



CHILD PROTECTIVE SERVICES SPECIAL AUDIT

BEREA CHILDREN'S HOME

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**BEREA CHILDREN'S HOME
REPORT ON AGREED-UPON PROCEDURES**

TABLE OF CONTENTS

	PAGE
Board of Trustees and Administrative Personnel	i
Independent Accountants' Report	1
Report on Agreed-upon Procedures	
Background Information	3
Legal Authority	3
Resolution of Questioned Costs	8
Agency Information	9
Issue 1 Test of Expenditures in Accordance with Terms of Agreements and Applicable Laws	11
Issue 2 Test of Funding Received from Public Sources	20
Issue 3 Test of Payments to Foster Parents	20
Issue 4 Test of Internal Controls	24
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	27
Issue 6 Test of Medicaid Billings	31
Issue 7 Test of Medicaid Services	32
Summary of Federal Questioned Costs	33

THIS PAGE LEFT BLANK INTENTIONALLY

**BEREA CHILDREN'S HOME
REPORT ON AGREED-UPON PROCEDURES**

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

NAME	TITLE	TERM
BOARD OF TRUSTEES		
Dr. Rollin A. Conway	President	October 1996 - October 1999
Dr. Mareyjoyce Green	Vice President	October 1996 - October 1999
Mrs. Grace B. Chalker	Secretary	October 1996 - October 1999
Mr. Mark A. Trushel	Treasurer	October 1997 - October 2000
Mrs. Janet Baker	Member	October 1996 - October 1999
Dr. Maynard Bauer	Member	October 1996 - October 1999
Mrs. Carol Broadbent	Member	October 1996 - October 1999
Rev. Dr. Leonard Budd	Member	October 1997 - October 2000
Rev. Douglas Denton	Member	October 1998 - October 2001
Mrs. Mary Gay	Member	October 1998 - October 2001
Mr. Jonathan Groza	Member	October 1997 - October 2000
Mr. Neal Hesche	Member	October 1997 - October 2000
Dr. Maggie Jackson	Member	October 1996 - October 1999
Bishop Jonathan Keaton	Member	Continuous**
Mr. Robert Kirkpatrick	Member	October 1998 - October 2001
Mr. Bill McClellan	Member	October 1997 - October 2000
Mrs. Beth Neelis	Member	October 1998 - October 2001
Rev. Gregory Palmer	Member	October 1996 - October 1999
Mrs. Marilyn Reihls	Member	October 1996 - October 1999
Mr. John Saylor	Member	October 1998 - October 2001
Mrs. Dolly Sterling	Member	October 1997 - October 2000
Rev. Margaret Streiff	Member	October 1997 - October 2000
Rev. Julius Trimble	Member	Continuous**
Dr. Edward White	Member	October 1996 - October 1999

** The Resident Bishop and the District Superintendent of the Cleveland District of the Ohio East Area of the United Methodist Church serve on the board ex-officio with full voting rights.

**BEREA CHILDREN'S HOME
REPORT ON AGREED-UPON PROCEDURES**

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

NAME	TITLE	TERM
ADMINISTRATIVE PERSONNEL		
Dr. John W. Caddey	Executive Director	June 1972 to Present
Mr. Richard Frank	Asst. Executive Director- Finance & Administration	August 1978 to Present
Mr. Christopher Cassidy	Controller	May 1981 to Present

Agency Address
Berea Children's Home
202 E. Bagley Road
Berea, Ohio 44017



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

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

Dear Director Moody:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services¹ (ODJFS or Department), formerly known as the Ohio Department of Human Services (ODHS), and the Auditor of State (AOS), we have conducted a Child Protective Services/Special Title IV-E Review ("Review") and performed the procedures summarized below for Berea Children's Home (Berea or Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period"). These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contract with Cuyahoga County Department of Children and Family Services (CCDCFS). The applicable laws, regulations and the provisions of its contract are described in the attached *Supplement to Report on Agreed-upon Procedures under Legal Authority*.

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

1. We performed procedures to determine whether the Placement Agency complied with the terms and conditions of its contractual agreements and provisions of applicable laws and regulations for expenditures during the Period.
2. We scanned all receipts and deposits from the applicable public children services agencies to Berea for the Period to determine whether receipts were properly deposited and recorded in the accounting records of the Placement Agency.
3. We compared the Placement Agency's per diem paid to the foster parents with the corresponding per diem it received from Cuyahoga County Department of Children and Family Services Agency (CCDCFS) to determine the ratio of payments for administration and maintenance.
4. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures, relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

¹

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

5. We performed procedures to confirm internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Admin. Code Chapter 5101:2.
6. We performed procedures to determine if Medicaid expenses were properly billed to the program.
7. We performed procedures to determine if there was proper monitoring of the Medicaid counseling.

On April 25, 2001, we held a post audit conference with the following:

<u>Name</u>	<u>Office/Position</u>
John W. Caddey	Berea Children's Home Executive Director
Richard Frank	Berea Children's Home Asst. Executive Director
Chris Cassidy	Berea Children's Home Controller
Donna Keegan	Berea Children's Home Director Quality Management and Training
Joseph Ziegler	Berea Children's Home Director of Marketing and Public Relations
Neil Hesche	Berea Children's Home Trustee
Edna Frezgi	Auditor of State Deputy Auditor
John Benson	Auditor of State Assistant Auditor
Gayle Jones	Auditor of State Assistant Auditor

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

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

JIM PETRO
Auditor of State

May 11, 2001

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

BACKGROUND INFORMATION

The challenge of child welfare reform is formidable and we commend ODJFS on its recent efforts to reform the child welfare system. The Department has invited a comprehensive group of stakeholders to participate in its child welfare reform initiative. On April 6, 1999, the Department Director requested that the Auditor of State assist the Department in its efforts to improve the child welfare system by conducting a performance audit of its child welfare program. In collaboration with ODJFS and the stakeholders group, the child welfare performance audit will identify issues that are preventing effective and efficient delivery of high quality services to children and families, and recommend methods to improve the Department's processes. ODJFS should consider the audit findings and recommendations presented in our report as it attempts to bring about needed improvements and reform. The report was released on February 9, 2001.

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

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

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

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

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

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

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Public Children Services Agency Contractual Requirements

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

Billing Process

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

Reports and Records

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

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

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

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

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

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

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

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

BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Cost Principles

Title IV-E foster care maintenance payments are designed to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.¹¹

Allowable and unallowable cost guidelines for use in completing the cost reports are contained in the Ohio Administrative Code and 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 . . .¹²

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

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

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

Ohio Admin. Code Section 5101:2-5-08 (G) states in pertinent part, "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."

¹¹ 42 U.S.C. Section 675 (4) (A).

¹² 26 U.S.C. Section 501(c) (3).

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

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

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 sets forth requirements regarding: financial and program management, property and procurement standards, reports and records and termination and enforcement.

Reimbursement Process

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

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

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

Allowable Costs

In addition to the Ohio Administrative Code and the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, which govern allowable costs, Berea Children's Home is bound by the terms of a purchase of service agreement it entered with CCDCFs to provide specialized foster care, medically fragile specialized foster care, custodial foster care, therapeutic group home, residential treatment, residential and non-residential psychiatric treatment, day treatment, non-ward day treatment, and independent living life skill training (hereinafter referred to as "The Agreement"). These services are set forth in Section 4 of the Agreement.

The Agreement provides that CCDCFs will reimburse Berea Children's Home 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 Berea Children's Home will provide foster care maintenance, administrative case management, case planning activities and related administrative activities as set forth in Exhibit 3 of the Agreement.

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

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

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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."¹⁹

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

In addition to setting forth the services which are deemed allowable costs for foster care providers, the Purchase of Services Agreement establishes inspection and retention requirements for financial records:

In Section 15 of the Agreement, Berea Children's Home agreed that it would "maintain and preserve all records related to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years."²¹

Administration of Medicaid Services

Berea also receives Medicaid receipts for reimbursement of medical counseling services provided by Berea 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.

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

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

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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

H5010 Therapy, individual, by social worker, per hour.

H5020 Psychotherapy, group (maximum eight persons per group), by non-physician, forty-five to fifty minutes, per person, per session.

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

RESOLUTION OF QUESTIONED COSTS

Certain deficiencies identified in our Review may require us to report questioned costs to the U.S. Department of Health and Human Services and ODJFS.

OMB Circular A-133 defines questioned costs²² 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 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 Berea join together to ensure that Berea develops and implements a corrective action plan that will result in fiscal accountability²³ and legal compliance²⁴ in an expeditious manner. Based on the findings we recommend the following:

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

²³ ODJFS has proposed Rule 5101:2-33-19, Penalties for Failure to Comply with Fiscal Accountability Procedures, sets forth the penalties that ODJFS may enforce against PCSAs, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability. The rule is expected to be implemented by August, 2001.

²⁴ ODJFS has proposed Rule 5101:2-47-231, Title IV-E Agency Contracting and Contract Monitoring Requirements, which sets forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services. The rule is expected to be implemented by August, 2001.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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

AGENCY INFORMATION

Berea Children's Home also known as Berea Children's Home and Family Services is a private noncustodial agency (PNA), originally incorporated in 1910 as The German Methodist Orphan Asylum of Berea, Ohio, and is a nonprofit corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3). It provides treatment foster care options to emotionally-troubled, medically-fragile infants and children, and therapeutic foster care to severely emotionally-disturbed children. Berea Children's Home is licensed by the ODJFS to operate group homes, 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 Berea Children's Home to place the child. The group of foster family homes (private foster network) utilized by Berea Children's Home has been in place since 1984. Berea Children's Home places foster children primarily for Cuyahoga, Lorain, Summit and Lake Counties. In addition, Berea Children's Home has provided services to Hamilton, Medina, Geauga, Stark, Franklin, Portage, Butler, Lucas, Wooster, Erie, Huron, Richland, Wood, Hardin, Ross, Columbiana, Wayne, Mahoning, and Belmont County children services agencies during the Period.

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
Berea Children's Home
Foster Care Statistics**

Characteristic	Statistic
Daily Average Number of Children in Placement	97
Number of Active Licensed Foster Homes	84
Average Per Diem Rate	\$62
Number of PCSAs from Which Agency Receives Children	4
Required Training for Foster Caregiver Orientation	34 Hours
Required Annual Training for Foster Caregiver	21 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Reports	\$2,005,793
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

During the Period, Berea Children's Home's staff consisted of 18 employees, whom provided foster care services, including, an executive director, executive assistant directors, administrative assistants, foster care supervisor, and social workers to provide the needed counseling and case management services to the foster children and foster parents.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Approximately half of Berea Children's Home revenues consisted of funds received from Cuyahoga County Department of Children and Family Services Board. The total revenues received by Berea Children's Home from Cuyahoga County Department of Children and Family Services Board for foster care services during the Period of January 1, 1998 to December 31, 1998 was \$1,969,509.

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
Berea Children's Home
Revenue by Source**

	1998	Percent of Total Revenue
Cuyahoga County	\$ 10,003,255	54
Medicaid	1,841,568	10
Summit County	408,556	2
Lucas County	374,762	2
All other Counties	1,644,588	9
Fees for Services	1,246,971	7
Grants	215,575	1
Gifts	1,069,477	6
Interest and Dividend Income	371,552	2
Gains on Securities/Assets	1,308,855	7
Other Miscellaneous Income	109,555	0
Totals	<u>\$18,594,714</u>	<u>100%</u>

Relevant Individuals

Reverend. Dr. John W. Caddey

Rev. Caddey has been associated with Berea Children's Home since 1963, and has been its Executive Director since June 1972.

Mr. Richard Frank

Mr. Frank has been the Assistant Executive Director of Finance and Administration since August 1978.

Mr. Christopher Cassidy

Mr. Cassidy has been the controller of Berea Children's Home since May 1981.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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

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 Berea Children's Home 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 were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.
4. We inspected the supporting documentation to determine compliance with program requirements for expenditures and for potential self-dealing transactions prohibited by Ohio Admin. Code Section 5101:2-5-08 (G).
5. We discussed with agency management all expenditures (check disbursements) that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined in applicable rules, regulations and/or contract provisions.
6. We obtained all credit card statements paid by Berea Children's Home 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 were not adequately documented and did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or authorizations contrary to policy, we requested supporting documentation, such as invoices.
8. We discussed with agency management all credit card expenditures that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined by applicable rule regulations and/or contract provisions.
9. We read lease agreements and other documents supporting all car lease payments. We 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.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 1-1	CREDIT CARD DISBURSEMENTS NOT ALLOWED OR WHICH LACKED 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.²⁵ 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 . . ." ²⁶

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."²⁷ 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."²⁸

In addition, under Section 1 of the Agreement, the Berea Children's Home was to provide those services delineated in Section 4 of the Agreement.²⁹

We inspected four hundred and fifty-five (455) credit card expenditures totaling \$152,775 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. Berea was unable to provide us with adequate supporting documentation as requested for 139 transactions totaling \$11,674.

Because the agency was unable to supply us with adequate documentation, of the type requested, these expenditures were not documented as required by the CCDCFs contract and were in direct violation of OMB Circular A-122, Attachment A(2)(g).³⁰ Undocumented expenditures totaled \$11,674.

²⁵ OMB Circular A-122, Attachment A, Paragraph (A)(2)(a) and (g).

²⁶ OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

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

²⁸ Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 1/27/98, pg.23.

²⁹ See detailed discussion of these agreed-upon services in the "Allowable Costs" Section of this report.

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

**Table III
Berea Children's Home
Undocumented Credit Card Expenditures**

Dining	
Bucci's Restaurant - (9) Charged by the Asst. CEO and (1) by the Controller	\$391
Olive Garden- (4)Charged by the Controller, (3) by the Asst. CEO, and (2) by the Recruiter	354
Pufferbelly - (2) Charged by the CEO, (2) by the Asst. CEO, and (1) by the Recruiter	218
Don's Pomeroy House - (7) Charged by the Asst. CEO	189
Li Wah - (1) Charged by the CEO, (1) by the Asst. CEO, (1) and by the Controller	110
Other Restaurants - (61) Charged by various employees, and (1) by the Asst. CEO	<u>1,092</u>
Total Dining Expenditures	2,354
Travel, Lodging and Car Rental	
Berea Travel - (4) Airline trips by CEO to various designations	771
Continental Airlines - Airline trip by CEO to San Diego	232
Hertz Car Rental - (3) Car rentals by CEO in various locations	546
Harley Hotels - Charged by CEO in Middleburg Heights	1,998
Mariott Hotels - (3) Lodging Charged in Washington D.C. and (1) in Atlanta	940
Embassy Suites - Lodging Charged in California	704
Horton Grand Hotel - Lodging Charged in San Diego	606
Other Hotels - (19) Lodging Charged in various locations	<u>1,805</u>
Total Travel, Lodging and Car Rental Expenditures	7,602
Miscellaneous	
Finast- Gift Certificates Charged by the Asst. CEO	990
Franklin Quest - Charged by the Asst. CEO	219
Gust Galluci Co.- Charged by the Asst. CEO	140
Borders Books & Music - (2) Charged by the Asst. CEO	138
Baudville - Charged by the Asst. CEO	103
(3) Other Miscellaneous Charges	<u>128</u>
Total Miscellaneous Expenditures	<u>1,718</u>
Total Undocumented Credit Card Expenditures	<u>\$11,674</u>

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Additionally, 86 credit card transactions totaling \$2,056 were not an allowable direct services or administrative cost under the CCDCFs contract or OMB Circular A-122. These improper expenditures consisted of restaurant gratuities, a Christmas party for department heads, flowers for staff, a luncheon for secretaries and administrative assistants, grocery store gift certificates, airline tickets and a conference registration purchased for the CEO's spouse, and gifts for staff. They were as follows:

1. Seventy-five credit card transactions totaling \$656 which were unallowable under OMB Circular A-122, Attachment B, Paragraph 14 which states, "Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable." Furthermore, entertainment costs for amusements, social activities and related costs for staff only are considered unallowable costs for use in completing ODHS 2910 Purchased Family Foster Care Cost Report.³¹ Unallowed entertainment costs totaled \$656.
2. Unallowable costs totaling \$1,400 for 11 credit card transactions were in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." Unallowed costs for personal use totaled \$1,400.

**Table IV
Berea Children's Home
Unallowed Credit Card Expenditures**

Unallowed Entertainment Costs	
Restaurant Gratuities	\$ 307
Don's Pomeroy House - Christmas Luncheon for Department Heads	149
Stantons Touch - Flowers	122
Fay's Flowers	50
Bucci's - Secretaries/Administrative Assistants Luncheon	<u>28</u>
Total Unallowed Entertainment Costs	656
Unallowed Costs for Personal Use	
Berea Travel - (2) Airline Fares for CEO's spouse	522
Continental Airlines - Airline Fare for CEO's spouse to San Diego	232
United Methodist Association Conference Registration for CEO's spouse	232
Borders Books & Music	139
Starbucks Coffee Co.	110
Wayside Shop	73
Dillard's - Waterford	48
J.B. Robinson Jewelers	<u>44</u>
Total Unallowed Costs for Personal Use	1,400
Total Unallowed Credit Card Expenditures	<u>\$2,056</u>

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

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Specifically, we advised the Executive Director we were questioning the cost of airfare for his wife. In response, the Berea Children's Home Board of Trustees minutes dated October 28, 2000, noted a resolution regarding the Executive Director's spouse's travel expense. It stated in part, "Be it resolved that the Board of Trustees reaffirm their encouragement of the Executive Director to attend the United Methodist Association Conventions and Summer Workshops and that costs associated with the Executive Director's spouse related to registration, travel, lodging and meals be assumed by this organization." On December 6, 2000 the Executive Director reimbursed the Berea Children's Home \$336 for one of the four trips that Berea paid on his wife's behalf. We did not include that amount in the questioned costs.

During the course of our audit we identified sources of revenue that included reimbursements for residential and foster care services and Medicaid. These programs require cost reports to be filed with the Ohio Department of Job and Family Services (residential and foster care) and the Ohio Department of Mental Health (Medicaid). These programs receive Federal Financial Participation through cost reimbursement. Therefore, the cost charged against these programs both the federal portion and state or local match are subject to Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations" Attachment 1, paragraph A(2)(g) which requires that for a cost to be allowable under an award it must among other things be adequately documented. Furthermore it requires that all expenditures should be supported by sufficient documentation to demonstrate the proper authorization approval and purpose. According to Berea's financial records more than 83% of its revenue during our audit period was subject to OMB Circular A-122.

Federal Questioned Costs: \$13,730

Due to unallowed and inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program, Berea Children's Home was in violation of Sections 14 and 15 of its contract with CCDCFS and OMB Circular A-122³² in the amount of \$11,674. Berea Children's Home was also in violation of Ohio Admin. Code Section 5101:2-47-26 (A)(7) and OMB Circular A-122 Attachment B, Paragraphs 14 and 18 with respect to the unallowed expenditures in the amount of \$2,056 as described above in numbered Paragraphs 1 and 2. The total federal questioned costs totaled \$13,730.

Management Comment:

Berea Children's Home did not adhere to the CCDCFS contract regarding documentation of allowable direct and administrative cost requirements and financial record retention. Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to obtain and submit to CCDCFS an annual financial audit performed in accordance with government auditing standards.³³ In addition, to the financial statement opinion, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. CCDCFS should review these reports and follow up on any exceptions reported.

Berea's audit was performed in accordance with generally accepted accounting principles (GAAP) and governmental auditing standards, but it was not submitted to CCDCFS.

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

³³ ODJFS has proposed Rule 5101:2-47-262, Audits of PCSAs, PCPAs and PNAs, this rule sets forth the annual audit requirements. The rule is expected to be implemented by August, 2001.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 1-2	UNALLOWED COST OF HOUSING CHARGED TO FOSTER CARE
------------------	---

Results:

Office of Budget and Management (OBM) Circular A-122 "Cost Principles for Non-Profit Organization," states in pertinent part, "Cost of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowance are unallowable and personal living expenses for/of the organization's officers are unallowed as fringe benefits or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct cost to sponsored award when necessary for the performance of the sponsored award and approved by the awarding agencies. The term "officers" include past officers and employees."³⁴

In addition, the Ohio Administrative Code provides that when completing ODJFS cost reports, "(c)ontributions, donations, or any outlay of cash with no prospective benefit to the facility or program" are considered unallowable.³⁵

Also, with regards to allowable costs under the contract Section 1, of the CCDCFS contract states that: "The Provider also agrees to provide foster care maintenance, administrative case management, case planning activities and related administrative activities as stipulated in Exhibit 3."

During 1998 Berea Children's Home paid housing allowances to its executive director and two assistant executive directors in the amount of \$30,800 that was charged against the foster care program and reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s). Berea did not provide evidence that these cost were necessary for the performance of the award nor that they been approved by the awarding agency.

Federal Questioned Costs: \$30,800

The housing allowances paid and charged against the foster care program were in violation of Section 1 of the CCDCFS contract and were unallowed under federal cost guidelines Circular A-122 Attachment B, Paragraph 19, which resulted in federal questioned costs of \$30,800.

ISSUE 1-3	PURCHASE OF PROMOTIONAL ITEMS
------------------	--------------------------------------

Results:

When completing the ODHS 2909 "Residential Child Care Facility Cost Report" and the ODHS 2910 "Purchased Family Foster Care Cost Report" the following costs are unallowable: "Advertising costs, with the exception of service-related recruitment needs, procurement of scarce items, and disposal of scrap and surplus pursuant to this rule."³⁶

³⁴ Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment B, paragraph 19.

³⁵ Ohio Admin. Code Section 5101:2-47-26(A)(6).

³⁶ Ohio Admin. Code Section 5101:2-47-26 (A)(1). Prior to 5-1-98, this provision appeared in Ohio Admin. Code Section 5101:2-47-64(A).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

"Federal guidelines disallow costs of promotional items and memorabilia, including models, gifts and souvenirs³⁷ and advertising and public relations designed solely to promote the organization are unallowable."³⁸

Check number 77959 dated 2/24/98 in the amount of \$1,152 was used to purchase porcelain mugs with Berea's logo imprinted on them. These mugs were distributed to vendors, clients, and to other persons.

Federal Questioned Costs: \$1,152

Expenditures for promotional items are not allowed under Section 5101:2-47-26 (A)(1) of the Ohio Administrative Code and OMB Circular A-122 Attachment B(1)(f)(3) and (4) and consequently the \$1,152 expended for promotional items are reflected as federal questioned costs.

Management Comment:

ODJFS should implement a program to train and educate private providers regarding allowable and unallowable costs in accordance with the guidelines set forth in OMB Circular A-122 and the Ohio Administrative Code. Furthermore, ODJFS should require contracts between the PCSA and the private agency to clearly state the agency's responsibility to comply with those cost guidelines.

ISSUE 1-4	FAILURE TO MAINTAIN FINANCIAL RECORDS
------------------	--

Results:

Section 15 (Availability and Retention of Records) of the contract between Berea and the Cuyahoga County Department of Children and Family Services states, "The Provider shall maintain and preserve all records related to the 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."

In addition OMB Circular A-110 generally requires financial records, supporting documents, statistical records, and all other records pertinent to an award to be retained for a period of three years from the date of submission of the final expenditure report . . .³⁹

Berea did not maintain all financial records for the time period required by its contact with CCDCFs. Management was unable to provide the following documentation or financial records:

1. Twenty-nine (29) canceled checks, and twenty-two (22) voided checks required for review of expenditures in Issue 1 of this report.
2. Remittance statements or documentation for June 1998 cash receipts.
3. Monthly bank reconciliations for the period of January 1998 to June 1998.

³⁷ Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment B, paragraph 1(f)(3).

³⁸ Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations," Attachment B, paragraph 1(f)(4).

³⁹ Office of Management and Budget Circular A-110 Uniform "Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations,": Subpart C Paragraph 53 (b).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Failure to maintain all financial records for the time period required impairs Berea's ability to demonstrate fiscal accountability and compliance with its contract and applicable regulations. In addition, it increases the risk that errors or irregularities could occur and go undetected.

Management Comment:

We recommend Berea maintain its records in accordance with the requirements of its contract with CCDCFS, and OMB Circular A-110, Subpart C Paragraph 53(b). We also recommend the agency authorize the bank to stop payment for unaccounted for checks to reduce the risk of unauthorized or unallowable use or theft of agency assets.

ISSUE 1-5	EMPLOYEE LOANS
------------------	-----------------------

Results:

Office of Management and Budget (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 . . . "

During the Period, Berea lent \$40,000 to two employees prior to retirement. The loan was secured by an interest bearing promissory note and was repaid through a reduction in the employees' lump sum retirement benefit in 1999. The transaction was authorized by the Assistant Executive Director of Finance and Administration.

In addition, check number 77850 dated 2/12/98 in the amount of \$450 was paid to an Assistant Executive Director, as a personal loan. The loan was repaid on July 30, 1998.

No policy existed for employee loans and Board of Trustees minutes did not reflect Board consideration or approval of these transactions. The loans resulted in the expenditure or commitment of funds charged against the foster care program, provided no prospective benefit to the facility or program, nor were they reasonable for the performance of the award as required by OMB Circular A-122, Attachment A, Paragraph A(2)(a).

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.

In the event the Board of Trustees does wish to extend loans to its employees, it should do so, using privately donated funds free of a designated purpose or intent. Berea should develop a detailed written policy governing employee loans. The policy should include, but not be limited to, limits on amounts to be lent, and the documentation required for the authorization and repayment of the loan.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 1-6	PERSONAL USE OF AGENCY CREDIT CARDS
------------------	--

Results:

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."

In addition, 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.

We reviewed the American Express Corporate Card Account which had five card members. We 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; charges related to the staff or foster parents or authorization contrary to policy, we requested supporting documentation, such as invoices. There were five card members.

We found several instances in which credit cards were utilized for personal use.

1. On four occasions a credit card was used to purchase airline tickets for the Executive Director's wife in the amount of \$1,090. During the audit the Executive Director reimbursed Berea for a portion of this amount, and the remainder has been included as questioned costs in Issue 1-1.⁴⁰
2. In other instances we found that credit cards were utilized for grocery and department store purchases, amusement park admissions, and a hotel registration. In these instances we were able to verify that the agency had been reimbursed for these personal usages of the corporate credit card.

Berea Children's Home did not have a written policy in place with respect to credit card usage. Failure to adequately control all credit cards exposes the Agency to the risk that theft or unauthorized or unallowable expenditures could occur and go undetected. This was evidenced by the undocumented and unallowed federal questioned costs of \$13,730 for credit card expenditures in Issue 1-1.

Management Comment:

We recommend that management draft and the Board of Trustees approve a written policy prohibiting personal use of the corporate credit card. Furthermore, the policy should define what constitutes allowable expenditures and establish responsibility for repaying unallowable expenditures. The policy should require the user to maintain all receipt documentation and submit them for review, to determine compliance with the established policy, to the financial office where they should be maintained. In addition, the policy should detail the financial department's responsibility for maintaining up-to-date records of all credit card expenditures and management's responsibility for monitoring these expenditures.

⁴⁰

On December 6, 2000, the Executive Director paid \$336 to the Berea Children's Home from his personal account to reimburse one of the four trips that the agency paid on his wife's behalf.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 Berea Children's Home 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 Berea 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 Berea Children's Home received as: program service fees from various counties, gifts, investment income and grants. Berea received Medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from CCDCFs.

Furthermore, we determined that all CCDCFs disbursements to the Berea Children's Home were receipted, deposited and recorded in its accounting records.

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS
----------------	---

Objectives:

1. To determine whether Title IV-E maintenance funds received by Berea Children's Home were used in accordance with the Social Security Act.
2. To determine whether Berea Children's Home's per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.
3. To determine the ratio of the per diem payments used for administration and maintenance.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 December 1998 for foster care services. We also obtained from the Cuyahoga County Auditor a vendor payment history report for Berea Children's Home for the same period and traced these payments to the invoices submitted by Berea Children's Home.
2. We selected a representative sample of children identified by CCDCFS as Title IV-E eligible children being serviced by Berea Children's Home. Federal maintenance payments to these children totaled \$81,673 or 38% of the sample.
3. We found the child's name on the appropriate month's ODHS Title IV-E Disbursement Journal. We documented the amount of federal maintenance reimbursement that would have been paid for each child.
4. We compared payments received by Berea Children's Home from CCDCFS to the corresponding Berea Children's Home 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 Berea Children's Home 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 Berea Children's Home and CCDCFS and between Berea Children's Home and foster caregivers.
9. We compared the Berea Children's Home's per diem paid to the foster parents with the corresponding per diem it received from CCDCFS to determine the ratio of payments for administration and maintenance.

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

Results

Payments for foster care maintenance 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.⁴¹

⁴¹ 42 U.S.C. Section 675 (4)(A).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 payments⁴² made to the PCPAs and PNAs.

We selected a sample of 104 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and CCDCFs submitted \$140,816 to ODJFS for reimbursement. ODJFS did not require the Placement Agency to specifically identify the amounts for maintenance and administration. ODJFS then requested federal financial participation (FFP) for foster care maintenance costs of \$140,816 and received \$81,673 at the 58% FFP reimbursement rate, however the Placement Agency, only made maintenance payments to foster parents totaling \$73,219. The remaining \$8,454 was retained by Berea and used for administrative costs or other purposes and was not used to cover the costs of maintaining children in the foster home as required.

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

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

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	\$81,673
Required PCSA Match for Federal Financial Participation	<u>59,143</u>
Total Title IV-E Maintenance Claimed by ODJFS	140,816
Amount Paid by PNA to Foster Parents for Maintenance	<u>(73,219)</u>
Federal Questioned Costs	<u>\$67,597</u>

Projected Questioned Costs:

We specifically identified \$67,597 of questioned costs in our sample. In order to evaluate the potential effect of questioned costs caused by systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned cost. We used the ratio approach, as illustrated below:

<u>Dollar Amount of Error :</u>		
Dollar Amount of Sample	\$67,597/\$140,816	48.00%
Dollar Amount of Population		X <u>\$897,172</u>
Questioned Costs		<u>\$430,642</u>

Federal Questioned Costs: \$430,642

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in section 675 of the Social Security Act. In our sample, we found that the maintenance costs claimed for federal reimbursement was overstated by \$67,597, and when using the ratio approach resulted in questioned costs of \$430,642.

⁴² 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.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ODJFS should determine the amount of over reporting by the County and re-compute the Title IV-E per diem reimbursement rate that should have been paid to the Placement Agency during the Period and reimburse HHS, ODJFS or the PCSA for the overstated costs.⁴³

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.⁴⁴ We further recommend that an adjustment to correct the overpayment of the Title IV-E maintenance reimbursement be made with the U.S. Department of Health and Human Services.

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

Results:

We tested the payments from Cuyahoga County Department of Children and Family Services Agency (CCDCFS) to Berea Children's Home for a sample of 120 foster children. The payments to the Placement Agency for this sample totaled \$213,835. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

The foster parents in the sample received \$93,694, and we noted that these foster parents received the correct per diem rates per the CCDCFS contract. The foster parents received \$93,694 or 44% of the total funds paid to the Placement Agency by CCDCFS. The remaining \$120,141 or 56% was retained by Berea and used for administrative costs, other direct services to children or other purposes.

The contract between CCDCFS and Berea sets forth the amounts to be paid as the daily per diem rate for the services specified in the contract. In addition, the contract sets the minimum amount to be paid to foster parents from the daily per diem rate paid to Berea by CCDCFS.⁴⁵ The amount paid to foster parents ranged from 40% to 44% 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.

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

⁴⁴ ODJFS has proposed Rule 5101:2-47-261, Procedures to Monitor Cost Reports Submitted by PCSAs, PCPAs, and PNAs, which sets forth the cost report monitoring requirements. The rule is expected to be implemented by August, 2001.

⁴⁵ Cost and Delivery of Purchased Services, Purchase of Services Agreement, Section 4(A) and Foster Parent Payment Section 4 (C).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 3-3	INDIVIDUAL CHILDCARE AGREEMENTS
------------------	---------------------------------

Results:

The PCPA must have a written individual child care agreement for each child signed by the foster caregiver and a representative of the PCPA outlining the rights and responsibilities of the PCPA and the foster caregiver.⁴⁶ Among the articles of the agreement should be billing procedures⁴⁷ including the rate of reimbursement to the foster caregiver.

In 2 out of the 120 cases sampled, the individual child care agreement between Berea Children's Home and the foster caregivers was not provided.

By not completing the individual child care agreements, the Agency increased the risk of a misunderstanding between the agency and foster care givers regarding their respective rights and responsibilities. These misunderstandings could have an adverse impact on the care of the child.

Management Comment:

Berea Children's Home should review its foster caregiver files and implement procedures to ensure that a properly executed individual child care agreement for each child in placement is included. This would provide assurance, to both the agency and the foster parent that the properly authorized and documented rate would be paid.

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 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 an internal control questionnaire, and identified significant 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.

⁴⁶ Ohio Admin. Code Section 5101:42-90(I). Prior to 7-1-00, the requirement for individual written childcare agreements was contained in Ohio Admin. Code Section 5101:2-42-91(A).

⁴⁷ Ohio Admin. Code Section 5101:2-42-90(J)(14). Prior to 7-1-00, the requirement for individual written childcare agreements was contained in Ohio Admin. Code Section 5101:2-42-91(B).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 4-1	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, inquiry with the client and observation, the Placement Agency did not have a written fixed asset policy or procedures for the treatment of capital expenditures and repairs. With respect to disposition of fixed assets at Berea, we found that the employee assigned to track fixed assets was usually informed of the asset's disposition after annual physical inventory.

The lack of a written fixed asset policy could lead to the unauthorized acquisition, use or disposition of fixed assets and material financial statement misstatements.

Management Comment:

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

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

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

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 4-2	CONFLICT OF INTEREST POLICY
------------------	-----------------------------

Results:

Financial relationships between employees of PCPAs or PNAs and employees of the PCSAs heighten public concerns about conflicts of interest and self-dealing. To alleviate those concerns and protect themselves from potential charges of conflict of interest or self dealing, PCPAs or PNAs should establish policies regarding such relationships, and implement management controls designed to regularly identify and monitor them.

Four CCDCFS employed social workers provided respite care services for Berea during the Period. Two Berea employees worked part time at CCDCFS on the KIDS hotline.

During the course of the audit Berea could not provide evidence a conflict of interest policy had been adopted. Without a policy governing outside employment or procedures designed to identify potential conflicts of interest, Berea increases its risk of potential conflict of interest or self dealing transactions going undetected.

Management Comment:

We recommend Berea establish a policy governing potential conflicts of interest along with procedures designed to assure compliance with its policy. The procedures should require employees to submit annual disclosure statements providing sufficient information to monitor any outside employment, activities, or relationships that could potentially create conflicts of interest and for providing notification of potential conflicts to its PCSAs.

Prior to the completion of fieldwork Berea adopted a conflict of interest policy dated January 5, 2001.

ISSUE 4-3	COMPETITIVE BIDS
------------------	------------------

Results:

When making a significant purchase of goods or services that are commonly offered by many competitors, PCPAs or PNAs should attempt to solicit bids from a diverse cross-section of competitors in order to achieve the best combination of terms and price in an effort to ensure its effective stewardship of public resources.

Berea did not provide evidence that it solicited bids for its automobile leases, which totaled \$ 65,112. Most automobile leases were executed with one of two local dealerships.

By not soliciting bids from a diverse cross-section of competitors for these significant leases, Berea may have paid more than required for the terms of its leases.

Management Comment:

We recommend Berea consider developing a policy requiring competitive bids for all significant purchases and establishing the basis upon which bids will be evaluated, such as the lowest and best.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

ISSUE 4-4	MEALS FURNISHED TO EMPLOYEES
------------------	-------------------------------------

Results:

Berea Children's Home provided free meals to some of their employees. "To be tax- free, the meals must generally be furnished to the employee for the convenience of the employer, at its business premises." ⁴⁸ Management at Berea Children's Home stated that historically meals have been served free of charge to 60 of its 600 employees. It is their position that a majority of Berea's staff provided meals have duties which include supervision, mentoring, and treatment intervention during lunch hours. Although we recognize the need for providing free meals to these employees who were working directly with children during the lunch period, we do not conclude all employees served free meals fit under this IRS regulation. Currently, Berea Children's Home does not recognize these lunches as a fringe benefit to those employees who do not appear to meet the requirements of this IRS regulation.

Management Comment:

We recommend Berea Children's Home seek professional tax consultation to determine whether its tax treatment of these free meals given to all their employees is in compliance with Internal Revenue Service rules and regulations.

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 Berea Children's Home 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 Berea was accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We read the Board of Trustees' minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in non-compliance with Ohio Admin. Code Section 5101:2-5-08.
2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribed in Ohio Admin. Code Chapter 5101:2.

⁴⁸

26 U.S.C. Section 119(a).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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.

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

Results:

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

Our Review found that Berea Children's Home did not take adequate measures to ensure the information on the family foster home applications submitted were complete and accurate. Foster parent income was not documented as verified in 6 out of 11 family foster home applications files reviewed.

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

Management Comment:

We recommend that ODJFS establish guidelines and standards for Placement Agencies to document their compliance with the administrative rules governing the licensing of family foster homes.

ISSUE 5-2	CHILD PLACEMENT LOGS
------------------	-----------------------------

Results:

Ohio Admin. Code Section 5101:2-5-29 (C) states, in pertinent part: "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; (5) The new location of the child."

Child placement logs maintained in the family foster home files, did not always reflect the correct or accurate information. We found 3 out of 91 child care logs did not contain the date of placement in the family foster home. Additionally, we noted that on occasion, caseworkers would prepare new logs and discard the original log.

Improper record keeping and retention could result in erroneous payments to foster parent(s), or a placement inconsistent with occupancy limitations. Discarding original logs may result in transcription errors in the remaining log which cannot be checked against the original documentation.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment

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

ISSUE 5-3	ODHS 1317 RECOMMENDATION FOR CERTIFICATION/RECERTIFICATION OF A FAMILY FOSTER HOME
------------------	--

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 in 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."

Any change in the foster family circumstances which would result in a change to the face of a family foster home certificate requires the PCPA or PNA to submit a ODHS 1317 "Recommendation for Certification/Recertification of a Family Foster Home" within 30 days of the agencies receipt of notification.⁴⁹ Among the changes requiring recertification is a change in household occupancy.

Two of 11 foster home files sampled contained notification of a change in household occupancy and did not contain the required ODHS 1317. The Placement Agency did provide documentation of the evaluation for one of the 2 changes in occupancy.

By not documenting the recertification of a family foster home after a change in household occupancy, foster children could continue to be placed in homes which may no longer be suitable for them.

Management Comment:

We recommend that Berea 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 5-4	ACCURACY OF AGENCY INVOICES
------------------	-----------------------------

Results:

Berea must submit invoices to CCDCFS for services rendered under their agreement.⁵⁰ The invoices should be complete and accurate.

In 1 out of 120 billings tested we found that Berea billed and received payment from the CCDCFS for 22 days of service for a foster child who was in their care for only 20 days. CCDCFS overpaid Berea in the amount of \$117 due to this overbilling. During the course of the audit, Berea repaid this overpayment to CCDCFS. Inaccurate billings could result in over reimbursement and federal questioned costs.

⁴⁹ Ohio Admin. Code Section 5101:2-5-30(C).

⁵⁰ Cost and Delivery of Purchased Services, Purchase of Services Agreement, 4(J).

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

Management Comment:

We recommend that Berea review the accuracy of its invoices prior to submitting them to CCDCFs for payment.

Procedures should be implemented at Cuyahoga County Department of Children and Family Services which would detect incorrect billings from foster care agencies prior to payment.

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

Results:

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 a ODHS 1691, the application for a family foster home certificate.

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

Management Comment

Berea Children's Home 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.

ISSUE 5-6	APPROVAL OF A FOSTER CAREGIVER PRIOR TO THE RESULTS OF THE CRIMINAL RECORDS CHECK
------------------	---

Results:

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

One of eleven foster home files reviewed revealed that the results of the criminal background checks were received after the date the Agency recommended the family foster home for certification to ODJFS.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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

Management Comment

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

ISSUE 5-7	TITLE IV-E PURCHASED FAMILY FOSTER CARE COST REPORT
------------------	--

Results:

\$45,682 detailed as federal questioned costs in Issue 1-1, 1-2, and 1-3 of this report, was charged against the foster care program, and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

ODJFS must determine the amount of over reporting by Berea and recompute the Title IV-E per diem reimbursement rate that should have been paid to Berea during the Period and reimburse HHS, ODJFS or the PCSA for any over reimbursement resulting from the overstated costs.⁵¹ 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 review⁵² of all cost reports⁵³ and comparison of those cost reports to audited financial statements. Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

ISSUE 6	TEST OF MEDICAID BILLINGS
----------------	----------------------------------

Objective:

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

⁵¹ Pursuant to Ohio Admin. Code Section 5101:2-47-01(L).

⁵² 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.

⁵³ 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.

**BEREA CHILDREN'S HOME
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES**

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 Berea received Medicaid reimbursement in compliance with Ohio Admin. Code Sections 5101:3-4-02, 5101:3-4-29(D) and 5101:3-4-29(G).

Results:

During the test of Medicaid billings we found that: Medicaid billings had adequate supporting documentation; procedures 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.

ISSUE 7	TEST OF MEDICAID SERVICES
----------------	---------------------------

Objective:

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

Procedures Performed:

1. We determined if Berea 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 Berea.
3. We determined if qualified personnel were providing the required service.
4. We determined if the required Medicaid reports were being signed by the required individual.

Results:

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

**BEREA CHILDREN'S HOME
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	12	\$13,730
Unallowed Cost of Housing	1-2	16	30,800
Purchase of Promotional Items	1-3	16	1,152
ODJFS Systemic Misclassification of Costs	3-1	21	<u>430,642</u>
TOTAL FEDERAL QUESTIONED COSTS			<u>\$476,324</u>



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

BEREA CHILDREN'S HOME

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
JUNE 7, 2001**