AUDITOR OF STATE

STATE OF OHIO

CHILD PROTECTIVE SERVICES

HOUSE OF NEW HOPE

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

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

HOUSE OF NEW HOPE
REPORT ON AGREED-UPON PROCEDURES

TABLE OF CONTENTS

Left Blank Intentionally

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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

NAME	TITLE	TERM EXPIRATION
	BOARD OF TRUSTEES	
James Edward Sharp	President	Open-ended terms since 11/93
Shirley Sharp	Vice President	Open-ended terms since 11/93
Cliff Biggers	Member	November 31, 1999
Mike Bullock	Member	November 31, 2000
Dave Cordle	Member	September 31, 2000
Ron Mason	Member	December 31, 2000
Trina Alexandra	Member	December 31, 1999
	ADMINISTRATIVE PERSONNEL	
James Edward Sharp	Financial Director	November, 1993 to Present
Shirley Sharp	Administrative Director	November, 1993 to Present
Stephanie Jeffords	Executive Director	November, 1993 to May 31, 2000

Agency Address

House of New Hope, Inc.
8135 Mt. Vernon Road
St. Louisville, Ohio 43071

This Page is Intentionally Left Blank.

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

Independent Accountants' Report

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

Dear Director Sensky:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services[1] (ODJFS or Department), formerly known as the Ohio Department of Human Services (ODHS), and the Auditor of State (AOS), we have conducted a "Child Protective Services/Special Title IV-E Review ("Review") and performed the procedures summarized below for House of New Hope (Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contract with Franklin County Children Services (FCCS). The applicable laws, regulations and the provisions of its contract are described in the attached *Supplement to Report on Agreed-upon Procedures* under *Legal Authority.*

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

1. We examined all expenditures made by the Placement Agency in the Period for compliance with terms and conditions of its contractual agreements and provisions of applicable laws and regulations.

2. We scanned all receipts and deposits from the applicable public children services agencies to the House of New Hope 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 FCCS to determine the ratio of payments for administration and maintenance.

---

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

4. We documented and tested 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; 6) fixed assets.

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

On October 17, 2000, we held an exit conference with the following:

Name	Office/Position
Ed Sharp	House of New Hope Financial Director/Board President
Shirley Sharp	House of New Hope Administrator/Board Vice President
Jeffrey R. Greene	House of New Hope Executive Director
Dan Weddington	House of New Hope Public Accountant
Heather Gleckler	House of New Hope Financial Assistant
Dan Shook	ODJFS Internal Auditor 3
Arthur Stackhouse	ODJFS Chief Inspector
Amy Schellhammer	ODJFS Auditor
Gregory W. Kelly	Auditor of State Assistant Chief Deputy Auditor
Edna Frezgi	Auditor of State Deputy Auditor
Angela Houck	Auditor of State Assistant Auditor 3
Sam Long	Auditor of State Assistant Auditor 2

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

August 28, 2000

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

BACKGROUND INFORMATION

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

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

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

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

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

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

---

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

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

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

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Public Children Services Agency Contractual Requirements

PCSA's are authorized to enter into contracts with PCPAs or PNAs to provide care and services which it deems to be in the best interest of any child who needs or is likely to need public care and services.[5] PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster homes for certification; accept temporary, permanent and legal custody of children; and place children for foster care or adoption. Franklin County Children Services (FCCS), a PCSA, entered into such an agreement with House of New Hope, a PNA

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.[6]

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.[7] 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 [8] and asks that a copy of the last completed audit be submitted with the annual cost report.

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..."[9]

---

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

6 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).

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

8 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.

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

Cost Principles

Title IV-E foster care maintenance payments are designed to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.[10]

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

In addition, because the PCPAs and PNAs enjoy federal tax-exempt status, they are directly precluded from assigning any part of their net earnings to the benefit of any private shareholder or individual.. ."[11]

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.[12]

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

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the office of management and budget (OMB) circulars A-87 and A-122." [13] 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.[14]

---

10 42 U.S.C. Section 675 (4) (A).

11 26 U.S.C. Section 501(c)(3)

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

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

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

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

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

Reimbursement Process

The reimbursement process begins early each fiscal year when ODJFS disburses funds to the counties under its state plan for foster care approved by the Secretary of the U.S. Department of Health and Human Services. ODJFS submits quarterly reports to the U.S. Department of Health and Human Services (HHS) for reimbursement of federal financial participation (FFP) in foster care payments[15] made to the PCPAs and PNAs.

In 1998, the FFP was 58% for maintenance payments[16] made and 50% for administrative costs[17] incurred under the Title IV-E program.

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

---

15 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.

16 45 C.F.R. 1356.60(a)(2) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

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

Child Welfare Demonstration Project (ProtectOhio)

In October 1997, ODJFS implemented a waiver received from the U.S. Department of Health and Human Services of certain Title IV-E requirements to conduct a Child Welfare Demonstration Project, known as ProtectOhio.[18] The project allows ODJFS to expand the types of services provided and increase the number of children and families served in certain demonstration counties.[19] It is concerned with the flexible use of Title IV-E foster care maintenance payments, and the waiver is applied to funds which are used for that purpose, or would have been used in the absence of this project.[20]

To implement ProtectOhio, ODJFS entered into contracts with 14 counties, including an agreement on September 2, 1997, with the Franklin County Board of Commissioners and Franklin County Children Services. [21] Sections III, IV and V of this agreement describe how Title IV-E funds are to be pre-allocated to Franklin County, rather than reimbursed according to the per diem rates described above. Our Review takes into consideration the change in federal funding methodology during the Period.

Allowable Costs

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

Direct and administrative cost services described below are costs deemed to be allowable under the FCCS Placement Services Agreement with the House of New Hope and are presumed to be included in the services and rates contained in the Agreement.[22] The Agreement states that FCCS will reimburse House of New Hope to provide direct services and for the incurred administrative costs associated with providing the necessary services to the foster children it its care.

Direct services are defined as services received by children in placement or foster parents, including, but not limited to: respite, foster parent training, foster parent support services, individual, group or family counseling, mentoring, arrangement for and transportation to and from physical and medical treatment, recreational activities, day care and transportation. It does not include day treatment and alcohol and other drug treatment services.[23]

---

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

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

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

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

22 Placement Services Agreement dated July 1, 1997. Article II, Section D, Part 6.

23 Placement Services Agreement, Article I, Section D

Administrative costs are defined as costs associated with the executive functions of the agency, including fiscal, information management and clerical operations and overhead and includes foster parent recruitment when applicable. It does not include direct services to clients or foster parents relating to care of the child(ren), e.g. foster parent training.[24]

House of New Hope agreed to "maintain such case, client, foster parent, service and financial records, books, payrolls, documents, accounting procedures and practices necessary to sufficiently and properly reflect all services provided and all direct and indirect costs of any nature expended in the performance of this Agreement,"[25] and to maintain certification stipulated by ODJFS as a requirement for participation in the Title IV-E program.[26]

ODJFS OVERSIGHT RESPONSIBILITY

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

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

In its role as the single state agency[27] responsible for the administration of foster care, ODJFS must take the necessary measures to close the significant gaps in monitoring and oversight indicated in that audit and corroborated in this report of agreed upon procedures of the House of New Hope and other private agencies.

The above statement reflects a systemic weakness identified in the foster care engagements, however it should be noted FCCS did enter into a written agreement with the House of New Hope.

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

1. Establish through rule a standard contracting requirement for PCSAs using the services of private agencies that effectively sets forth all applicable compliance requirements, fiscal accountability standards and allowable cost.

2. Design and implement an effective system of program monitoring of public and private agencies to ensure fiscal accountability and program compliance that includes desk reviews of all cost reports and periodic site visits at public and private agencies.

3. Design and implement a cost reimbursement system that properly classifies and allocates cost in a manner that ensures claims are properly submitted in accordance with applicable rules and regulations.

---

[24] Placement Services Agreement, Article I, Section A

[25] Placement Services Agreement, Article III, Section B, Part 2.

[26] Contract Article II, Section D, Part 8. Requirements of the state plan for participation in the Title IV-E program (including certification requirements) are at 42 U.S.C. Section 671 (a).

[27] Ohio Rev. Code Section 5101.141(A)

4. Establish guidance that sets forth the minimum standards for public and private agencies to document their fiscal accountability and legal compliance to ODJFS, the Auditor of State or their designated representative during an audit or review.

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

RESOLUTION OF QUESTIONED COSTS

Certain deficiencies identified in our Review may require us to report questioned costs to the U.S. Department of Health and Human Services and ODJFS. OMB Circular A-133 defines questioned costs[28] 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."

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

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

1. Seek full recovery of questioned cost resulting from the Placement Agency's actions, through payment or adjustment.

2. Take measures to rationally allocate the recovered costs among the entities that provided the funding.

3. Reimburse the funding entities by payment or adjustment based on the allocation.

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

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

AGENCY INFORMATION

The House of New Hope is a private noncustodial agency (PNA) that was established in November of 1993 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Service Section 501 (c)(3). House of New Hope is licensed by ODJFS to recommend families to become foster families, place children in foster homes, and recommend children for adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as House of New Hope to place the child. The group of family foster homes (private foster network) utilized by House of New Hope has been in place since 1993. House of New Hope places foster children primarily for FCCS. House of New Hope has provided services to Delaware, Licking, Scioto, and Muskingum County public children services agencies' and the Department of Youth Services (DYS) during the Period.

During the Period, the House of New Hope's staff consisted of 36 people including an executive director, financial director, administrative director, clinical director, case aide supervisor, clinicians, and case aides to provide the needed counseling and case management services to the foster children and foster parents.

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
House of New Hope
Foster Care Statistics

Characteristic	Statistic
Daily Average Number of Children in Placement	133
Number of Active Licensed Foster Homes	74
Average Per Diem Rate	$54
Number of PCSA from Which Agency Receives Children	7
Required Training for Foster Caregiver Orientation	15-22 hours based on assessed level of care
Required Annual Training for Foster Caregiver	40 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	$2,613,343
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

The House of New Hope's revenues were comprised primarily of funds from Franklin County Children Services. The total revenue received by House of New Hope from Franklin County Children Services for foster care services during the Period of January 1, 1998 to December 31, 1998 was $2,755,011.

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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

Table II
House of New Hope
Revenue by Source

	1998	**Percent of Total Revenue**
Franklin County	$2,755,011	88
Delaware County	73,905	2
Licking County	30,784	1
Muskingum County	29,370	1
Other Income	230,945	8
Total Revenue by Source	$3,120,015	100%

Relevant Individuals and Entities

Ed Sharp

Ed Sharp is a co-founder of House of New Hope. He has served as President of the Board of Trustees and Financial Director of the House of New Hope since its inception.

Shirley Sharp

Shirley Sharp is a co-founder of House of New Hope and wife of Ed Sharp. Mrs. Sharp has served as Vice-President and Treasurer of the Board of Trustees and Administrative Director since the inception of House of New Hope.

Stephanie Jeffords

Stephanie Jeffords was the Executive Director of House of New Hope since inception but resigned May, 2000.

Dr. Randall LeuVoy

Dr. Randall LeuVoy is the nephew of Shirley Sharp and a medical services provider for House of New Hope. During the Period, House of New Hope forgave $6,667 of accrued interest and the remaining principal on a $10,000 loan to Dr. LeuVoy.

WRW, CPA

WRW, CPA contracted with the House of New Hope to provided accounting services during the Period. The accountant working with the House of New Hope was Cary Loughman, CPA. In addition, WRW, CPA performed the audit of the 1998 financial statements.

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

ISSUE 1	TEST OF EXPENDITURES IN ACCORDANCE WITH TERMS OF AGREEMENTS AND APPLICABLE LAWS

Objective:

To examine all expenditures for compliance with contractual agreements, applicable laws and regulations, and proper business purposes at the House of New Hope.

Procedures Performed:

1. We obtained all canceled checks for non-payroll disbursements made by House of New Hope during the Period (See Issue 5 for test of payroll disbursements).

2. We examined details of every canceled check returned by the bank during the Period including vendor, amount, authorizing signature and endorsement.

3. For selected disbursements which were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or improper authorization, we requested supporting documentation, such as invoices.

4. We examined the supporting document to determine compliance with program requirements for expenditures and for potential self-dealing transactions prohibited by Ohio Admin. Code Section 5101:2-5-08 (G).

5. We documented concerns about undocumented or questionable expenditures and interviewed the executive director or designated personnel concerning the expenditures for which supporting documents were not provided.

6. We obtained all credit card statements paid by the House of New Hope for the Period and examined details of each charge including vendor, amount, and authorization.

7. For selected credit card expenditures which were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or improper authorization, we requested supporting documentation, such as invoices.

8. We documented concerns about undocumented or questionable credit card expenditures and interviewed the executive director or designated personnel concerning the expenditures for which supporting documents were not provided.

9. We examined all car lease payments, determined the percentage of time the cars were used for business and whether personal use was properly disclosed on the employees' W-2.

10. We examined all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and House of New Hope.

ISSUE 1-1	CHECK AND CREDIT CARD DISBURSEMENTS NOT AUTHORIZED OR WHICH LACK SUPPORTING DOCUMENTATION REQUIRED UNDER THE FCCS CONTRACT.

Results:

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

Article III, Section B, Part 2 of the FCCS contract states that the House of New Hope "shall maintain such case, client, foster parent, service and financial records, books, payrolls, documents, accounting procedures and practices necessary to sufficiently and properly reflect all services provided and all direct and indirect costs of any nature expended in the performance of this Agreement."

Article II, Section D, Part 6 of the contract states that "all direct services and administrative cost services are presumed to be included in the services and rates contained in this Agreement."[30]

The two hundred nineteen (219) check disbursements examined represented $1,178,296 in charges. We requested supporting documentation for these expenditures such as invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, an explanation of how the expenditure provided a benefit to the program or how it was necessary to the operation of the foster care program. The House of New Hope was unable to provide us with supporting documentation for twenty-one (21) disbursements totaling $3,278.

The seventy (70) credit card expenditures examined represented $22,282 in charges. The House of New Hope was unable to provide us with supporting documentation for 46 transactions totaling $18,120, which were not an allowable direct service or administrative cost under the FCCS contract.

Additionally, one (1) credit card expenditure totaling $1,093 for a staff Christmas party was considered entertainment costs for amusement, social activities and a related cost for staff only [31]and an unallowed cost for use in completing the ODHS 2910 cost report.

---

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

30 Direct services and Administrative costs are defined in the Placement Services Agreement in Article I, Sections A and D.

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

Table III
House of New Hope
Questioned Costs

Expenditures without adequate supporting documentation	
Check Disbursements	
Checks written to cash	$200
Meals	573
American Fitness	269
Columbia House	271
Other expenditures	1,965
Total Undocumented Check Disbursements	3,278
Credit Card Disbursements	
Smokes for Less	17
Meal expenditures	473
Lodging expenditures	1,396
Furniture expenditures	162
Grocery expenditures	768
Target	750
Meijer	209
Hills	179
New Life Industry	1,126
Pei Carleton Sheets	310
Value City	9,050
Wal Mart	339
Big Bear Plus	296
Sun TV	649
USI, Inc.	195
Other stores	883
Other expenditures	1,318
Total Undocumented Credit Card Expenditures	18,120
Total Undocumented Expenditures	21,398
Unallowable Expenditures	
Christmas party for staff	1,093
Total Questioned Costs	$22,491

Federal Questioned Cost: $22,491

Due to inadequately documented expenditures reported on the cost report and charged against the foster care program, the House of New Hope was in violation of the Article II, Section B, Part 2 of its contract with FCCS and OMB Circular A-122[32] in the amount of $21,398. House of New Hope was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7) and Article III, Section D, Part 6 of its contract with FCCS with respect to the unallowed expenditures in the amount $1,093 for a staff Christmas party. The undocumented federal questioned cost totaled $21,398. The unallowed federal questioned cost totaled $1,093.

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

Management Comment:

House of New Hope did not adhere to the FCCS contract regarding documentation of allowable direct and administrative costs requirements. The Franklin County Children Services should require the agencies for which it contracts for placement services, to obtain and submit to FCCS an annual financial audit performed in accordance with government auditing standards. In addition, to the financial statement opinion, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. FCCS should review these reports and follow up on any exceptions reported.

ISSUE 1-2	EMPLOYEE AND RELATED PARTY LOANS

Results:

Any outlay of cash with no prospective benefit to the facility or program is considered an unallowable cost when charged against the foster care program.[33]

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of 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 .."

In addition, Under Article II, Section D, Part 6 of the FCCS contract states that "All direct services and administrative cost services are presumed to be included in the services and rates contained in this Agreement."[34]

We noted loans to the following individuals who were employees of the agency or immediate family members of the Board of Trustees and/or executive personnel. Each loan was approved by Mr. Ed Sharp, President of the Board of Trustees and Financial Director of the House of New Hope.

---

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

34 Direct services and Administrative costs are defined in the Placement Services Agreement in Article I, Sections A and D.

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Borrower and Relationship to House of New Hope	Relationship to Mr. Sharp	Amount Loaned	Interest Rate	Amount of Principal Delinquent and/or Outstanding at 12/31/98	Amount of Interest Delinquent at 12/31/98	Was Loan Approved by the Board of Trustees?
Veda Rosetti, Employee	Aunt	$1,200	0.0%	$1,100	No interest charged	No
Beckie Rowland, Employee	No Relation	$1,000	0.0%	$0	No interest charged	No
Grace Cooperider, Employee	No Relation	$2,298	0.0%	$1,416	No interest charged	No
Shane Lanning, Employee	No Relation	$2,500	0.0%	$1,250	No interest charged	No
Stephanie Lemaster, Foster Parent	Daughter	$3,000	0.0%	$300	No interest charged	No
Dr. Randall LeuVoy, Medical Services Provider	Nephew	$10,000	9.25%	$4,814	$2,158	Yes

The debt of Dr. Randall LeuVoy was forgiven by the Board of Trustees on 5/11/98. On 6/5/00, Ed Sharp Financial Director submitted documentation indicating that Dr. LeuVoy billed the House of New Hope for pre-employment physicals performed with a balance of $305 due, which was used to offset the delinquent principal of $4,814 for a remaining balance of $4, 509 principal and $2,158 in interest due.

Federal Questioned Cost: $11,038

These loans to employees and related parties represent expenditures or commitments of funds charged against the foster care program and represent unreasonable and unallowed costs under the FCCS contract and A-122. Under the circumstances, this outlay of cash provided no prospective benefit to the facility or program. The delinquent loans represent unreasonable and unallowed federal questioned cost in the amount of $ 11,038.

During September 2000, Dr. LeuVoy made a payment of $1,000 and provided House of New Hope with pre-dated checks of $1,000 each to be cashed on a monthly basis until the balance of his loan plus interest has been paid off.

House of New Hope reduced the September 2000, per diem check of Stephanie LeMaster by the $300 delinquent loan amount.

Management Comment

The Board of Trustees should establish a policy which prohibits the diversion of funds intended for programs by extending loans. This policy will better ensure that funds received from public agencies are only spent for program purposes.

House of New Hope approved a Diversion of Funds policy at the board meeting held on October 25, 2000.

ISSUE 1-3	FAILURE TO REPORT INCOME AND WITHHOLD FEDERAL TAXES

Results:

Federal tax laws generally require employers to report wages paid to an employee during a calendar year on a form W-2 and to withhold taxes from wages consistent with tables or computational procedures prescribed by the Secretary of the Treasury. 26 U.S.C. Section 3402 (a) (1); 26 U.S.C. Section 6051(a); 26 C.F.R. Section 1.6041-2 (2000). Employers are also required to report on an informational return (form 1099) remuneration paid in excess of $600 per calendar year to independent contractors. 26 U.S.C. Section 6041A(a); 26 C.F.R. Section 1.6041-1(2000).

26 U.S.C. Section 3402 (s) generally provides that vehicle fringe benefits are to be reported as income from which taxes are to be deducted and withheld unless the employer fulfills certain notification requirements to the employee.

The House of New Hope provided vehicles to employees for personal and agency transportation in lieu of mileage reimbursement. It did not show the value of the fringe benefit on the W-2 of the employee contrary to 26 U.S.C. Section 3401. The Placement Agency also did not withhold the Federal income, Medicare or Social Security taxes on the value of the fringe benefit.

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 Placement Agency. Disruption to PCPA/PNAs' operations could effect FCCS' ability to administer its foster care program.

Mr. Ed Sharp, Financial Director, indicated he was not aware of this requirement.

Management Comment:

The House of New Hope should immediately comply with IRS rules that govern wage reporting and tax deduction. We further recommend that the House of New Hope contact the IRS to negotiate the settlement of any prior year tax liabilities resulting from their noncompliance.

House of New Hope approved a Vehicle Fringe Benefits policy at the board meeting held on October 25, 2000.

ISSUE 1-4	PERSONAL USE OF ORGANIZATION FURNISHED AUTOMOBILES

Results:

The cost of organization furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees....[35]

[35] OMB Circular A-122 Attachment (B)(7)(g), Compensation for Personal Services, Organization-furnished automobiles.

The House of New Hope provided vehicles to employees for personal and agency transportation in lieu of mileage reimbursement. It did not show the value of the fringe benefit on the W-2 of the employee contrary to 26 U.S.C. Section 3402(s)(2). The House of New Hope did not maintain documentation to allocate or itemize personal use versus the business costs of transportation. In addition, House of New Hope improperly reported transportation costs, charged against the foster care program, which included unallowable amounts for personal use on the ODHS 2910 Purchased Family Care Cost Report. That portion which relates to personal use is unallowed and considered an undetermined federal questioned cost.

Management Comment

We recommend the Placement Agency establish accounting policies and procedures that ensure that program cost are properly classified and reported. We further recommend that ODJFS establish a system of monitoring the personal use of organization furnished automobiles to ensure continuous compliance and determine the amount of federal questioned cost.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES

Objective:

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

Procedures Performed:

1. We determined the types of revenue that House of New Hope received during the Period, by scanning the audited financial statements and the supporting general ledger.

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

3. We tested a sample of 10% of the monthly billings by the Placement Agency to FCCS 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.

4. 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 The House of New Hope received as program service fees from various counties and investment income. They did not receive medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from FCCS. Furthermore, we determined that all FCCS disbursements to The House of New Hope were receipted, deposited and recorded in its accounting records.

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS

Objectives:

1. To determine whether House of New Hope's per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.

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

Procedures Performed:

1. We obtained the monthly billing invoices submitted by the House of New Hope for foster care services from FCCS during 1998 and traced them to the 1998 FCCS Vendor Payment History report for House of New Hope detailing FCCS payments to them.

2. We selected a representative sample of children identified by FCCS as Title IV-E eligible children being serviced by the House of New Hope.

3. We found the child's name on the appropriate month's FCCS vendor payment history report. We computed the amount of maintenance that would have been paid for each child.

4. We compared payments received by the House of New Hope from FCCS to the corresponding the House of New Hope billing in the month selected for each child in the sample.

5. We obtained the per diem agreements between the House of New Hope and the foster parent for each child in the sample.

6. We obtained and compared the authorized schedule of per diem rates to rates paid per the agreements between the House of New Hope and FCCS and between the House of New Hope and the foster caregivers.

7. We compared the House of New Hope's per diem paid to the foster parent with the corresponding per diem it received from FCCS to determine the ratio of payments for administration and maintenance.

ISSUE 3-1	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE

Results:

We tested the payments from Franklin County Children's Services (FCCS) to the House of New hope for a sample of 152 foster children. The payments to the Placement Agency for this sample totaled $227,051. We noted that the Placement Agency received the correct per diem rates noted in the FCCS contract.

The foster parents in the sample received $131,076, we noted that these foster parents received the correct per diem rates per the FCCS contract. Of the $227,051 received from FCCS the agency made direct maintenance purchases (clothing vouchers) of $943 and the foster parents received $132,019 or 58 % of the total funds paid to the Placement Agency by FCCS.

The remaining $95,032 or 42% was retained by House of New Hope and used for administrative costs, other direct services to children or other purposes.

Management Comment:

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

ISSUE 3-2	MANAGING CHANGES TO RATES AND PER DIEM AGREEMENTS

Results:

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

We found the following:

1. A management committee (made up of Ed Sharp, Financial Director; Shirley Sharp, Administrator; and Stephanie Jeffords, Executive Director) authorized per diem rate increases that resulted in $15,030 in payments without board approval during 1998.

   These increases were in excess of the rates approved by Board.

2. When changes were made in the assessed level of care for foster children, per diem rates for foster parents should be updated to reflect the corresponding increase or decrease in a timely basis. During our Review we noted that initially children were placed at the traditional level of care. Approximately three months after the initial placement, FCCS re-assessed the level of care required to be provided to the child. House of New Hope did not update their system for the re-assessment until a point just before preparation of the per diem checks to the foster parents.

   If these corresponding changes are not made on a timely basis there could be an increased risk that foster parents may be over or underpaid for providing care to foster children.

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

Foster parents working with House of New Hope received a per diem agreement at the initial placement of a child in their home. While changes in the per diem agreements were recorded in the foster parent files, no per diem agreement amendments were prepared for approval by House of New Hope or the individual foster parent. During our testing it appeared that the foster parents were receiving one rate for the care of the child for the entire duration of the child's placement, when in fact there could have been several rate changes during the period.

Management Comment:

We recommend the Board of Trustees approve all increases in per diem rates in excess of the originally approved schedule of per diem rates to foster parents by House of New Hope. In addition, the House of New Hope should establish a policy that per diem rates be updated when the change occurs. This would promote efficiency by reducing the risk that adjustments to the per diem checks of foster parents will be required in the subsequent month(s) to correct changes in the per diem rates that should have been made in the prior month.

New per diem agreements with the foster parent should be completed for each subsequent rate change. This would provide assurance, to both the agency and the foster parent that the properly authorized and documented rate would be paid.

On September 7, 1999, the House of New Hope instituted the following procedural changes: foster parents would receive a formal notification from the House of New Hope of the assessment results the agency received from the PCSA; and where the custodial agency's initial assessment of a foster child is at a level of care different than actually deserved, the foster parent would receive a per diem rate at the newly assessed level of care rate retroactive to an effective date set by the custodial agency.

House of New Hope approved policies regarding board approved Per Diem Rates and the Payment of Foster Parent per Diem in the Event of Marital Separation or Divorce at the board meeting held on October 25, 2000.

ISSUE 4	TEST OF INTERNAL CONTROLS

Objectives:

1. To identify significant internal control weaknesses in the policies and procedures in place at the Placement Agency.

2. To recommend improvements in the internal control system in efforts to eliminate significant noncompliance, and increase fiscal accountability.

Procedures Performed:

1. We examined the board of trustees minutes, personnel records, organizational chart and used this information to identify conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.

2. We completed an internal control questionnaire, and identified weaknesses that existed in the accounting cycle.

3. We documented and tested 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; 6) fixed assets.

ISSUE 4-1	BOARD INDEPENDENCE

Results:

In order to effectively execute oversight of agency management, boards of trustees should be independent of the management team it appoints. To be independent board members should not be involved in the day to day management of the entity, have a direct or indirect financial interest in the entity, nor have a business or personal relationship which could impair the member's objectivity when making decisions.

In evaluating the makeup of the House of New Hope's board of trustees, we identified:

1. Three persons who are closely related parties (Ed Sharp, Founder, President, and Financial Director; Shirley Sharp (wife of Ed Sharp), Founder, Vice-President, and Administrative Director; and Ron Mason (brother of Shirley Sharp), Board member and foster parent with House of New Hope.

2. Four board members who are foster parents with House of New Hope and whose reimbursement for foster care maintenance and administrative costs are received from House of New Hope.

Four of the seven board members had a direct or indirect financial interest or business or personal relationship which could impair the board member's objectivity.

In addition, Shirley Sharp, board member, in her capacity as Administrative Director supervised the employee responsible for supervising the case aides during the Period. Eight case aides were members of Shirley Sharp's immediate family. The potential lack of objectivity increases the risk that decisions could be made that were not in the best interest of the agency.

During the course of an ODJFS investigation conducted in June and July 1999, the licensing specialist advised the Placement Agency regarding the potential adverse impact of nepotism on its operations and functions. We found no evidence that the agency had taken step to implement policies and procedures to reduce the potential problems resulting from nepotism at the Placement Agency nor had ODJFS followed up to ensure corrective action had been taken.

Management Comment:

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

House of New Hope's Board of Trustees adopted a conflict of interest policy and procedures on August 5, 1999.

ISSUE 4-2	AUDIT COMMITTEE

Results:

The Audit Committee is essential to enhancing the credibility of the Placement Agency's financial reporting by ensuring the reliability of the audit.

Generally accepted auditing standards require that auditors communicate the following information to an audit committee:

- The auditors' professional responsibility under generally accepted auditing standards;
- Selections of accounting standards;
- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Difficulties encountered in performing the audit.

The House of New Hope did not have an audit committee. A well functioning audit committee would better ensure the independence and objectivity of the independent public accountant in addition to making sure the Board of Trustees is aware of significant deficiencies in internal control and noncompliance with laws and regulations.

Management Comment:

We recommend that the House of New Hope establish an audit committee. An audit committee could strengthen board oversight by performing the following functions:

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

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

House of New adopted a policy titled Financial Accountability establishing an audit review committee at the October 25, 2000 Board meeting.

ISSUE 4-3	ACCOUNTING POLICES AND PROCEDURES

Results:

Adequately designed accounting policies and procedures enhance the reliability of the Placement Agency financial reports. The House of New Hope was unable to produce written accounting policies or procedures.

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

Management Comment:

We recommend the House of New Hope establish written accounting policies and procedures. Accounting policies should clearly establish the intent of the agency to comply with all federal and State requirements of the foster care program. Accounting procedures should clearly instruct agency employees on the proper methods of processing and reporting financial transactions.

House of New adopted a policy titled Cost Accounting and Financial Information in the October 25, 2000 Board meeting .

ISSUE 4-4	SAFEGUARDING OF CREDIT CARDS AND CHECKS

Results:

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

During the Period we noted that there was not a policy on safeguarding and accountability of assets at the House of New Hope. All company gas credit cards were left in the company cars. Anyone who had access to the cars had access to the credit cards, and since all employees had access to company cars, all employees had access to company credit cards. There were instances in which receipts from employees for expenditures made with company credit cards were unable to be provided. In addition, the financial secretary was unable to account for one unrecorded check (No. 7988) during our test of expenditures. The financial secretary could not locate the check nor provide documentation that the bank had been notified to stop payment on the missing check. Failure to adequately control all checks and company credit cards exposes the Placement Agency to the risk that theft or unauthorized or unallowable expenditures could occur and go undetected.

Management Comment:

We recommend the House of New Hope develop a policy on the safeguarding and accountability of assets, such as checks and agency credit cards. Development and communication of this policy will reduce the risk of unauthorized or unallowable use or theft of agency assets. The policy should establish that agency assets be kept secure and regularly accounted for. We also recommend the House of New Hope stop payment on the missing checks we identified.

On September 6, 2000, a stop payment was issued for check #7988 and the House of New Hope approved a Safeguarding and Accountability of Agency Assets policy at the board meeting held on October 25, 2000.

ISSUE 4-5	SEGREGATION OF DUTIES

Results:

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

During the Period, Ed Sharp, Board President and Financial Director exercised nearly complete control of the cash receipting and disbursing cycles.

If controls are not placed in operation that provide for a segregation of duties over the disbursement and the cash receipt cycles there is a possibility of theft or the misappropriation of assets, which could go undetected.

Per discussion with Ed Sharp, Financial Director, he was not aware of the importance of segregating duties in relation to establishing an effective internal control system.

Management Comment:

We recommend that the House of New Hope segregate cash handling and accounting activities in order to eliminate conflicting duties being performed by one person. This will improve the effectiveness of the internal controls. Furthermore, we recommend that checks received by House of New Hope be endorsed (for deposit only) and posted daily by different individuals which will promote the segregation of duties. This will reduce the risk of monies being lost or misappropriated.

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

The House of New Hope approved a Segregation of Duties policy at the board meeting held on October 25, 2000.

ISSUE 4-6	FIXED ASSET POLICY

Results:

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

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

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

The Placement Agency was not aware of the risk imposed by not performing an annual physical inventory nor the benefits of having a fixed asset policy.

Management Comment:

We recommend the House of New Hope develop and implement a fixed asset policy that, at a minimum, provides guidance on the following:

1. The types of fixed asset records to maintain.
2. Categories of fixed assets
3. Capitalization thresholds
4. Retirements and transfers
5. Depreciation
6. Fixed Asset Inventories
7. Authorized use of its assets

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

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

The House of New Hope conducted a physical inventory in October, 2000 and plan to adopt a fixed asset policy in the near future.

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

Objectives:

1. To identify the administrative compliance requirements of the foster care program.

2. To identify significant administrative noncompliance with the provisions of the foster care program.

3. To determine if the Family Foster Home Records, completed and maintained by the PCPA/PNA, were in compliance with applicable sections of the Ohio Administrative Code.

4. To determine whether Title IV-E maintenance funds received by House of New Hope were used in accordance with Social Security Act.

5. To determine whether the cost reports submitted to ODJFS by House of New Hope were accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We examined the board of trustees minutes, listing, and organizational chart and used this information to check for conflicts of interest and self dealing transactions prohibited by compliance with Ohio Admin. Code Section 5101:2-5-08.

2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribe in Ohio Admin. Code Chapter 5101:2.
3. We determined whether the PCPA/PNA established a policy on: respite care; alternative care arrangement; residency; training and verification of income and prior childcare experience and if they were authorized and documented.

4. We compared wages paid as identified on the ODHS 2910 cost report to wages paid as identified in the payroll records.

5. We traced potential questioned cost to the cost report.

ISSUE 5-1	MONITORING OF THE BUDGET

Results:

Budgeting is an essential element of the financial planning, control, and evaluation process of the agency. The failure to monitor the budget could impair the governing body's ability to properly allocate resources as needed and manage costs to ensure services are provided in an efficient or effective manner.

Ohio Admin. Code Section 5101:2-5-08 (A), states in pertinent part, “A PCPA or PNA shall have an identifiable governing body responsible for establishing policies and assuring the effectiveness and efficiency of the PCPA or PNA in achieving its purposes. The duties of the governing body shall include, but are not limited to the following: ...(4) Reviewing, approving and monitoring a written annual budget for the PCPA or PNA Such budget shall ensure funding to provide services relevant to all certified functions and detail anticipated income and expenditures. ” The Board of Trustees should monitor the budget and compare budget to actual results throughout the year. Monitoring the budget throughout the year provides the governing board a basis for measuring whether operations are achieving management’s objectives and goals.

The House of New Hope Board of Trustees approved an annual budget, but did not provide evidence that they monitored the budget during the year.

By not monitoring the actual revenue and expenditures against the budget, the Board of Trustees may not be able to make effective governing decisions based on the current financial status of the Placement Agency.

Management Comment:

We recommend that the Board of Trustees review, monitor and compare the budget with the actual revenue and expenditures on a regular basis throughout the year in compliance with Ohio Admin. Code Section 5101:2-5-08. This will help ensure the governing body has a basis for measuring whether operations are achieving management’s objectives and goals. We further recommend the review and monitoring of the budget be noted in the minutes of the Board.

ISSUE 5-2	BOARD OF TRUSTEES OVERSIGHT RESPONSIBILITIES

Results:

The board of trustees should provide effective oversight over all significant financial and operational transactions as part of their duties as the governing board of the entity. This practice will better ensure that the Agency adheres to acceptable financial and business practices in compliance with program requirements.

In our testing, we found that management failed to obtain board approval of the transactions listed below:

1. Loans were made to employees of the agency as well as relatives of the administrator and Board President without Board approval (see Issue 1-2);
2. The budget was not monitored consistently throughout the year (see Issue 5-1);
3. Per diem rates were paid in excess of board approved per diem rates (see Issue 3-2);

The lack of oversight by an independent board could result in questionable business practices and expenditures that provide no prospective benefit to the Placement Agency or program.

Management Comment:

We recommend that the Board of Trustees provides guidance to management on the types of financial, administrative and policy decisions which require board approval, at a minimum this guidance should include all activities for which the Ohio Administrative Code requires board approval.

ISSUE 5-3	QUALIFICATIONS FOR ADMINISTRATOR OF THE AGENCY

Results:

We found the employee exercising daily management and administrative control over the agency did not possess the qualification for an administrator as defined in the Ohio Administrative Code. An administrator is defined as the person designated by the governing body of an agency who is responsible for the management and administration of the agency.[36]

The person employed as the administrator of [a child care agency] ... shall possess at least a bachelors degree and other qualifications and experiences as determined by the governing body in writing.[37]

Through observation of management activities, discussions with Agency employees, and review of board minutes[38], we determined that Ed Sharp founder, Board President, and Financial Director of House of New Hope since its inception, exercised final approval of all management decisions for the House of New Hope. Our conclusion is supported by a statement which House of New Hope submitted to ODJFS during the recertification review of the agency. The Agency said, in pertinent part: "President of the Board: will have an open-ended term. The President will organize the business aspects of the Board and serve as <u>co-administrator</u> with the Executive Director."[39] (Emphasis Added).

Although Stephanie Jeffords, Executive Director, did possess the qualifications for an administrator defined in Ohio Admin. Code 5101:2-5-09 (C)(1), Mr. Sharp did not because he does not hold at least a bachelors degree. Ms. Jeffords resigned in May 2000. By allowing an individual who does not possess the requisite qualifications to serve as co-administrator or have ultimate administrative authority, the Agency circumvented the intent of the rule.

Management Comment:

We recommend that the Board take immediate action to ensure the agency is administered by a person who meets the requirements set forth in Ohio Admin. Code Section 5101:2-5-09(C)(1). ODJFS should monitor the actions of individuals assigned specific powers and responsibilities for which they are to be held accountable.

---

36 Ohio Admin. Code Section 5101:2-1-01 (A). Prior to 5/14/98, this definition was found at Ohio Admin. Code Section 5101:2-5-01.

37 Ohio Admin. Code Section 5101:2-5-09 (C)(1).

38 The House of New Hope Board Minutes for the meeting held on June 29, 1998, pages 9 and 10.

39 We received a fax from Barbara Clark, ODJFS Licensing Specialist, consisting of the Table of Organization in effect during the Period, and an attachment to the Table of Organization titled, "Description of Each Function to Be Certified", page 7.

ISSUE 5-4	CHANGE OF ADDRESS REQUIREMENTS

Results:

Ohio Admin. Code Section 5101:2-5-30 (A) states in pertinent part: "Upon notification of any change in household occupancy of a family foster home, change in marital status, or change of address, the recommending agency shall evaluate the change within thirty days of the agency's receipt of notification to determine if the foster caregiver is capable of providing continued care for foster children, to determine that new household occupants meet any applicable requirements of Chapter 5101:2-5 or Chapter 5101:2-7 of the Administrative Code, or to determine if the new site of the family foster home meets all of the requirements of Chapter 5101:2-7 of the Administrative Code.

The recommending agency's evaluations were not completed within the prescribed period for 1 or 5 (20%) of the change of address notifications tested. Failure to comply with this provision could result in an unsuitable placement that does not best meet the needs of the foster child.

Management Comment:

We recommend that the House of New Hope develop procedures to ensure timely evaluations upon notification of changes. We recommend ODJFS establish guidelines and standards for PCPAs and PNAs to document their compliance with the administrative rules governing changes in the foster family home.

ISSUE 5-5	COMPLETE AND ACCURATE INFORMATION ON APPLICATIONS

Results:

Ohio Admin. Code Section 5101:2-5-20 (C) 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." [40] The Placement Agency must take steps to assure the completeness and accuracy of information on the application.

Our Review found that the Placement Agency did not provide evidence that it took adequate measures to ensure the information on family foster home applications submitted was complete and accurate. Foster parent income and employment was not documented as verified in 9 out of 13 family foster home applications.

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.

[40] Ohio Admin. Code Section 5101:2-5-20 (C)(1)

ISSUE 5-6	BCII CHECKS THROUGH FBI FOR FOSTER PARENTS WITHOUT PROOF OF RESIDENCY

Results:

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

Two of 13 of the family foster home files tested did not contain documentation or evidence that the Placement Agency determined whether the foster parents recommended for licensing had resided in Ohio for the five-year period immediately prior to the date of the application to become a foster parent.

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

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

Management Comment:

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

ISSUE 5-7	RECOMMENDATION FOR CRIMINAL RECORDS CHECK FOR ADULTS LIVING IN THE FOSTER HOME AND NOT LISTED ON THE FAMILY FOSTER HOME CERTIFICATE

Results:

Currently ODJFS does not require a criminal records check for adults living in the family foster home and not listed on the family foster home certificate. Failure to require a criminal records check exposed the foster child to unnecessary risks of abuse or neglect which could be avoided.

Failure to require a criminal records check could expose the child to the risk of abuse and neglect by individuals with recorded histories and backgrounds that make the placement unsuitable.

Management Comment:

We recommend that ODJFS promulgate rules that establish the requirement for criminal records checks for all adults living in the household.

ISSUE 5-8	APPROVAL OF ODHS 1317 RECOMMENDATION FORM WITHOUT A LICENSED SOCIAL WORKER DESIGNATION

Results:

An agency shall assure that all staff hired or who are under any personal service contract who are required by law to possess any professional licensure or certification are so licensed or certified.[41]

A Licensed Social Worker (LSW); Licensed Independent Social Worker (LISW); Licensed Professional Clinical Counselor (LPCC) or Licensed Professional Counselor (LPW) is qualified to assess whether foster parents and their home will make a suitable foster home for each individual foster child.[42]

Ed Sharp signed off as the Authorized Representative on the ODHS 1317(Recommendation for Certification/Re-certification of a Family Foster Home) and Grace Cooperider, CCDCIII, RRT (Certified Chemical Dependency Counselor III, Registered Recreational Therapist) signed off as the Homefinder/Caseworker. Ms. Cooperider completed the ODHS 1349 Foster Home Homestudy assessment.
Neither Mr. Sharp nor Ms. Cooperider hold the required certification to assess the suitability and placement of foster children as required by Ohio Admin. Code Section 5101:2-5-21(B). The person completing the Homestudy is required to be licensed at least as a LSW.

Failure to comply with Ohio Administrative Code regulations increases the risk that placement decisions may not be made that are in the best interest of the child.

The Placement Agency stated it was not aware of this requirement.

Management Comment:

We recommend that only qualified individuals complete the Foster Home Homestudy and sign the ODHS 1317 (Recommendation for Certification/Re-certification of a Family Foster Home). This will help to ensure the foster parents and their homes will make a suitable foster home for each individual foster child.

---

41 Ohio Admin. Code Section 5101:2-5-09 (C)(2)

42 ODHS Bureau of Licensing, Child Welfare Policy/Procedure Clarification Memo No 91-17, dated 6/3/91.

ISSUE 5-9	TITLE IV-E COST REPORT

Results:

$22,491 detailed as federal questioned cost in Issue 1-1 of this report was charged against the foster care program, and reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report. In addition, an undetermined amount of federal questioned costs related to personal use of organization furnished automobiles was charged against the foster care program and reported on the cost report, see Issue 1-4. Ineligible costs claimed on the cost report could result in overstated Title IV-E reimbursement per diem rates and therefore overstated federal reimbursement.

$11,038 detailed in Issue 1-2 of this report was not included on the 1998 ODHS 2910 cost report, but was charged against the foster care program, and considered unreasonable.

ODJFS must determine the amount of over reporting by the House of New Hope and re-compute the Title IV-E per diem reimbursement rate that should have been paid to House of New Hope during the Period and reimburse HHS, ODJFS, or the PCSA for any over reimbursement resulting from the overstated costs.[43] Failure to properly classify program costs could result in federal questioned costs and have an adverse effect on the Title IV-E rate setting process.

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

Management Comment

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

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

HOUSE OF NEW HOPE
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Cash Expenditures without Documentation	1-1	14	$200
Undocumented Expenditures for Food	1-1	14	2,110
Undocumented Expenditures for Lodging and Trips	1-1	14	1,396
Undocumented Expenditures Made for Furniture	1-1	14	162
Undocumented Store Expenditures	1-1	14	12,330
Undocumented Miscellaneous Expenditures	1-1	14	5,200
Total Undocumented Expenditures			21,398
Unallowed Expenditures Made for Christmas Party	1-1	14	1,093
Related Party Loans	1-2	16	11,038
TOTAL FEDERAL QUESTIONED COSTS			**$33,529**

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

HOUSE OF NEW HOPE, INC.

LICKING 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
NOVEMBER 28, 2000