster parents).

Of the 319 foster care payments in our sample, we found that no contracts existed between the Placement Agency and the foster parent(s). While changes in the per diem were recorded in the foster parent file, no agreement or amendment was prepared for approval by the Board of Director or the foster parent.

By not securing per diem agreements, incorrect amounts could be paid to the foster parent(s). Also, the lack of an effective system of contract preparation monitoring impairs Parmadale's ability to manage costs and ensure it receives the level and quality of services needed.

The Placement Agency did not understand the effect of not completing and updating per diem agreements with foster parents.

Management Comment:

The per diem agreement between the Placement Agency and the foster parent should be completed for the placement and each subsequent rate change in a timely manner. This would provide greater assurance to both the Placement Agency and the foster parent that the properly authorized and documented rate would be paid.

⁵⁸ 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.

⁵⁹ Purchase of Services Agreement, dated 1/27/98, pgs. 3-4.

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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| ISSUE 3-4 | PLACEMENT DATES |
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Results:

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

We compared 319 placement dates of foster children recorded by CCDCFS and Parmadale and found 24 dates where the records did not agree. Inaccurate or inconsistent dates documenting placement in the care of PNA could result in inappropriate administrative decisions and incorrect payments to the PNA.

Furthermore, the risk that under/over payments could occur and be undetected increases significantly with the lack of integration of information and potentially incomplete or inaccurate information obtained from the Family and Children Services Information System (FACSIS).

Management Comment

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

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

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| ISSUE 4 | TEST OF INTERNAL CONTROLS |
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Objectives:

1. To identify 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 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.

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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| ISSUE 4-1 | FINANCIAL DISCLOSURE REQUIREMENTS |
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Results:

The American Institute of Certified Public Accountant (AICPA) audit and accounting guide chapter nine section 9.13 states, "A Not-for-Profit Organization's statement of financial position or related notes should include the balances of each major class of property and equipment. The basis of valuation should also be disclosed. Separate disclosures should be made for improvements to leased facilities and equipment."

This Statement amends ARB No. 51, Consolidated Financial Statements, to require consolidation of all major-owned subsidiaries unless control is temporary or does not rest with the majority owner. This Statement requires consolidation of a majority-owned subsidiary even if it has "nonhomogeneous" operations, a large minority interest, or a foreign location.⁶⁰ This Statement requires that summarized information about the assets, liabilities, and results of operations (or separate statements) of previously unconsolidated majority-owned subsidiaries continue to be provided after those subsidiaries are consolidated.

Regarding Parmadale's failure to consolidate the accounts of Parmadale Foundation with those of Parmadale, Inc. Parmadale's Independent Auditor's Report submitted an exception paragraph which stated, "The practice of not consolidating the accounts of the Foundation with those of Parmadale was not in accordance with generally accepted accounting principles."⁶¹

Parmadale had total plant and equipment assets of \$1,577,863, of this amount, \$602,345 represents improvements to leased facilities without the benefit of a lease agreement. Total accumulated depreciation for plant and equipment was \$1,138,564, of this amount \$396,495 consisted of depreciation to improvements to leased facilities which were included on the ODHS 2910 Purchased Family Foster Care Cost Report. There were no separate financial disclosure for the improvements to the leased facilities.

Failing to ensure control procedures are in place to provide reasonable assurances that all required data are included in financial statements may result in a failure to meet report completeness, presentation, and disclosure assurances.

Management Comment:

Parmadale's management elected not to consolidate the financial statements and/or fully disclose its financial relationship with the Parmadale Foundation. We recommend that Parmadale follow Not-For-Profit Generally Accepted Accounting Principles and make all required disclosures in the future.

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| ISSUE 4-2 | 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."⁶²

⁶⁰ Summary of Statement No. 94 Consolidation of All Major-owned Subsidiaries- an amendment of ARB No. 51, with related amendments of APB Opinion No. 18 and ARB No. 43, Chapter 12.

⁶¹ The Parmadale financial statements for the years ended December 31, 1998 and 1997 dated May 20, 1999, note 7.

⁶² Prior to 7-1-00, this provision was recited at Ohio Admin. Code Section 5101:2-5-13(A)(22).

**PARMA DALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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."⁶³ 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."⁶⁴

Furthermore, 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 . . . "⁶⁵

By failing to maintain financial records for three years, Parmadale violated the terms of its contract with CCDCFS. By failing to have a retention policy, Parmadale violated Ohio Admin. Code Section 5101:2-5-13(A)(23) and OMB Circular A-110. Furthermore, these failures potentially hinder Parmadale's ability to monitor its own operations as well as provide any necessary documentation required for any type of inspection.

Management Comment:

We recommend that Parmadale comply with Ohio Admin. Code Section 5101:2-5-13(A)(23) and 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 Parmadale comply with the records retention period agreed to in its contract with CCDCFS.

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| ISSUE 4-3 | IMPROPER POSTING |
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Results:

OMB Circular A-122 "Cost Principles for Non-Profit Organizations, Attachment A, Paragraph A (3)(a)-(c) states ". . . The question of reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions which receive the preponderance of their support from awards. In determining the reasonableness of a given cost, consideration shall be given to: a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award . . . "

Parmadale purchased property with donated funds from the Ronald McDonald Charities totaling \$107,025. Of this amount \$22,500 was erroneously posted on the ODHS 2910 Purchase Family Foster Care Cost Report. There was no misspending of IV-E monies and the overall impact on the agency's Title IV-E reimbursement rate would be negligible, therefore no question cost will be issued.

⁶³ Section 14, Financial Records, Purchase of Services Agreement, dated 1/27/98, p.23.

⁶⁴ Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 1/27/98, pg.23.

⁶⁵ 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).

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Management Comment:

We recommend the agency establish accounting policies and procedures that ensure only allowable program costs are reported on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

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| 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 Parmadale 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 Parmadale was accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We read the Board of Trustees minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.
2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribed in Ohio Admin. Code Chapter 5101:2.
3. We determined whether the PCPA/PNA established a policy on: respite care; alternative care arrangements; residency; training and verification of income and prior childcare experience and if a policy was authorized and documented.
4. We compared wages paid as identified on the ODHS 2910 Purchased Family Foster Care Cost Report(s) to wages paid as identified on the Placement Agency's quarterly 941s or W-3 report.
5. We traced potential questioned costs to the cost report.

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| ISSUE 5-1 | SUFFICIENT INCOME REQUIREMENTS TO MEET THE BASIC NEEDS |
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Results:

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

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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

Our Review found that Parmadale did not document, in the family foster home folders, the steps taken to ensure the information on the family foster home application submitted was complete and accurate, nor did Parmadale document the applicant’s income was sufficient to meet the basic needs of the household in one out of the ten foster home files reviewed. In addition, foster parent income was not documented in the family foster home folders as verified in one out of ten family foster home applications files reviewed.

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

Management Comment:

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 5-2 | CHILD PLACEMENT LOGS |
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Results:

Ohio Administrative Code 5101:2-5-29(C) states that “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.”

Child placement logs maintained in the family foster home files did not always reflect correct or accurate information. Two out of ten Family Foster Home reviewed, each had one instance of an incomplete child placement log. In both cases, respite placements showed all required information except the child’s date of birth.

Failure to properly document the new location of the child could result in inaccurate information such as:

- the dates the child was in the home,
- duplicate payments,
- the number times the child was placed in a particular home, and
- could affect agency tracking system.

Management Comment:

Parmadale should establish procedures that ensure that child placement logs are updated with information in accordance with Ohio Admin. Code Section 5101:2-5-29(C). We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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| ISSUE 5-3 | CHILD PLACEMENT PRIOR TO CERTIFICATION |
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Results:

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

We noted in our review that in one out of ten family foster home files reviewed, the agency placed a child prior to the effective date of the license of the prospective foster home.

By not ensuring that the foster home is licensed prior to placing a child in care increases the risk placing the child with individuals which may be unsuitable as foster caregivers, and which could harm to the child.

Management Comment:

ODJFS should establish guidelines and standards for Placement Agencies to document their compliance with the administrative rules governing the licensing of family foster homes. We further recommend that the Placement Agency establish policies and procedures, as well as a system to monitor these procedures to ensure continuous compliance.

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| ISSUE 5-4 | APPROVAL OF FOSTER PARENT PRIOR TO RECEIVING BCII CHECK |
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Results:

Ohio Admin. Code Section 5101:2-5-20(C)(6) provides, "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 the agency recommending a prospective foster caregiver for certification."

In two out of ten foster home application files reviewed, the agency recommended the foster parent for certification prior to receiving the Bureau of Criminal Identification and Investigation (BCII) records check.

If the agency approves a family foster home prior to the receipt of a BCII records check, unsuitable applicants may be allowed to care for foster children. Such foster parents could cause undue emotional or physical harm to foster children in their care.

Management Comment:

We recommend that Parmadale and ODJFS design and implement a system of controls over the licensing process that ensures that applicants are not recommended for initial certification prior to the agency receiving a BCII check. This will ensure that applicants who are not suitable to become foster parents do not cause undue emotional or physical harm to foster children.

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| ISSUE 5-5 | INITIATION OF THE HOMESTUDY PRIOR TO THE RECEIPT OF A COMPLETED APPLICATION |
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Results:

Ohio Admin. Code Section 5101:2-7-13 (F) states, "If the applicants are married to each other the family foster home certificate shall be in the names of both spouses residing in the home."

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

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

1. An agency shall not accept an application for a family foster home certificate and approval for adoptive placement which does not contain complete and accurate information.
2. An agency shall require that an application be made in the full name of each adult member of a couple, a single person, or each co-parent.
3. An agency shall not accept more than one application per household.
4. An agency shall not begin a family foster home homestudy prior to the receipt of a completed ODHS 1691."

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

- In one out of ten foster parents case files reviewed, we noted that the agency accepted an application from a married couple that was not in both names. We further noted that the license was issued in only one name.
- Five out of ten of the foster home files reviewed documented that the Bureau of Criminal Identification (BCII) and the Federal Bureau of Investigation (FBI) checks were requested prior to the completion of an application for certification as a family foster home.

Management Comment:

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

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| ISSUE 5-6 | FAMILY FOSTER HOME RE-CERTIFICATION ASSESSMENT |
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Results:

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

Out of ten foster parents case files reviewed, one parent was recommended for re-certification on ODHS 1317 on the same date, October 13, 1994, that ODHS 1385 was completed.

A family foster home which may have no longer been in compliance with the requirements set forth in the ODHS 1385 and in Ohio Admin. Code Section 5101:2-5-24(E) could have been improperly re-certified, which could jeopardize the safety of any child placed in such home.

Management Comment:

We recommend that Parmadale establish a review policy to ensure that re-certification processes are completed in a chronological order as required by Ohio Admin. Code Section 5101:2-5-24(E). This would prevent the error of re-certifying a home which may have no longer be in compliance.

PARMADALE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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| ISSUE 5-7 | TITLE IV-E COST REPORT |
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Results:

One fifty-one thousand one hundred fifty-four dollars (\$151,154) detailed as federal questioned cost in Issue 1-1 through 1-6 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, \$228 was detailed as federal questioned cost in Issue 7-1 was charged against the medicaid program and/or reported as allowable costs on the 1998 ODMH Med-020 Community Medicaid Actual Cost of Service Cost Report.

ODJFS should determine the amount of over reporting by Parmadale and recompute the Title IV-E per diem reimbursement rate that should have been paid to Parmadale during the Period and reimburse HHS, ODJFS, or the PCSA for any over reimbursement resulting from the overstated costs.⁶⁶ 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' inadequacy to implement comprehensive desk reviews and field audits resulted in an unacceptable level of risk that ineligible costs could be reported and the Title IV-E reimbursement overstated.

Management Comment:

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews⁶⁷ of all cost reports.⁶⁸ Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

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| ISSUE 6 | TEST OF MEDICAID BILLINGS |
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Objective:

To determine if Medicaid billings at Parmadale 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 Parmadale 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).

⁶⁶ 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).

⁶⁷ 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.

⁶⁸ 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.

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

Results:

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

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

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| ISSUE 7-1 | MEDICAID BILLING ERROR |
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Results:

Ohio Admin. Code Section 5101:3-4-02 (A)(1) states in pertinent part, " Direct supervision does not mean the physician must be in the same room while the nonphysician is providing services. The availability of the physician by telephone or the presence of the physician somewhere in the institution does not constitute direct supervision."

We reviewed medicaid billings which totaled \$69,372, in one instance Parmadale billed \$228 for a Diagnostic Assessment conducted over the phone which was properly marked "not billable" in the client's progress file.

Federal Questioned Costs: \$228

Due to unallowable expenditures reported on the cost report and charged against the foster care program Parmadale was in violation of Ohio Admin. Code Section 5101:3-4-02 (A)(1)in the amount of \$228. The unallowable expenditure federal questioned cost totaled \$228.

Management Comment:

It is recommended that Parmadale establish a supervisory review policy that ensures only billable services are submitted on the transmittals to the Ohio Department of Mental Health.

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

SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

| QUESTIONED COSTS | ISSUE NUMBER | PAGE NUMBER | AMOUNT |
|--|-------------------------|------------------------|-------------------------|
| Undocumented and Unallowed Expenditures | 1-1 | 14 | \$96,232 |
| Related Party Transactions | 1-2 | 21 | 16,480 |
| Capital Expenditures Without Prior Approval | 1-3 | 22 | 8,105 |
| Error Resulting in Overstatement of Wages on the Cost Report | 1-4 | 23 | 20,037 |
| Malpractice Insurance Paid for Independent Contractor | 1-5 | 24 | 10,300 |
| ODJFS Systemic Overpayment of Title IV-E Maintenance ⁶⁹ | 3-1 | 26 | 59,299 |
| Medicaid Billing Error | 7-1 | 38 | 228 |
| TOTAL FEDERAL QUESTIONED COST | | | <u>\$210,681</u> |

⁶⁹

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

PARMADALE, 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
AUGUST 7, 2002**