



CHILD PROTECTIVE SERVICES

THE TWELVE, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**THE TWELVE, INC.
REPORT ON AGREED-UPON PROCEDURES**

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

NAME	TITLE	TERM
BOARD OF TRUSTEES		
Father John Nentwick	President	Founder
Charles Bendetta	Vice President	November, 1986 to Present
Dean Bagnola	Secretary	July, 1978 to Present
Don Deitemyer	Treasurer	February, 1979 to Present
Michael Gruber	Member	September, 1983 to Present
Terry Kessler	Member	November, 1990 to Present
Len Bossart	Member	May, 1991 to Present
Mark Huemme	Member	February, 1997 to Present
Don Riley	Member	June, 1997 to Present
Marilyn Brundage	Member	June, 1997 to Present
Carroll Parks	Member	June, 1997 to September, 1999
ADMINISTRATIVE PERSONNEL		HIRE DATE
John Stoia	Executive Director	January 1, 1974
Michael Little	Regional Director (Massillon)	January 21, 1991
Robert Sprague	Regional Director (Elyria)	September 25, 1989
Diana Kleman	Regional Director (Toledo)	January 22, 1996
Rose Chervenak	Group Home Coordinator	December 1, 1978
Robert Vasquez	Special Project Coordinator	January 8, 1996

Agency Address:

The Twelve, Inc.
619 Tremont SW
P.O. Box 376
Massillon, Ohio 44648



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OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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Independent Accountants' Report

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

Dear Director Hayes:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services¹ (ODJFS or Department), formerly known as the Ohio Department of Human Services (ODHS), and the Auditor of State (AOS), we have conducted a Child Protective Services/Special Title IV-E Review ("Review") and performed the procedures summarized below for The Twelve, Inc. (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 The Twelve, Inc. 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.

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

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

On August 27, 2001, we held an informational meeting prior to the finalization of the report. Based on the information presented the Placement Agency waived a post audit conference. The meeting was held with the following:

<u>Name</u>	<u>Office/Position</u>
Gregory W. Kelly	Auditor of State, Assistant Chief Deputy Auditor
Sam Long	Auditor of State, Assistant Auditor
Carolyn Edwards	Auditor of State, Auditor-In-Charge
John Stoia	The Twelve, Inc., Executive Director
Dean Bagnola	The Twelve, Inc., Financial Statement Compiler
Mike Gruber	The Twelve, Inc., Board Member
John Nentwick	The Twelve, Inc., Board Chair

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

September 20, 2001

THE TWELVE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

BACKGROUND INFORMATION

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS 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 twelfth report released of the 25 reports to be issued.

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

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

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

Public Children Services Agency Contractual Requirements

Public Children Services Agencies (PCSAs) are authorized to enter into contracts with a private child placing agency (PCPA) or a private noncustodial agency (PNA) to provide care and services which it deems to be in the best interest of any child who needs or is likely to need public care and services.⁵ PCPA/PNAs are licensed by ODJFS to act as a representative of ODJFS in recommending family foster

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

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

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

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

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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),⁶ a PCSA, entered into such an agreement with The Twelve, Inc., a PNA.⁷

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.⁸

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.⁹ 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,¹⁰ and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report.

OMB Circular A-110 provides, in pertinent part, "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report..."¹¹

⁶ During the period of this engagement Cuyahoga County Department of Children and Family Services (CCDCFS) was undergoing a separate financial audit conducted by the AOS. We selected CCDCFS records for testing for Issues 2 and 3, because records were accessible and it was both cost and time efficient to do so.

⁷ 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 Twelve, Inc dated January 27, 1998, for the period January 1, 1998 through December 31, 1998.

⁸ 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).

⁹ 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).

¹⁰ 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.

¹¹ Office of Management and Budget (OMB) Circular A-110 Uniform "Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations: Subpart C Paragraph 53(b).

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Cost Principles

Title IV-E foster care maintenance payments are designed to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.¹² Allowable administrative costs do not include the costs of social services provided to the child, the child's family or foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.¹³

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

In addition, because the PCPAs and PNAs enjoy federal tax-exempt status, they are directly precluded from assigning any part of their net earnings "to the benefit of any private shareholder or individual..."¹⁴

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.¹⁵

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

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the Office of Management and Budget (OMB) Circulars A-87 and A-122."¹⁶ 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.¹⁷ Ohio Admin. Code Section 5101:2-5-08(G) states, "A PCPA or PNA shall not permit public funds to be paid or committed to

¹² 42 U.S.C. Section 675(4)(A).

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

¹⁴ 26 U.S.C. Section 501(c)(3).

¹⁵ 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) (2001), respectively.

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

¹⁷ Ohio Admin. Code 5101:2-47-26. Prior to 5/1/98, these requirements were contained in Ohio Admin. Code Section 5101:2-47-64.

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be paid to any corporation, firm, association or business in which any of the members of the governing body of the agency, the executive personnel or their immediate families have any direct or indirect financial interest, or in which any of these persons serve as an officer or employee, unless the services

or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA. The PCPA or PNA shall make a written disclosure, in the minutes of the board, of any financial transaction of the PCPA or PNA in which a member of the board or his/her immediate family is involved.”

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

Reimbursement Process

The reimbursement process begins early each fiscal year when ODJFS disburses funds to the counties under its state plan for foster care approved by the Secretary of the U.S. Department of Health and Human Services (HHS). ODJFS submits quarterly reports to the HHS for reimbursement of federal financial participation (FFP) in foster care payments¹⁸ made to the PCPAs or PNAs.

In 1998, the FFP was 58% for maintenance payments¹⁹ made and 50% for administrative costs²⁰ 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, The Twelve, Inc. is bound by the terms of a purchase of service agreement it entered with CCDCFS to provide specialized foster care, residential treatment of children with severe behavioral and emotional problems, and independent living services (hereinafter referred to as “The Agreement”). These services are set forth in Section 4 of the Agreement.

¹⁸ 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.

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

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

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

Exhibit 3 of the Agreement is a complete copy of Ohio Admin. Code Section 5101:2-33-18, which is titled "Purchase of Service Agreements for Foster Care and Placement Services." That Ohio 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."²¹

Further, Ohio Admin. Code Section 5101:2-33-18(C), provides that, "Administrative case management and case planning activities" are, among other things, assistance from the providers of services, to the placement worker, under the purchase of services agreement, in activities such as: preparation for and participation in the judicial determination and review process, arranging for discharge and after-care services, development of case plans and coordinating the provider's role in carrying out those plans.²²

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, The Twelve, Inc. 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."²³

RESOLUTION OF QUESTIONED COSTS

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

OMB Circular A-133 defines questioned costs as follows:

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

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances."²⁴

²¹ Ohio Admin. Code Section 5101:2-33-18(B).

²² Ohio Admin. Code Section 5101:2-33-18(C).

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

²⁴ Office of Management and Budget (OMB) Circular A-133, Subpart A, .105 Definitions

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

We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with The Twelve, Inc. join together to ensure The Twelve, Inc. develops and implements a corrective action plan that will result in fiscal accountability²⁵ and legal compliance²⁶ in an expeditious manner. Based on the findings we recommend the following:

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

AGENCY INFORMATION

The Twelve, Inc. is a private noncustodial agency (PNA), originally incorporated December 19, 1968 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3). The Twelve, Inc. is licensed by ODJFS to operate a children's residential group homes, to operate or provide independent living arrangements, to recommend families to become foster families, to participate in the placement of children for adoption, and place children in foster homes. When a county children service agency needs a home for a foster child, it can contact agencies such as The Twelve, Inc. to place the child. The group of family foster homes (private foster network) utilized by The Twelve, Inc. has been in place since 1977. The Twelve, Inc. places foster children primarily for CCDCFS. The Twelve, Inc. also provided services to Lorain and Stark County Children Services as well as the Department of Youth Services.

²⁵ In Ohio Admin. Code Section 5101:2-33-19, Penalties for Failure to Comply with Fiscal Accountability Procedures, effective 12-1-01, ODJFS has set forth the penalties that ODJFS may enforce against PCSAs, PCPAs and PNAs for the failure to comply with procedures involving fiscal accountability.

²⁶ In Ohio Admin. Code Section 5101:2-47-23.1, Title IV-E Agency Contracting and Contract Monitoring Requirements, effective 12-1-01, ODJFS has set forth the requirements that a PCSA must establish a system of contracts and contract monitoring when purchasing foster care services.

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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
The Twelve, Inc.
Foster Care Statistics**

Characteristic	Statistic
Daily Average Number of Children in Placement	146
Number of Active Licensed Foster Homes	80
Average Per Diem Rate	\$53
Number of PCSAs from Which Agency Receives Children	26
Required Training for Foster Caregiver Orientation	30 hours
Required Annual Training for Foster Caregiver	12 hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Reports	\$ 2,337,579
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

During the Period, The Twelve, Inc.'s staff consisted of 18 employees, that provided foster care services including a foster care supervisor, foster care case managers, licensing specialists, a secretary, and social workers to provide the needed counseling and case management services to the foster children and foster parents. An additional six employees made up the indirect management and accounting staff for a total of 24 employees.

The Twelve, Inc.'s revenues were comprised primarily of funds from CCDCFS. The total foster care revenues received by The Twelve, Inc. during the Period was \$2,462,870.

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

**Table II
THE TWELVE, INC.
Revenue by Source**

	1998	Percent of Total Revenue
Cuyahoga County	\$1,806,680	73
Lorain County Children Services	138,965	6
Stark County Children Services	137,900	6
Department of Youth Services	104,123	4
All other County Revenue	275,202	11
Totals	\$2,462,870	100%

Relevant Individuals

John Stoia

Mr. Stoia was the Executive Director of The Twelve, Inc. and the Accounts Receivable clerk during the Period. He has served as the Executive Director since 1981.

Linda Sirpilla

Ms. Sirpilla performed duties as the Accounts Payable Clerk during the Period. She has held this position since August of 1983.

Mary Ann Williams

Ms. Williams performed duties as the Executive Secretary and was also the Foster Child and Residential Children Billing Clerk during the Period. She has held this position since November of 1997.

D.A. Bagnola & Company, Inc.

D.A. Bagnola & Company, Inc. prepared monthly financial compilations during the Period. D.A. Bagnola & Company, Inc. has performed these services for The Twelve, Inc. since 1980.

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

To determine whether the Placement Agency's expenditures complied with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes during the Period.

Procedures Performed:

1. We obtained all canceled checks for non-payroll disbursements made by The Twelve, Inc. for each month during the Period (See Issue 5 for the reconciliation of payroll disbursements).
2. We inspected the details of every canceled check returned by the bank during the Period including vendor, amount, authorizing signature and endorsement for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.
3. For selected disbursements which did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or payments that appeared to be contrary to policy, we requested supporting documentation, such as invoices.
4. We inspected the supporting documentation to determine compliance with program requirements for expenditures and for potential self-dealing transactions prohibited by Ohio Admin. Code Section 5101:2-5-08(G).
5. We discussed with agency management all expenditures (check disbursements) that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined in applicable rules, regulations and/or contract provisions.
6. We obtained all credit card statements paid by The Twelve, Inc. for the Period and inspected details of each charge including vendor, amount, and authorization for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.
7. For selected credit card expenditures which did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or expenditures that appeared to be contrary to policy, we requested supporting documentation, such as invoices.
8. We discussed with agency management all credit card expenditures that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined by applicable rule regulations and/or contract provisions.
9. We read lease agreements and other documentation supporting all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and The Twelve, Inc.

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ISSUE 1-1	CHECK AND CREDIT CARD DISBURSEMENTS NOT ALLOWED OR WHICH LACKED SUPPORTING DOCUMENTATION REQUIRED UNDER THE CCDCFS CONTRACT.
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Results:

Office of Management and Budget (OMB) Circular A-122 “Cost Principles of Non-Profit Organizations,” requires that for a cost to be allowable, it must, among other factors be reasonable and adequately documented.²⁷

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 . . .”

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

In addition, under Section 1 of the Agreement, The Twelve, Inc. was to provide those services as delineated in Section 4 of the Agreement.³⁰

We inspected four hundred twenty-three (423) check disbursements totaling \$430,936 in charges. We requested invoices and/or receipts for these expenditures, 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. The Twelve, Inc. was unable to provide us with invoices and/or receipts as requested for 34 transactions totaling \$1,511 and was in violation of OMB Circular A-122, Attachment A(2)(a) and (g).

We inspected two hundred forty (240) credit card expenditures totaling \$40,971 in charges. We requested invoices and/or receipts for these expenditures, 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. The Twelve, Inc. was unable to provide us with receipts and invoices as requested for ten (10) transactions totaling \$435 and was in violation of OMB Circular A-122, Attachment A(2)(a) and (g). Undocumented expenditures totaled \$1,946.

²⁷ OMB Circular A-122 “Cost Principles of Non-Profit Organizations”, Attachment A, Paragraph A (2)(a) and (g).
²⁸ Section 14, Financial Records, Purchase of Services Agreement, dated 1/27/98, p.23.
²⁹ Section 15, Availability and Retention of Records, Purchase of Services Agreement, dated 1/27/98, pg.23.
³⁰ See detailed discussion of these agreed-upon services in the “Allowable Costs” Section of this report.

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SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Additionally, 14 check disbursements totaling \$606 were not allowable foster care maintenance, administrative case management, case planning activities, and related administrative activities as well as being unallowable under OMB Circular A-122. These improper expenditures consisted of late fees, parking tickets, flowers for employees and board members, and a party and gift for a retiring employee. They were as follows:

1. Six check disbursements totaling \$235 for staff and board member flowers, staff gifts, and a staff party were unallowable under 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." The agency's reporting of these expenditures on its ODJFS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7), which disallows the reporting of "Entertainment costs for amusements social activities, and related costs for staff only."³¹
2. One check disbursement of \$20 for a parking ticket was unallowable under OMB Circular A-122, Attachment B, Paragraph 16 which states, "Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of an award or instructions in writing from the awarding agency." The agency's reporting of these expenditures on its ODJFS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(8), which disallows the reporting of "Fines or penalties resulting from violations of, or failure comply with, laws, and regulation."³²
3. Six check disbursements totaling \$76 for late fees were unallowable under OMB Circular A-122, Attachment B, Paragraph 23(a)(1), which states in pertinent part: "Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable..." The agency's reporting of these expenditures on its ODJFS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(9), which generally disallows the reporting of "Costs incurred for interest on borrowed capital..."³³
4. One check disbursement of \$275 for a political fund-raising dinner was unallowable under OMB Circular A-122, Attachment B, Paragraph 25 (a) and (2) which states, ". . . cost associated with the following activities are unallowable..." "Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections."

³¹ Prior to 5/1/98, the rule was stated at Ohio Admin. Code Section 5101:2-47-64(G).

³² Prior to 5/1/98, the rule was stated at Ohio Admin. Code Section 5101:2-47-64(H).

³³ Prior to 5/1/98, Ohio Admin. Code Section 5101:2-47-64(I) prohibited, among other things, "interest on borrowings."

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

**Table III
The Twelve, Inc.
Questioned Costs**

Undocumented Expenditures	
Check Disbursements	
Recreation	\$317
Bedding, linen, and laundry expenses	21
Restaurant and grocery expenses	374
Gifts to foster and residential kids	32
Miscellaneous receipts	42
Checks payable to petty cash	625
Lodging	34
Gas receipts	<u>66</u>
Total Undocumented Check Disbursements	<u>1,511</u>
Credit Card Expenditures	
Air travel	212
Foster children's birth certificates	50
Miscellaneous receipts	31
Lodging expense	47
Restaurant expenses	<u>95</u>
Total Undocumented Credit Card Expenditures	<u>435</u>
Total Undocumented Expenditures	<u>1,946</u>
Unallowable Check Disbursements	
Late fees	76
Flowers for employees and board members	96
Parking tickets	20
Political donation	275
Employee gift & party for retiring employee	<u>139</u>
Total Unallowable Check Disbursements	<u>606</u>
Total Questioned Costs	<u>\$2,552</u>

Federal Questioned Costs: \$2,552

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, The Twelve, Inc. was in violation of Section 14 and 15 of its contract with CCDCFS and OMB Circular A-122³⁴ in the amount of \$1,946. The Twelve, Inc. was also in violation of OMB Circular A-122 Attachment B, Paragraphs 16, 18, 23, and 25, and/or Ohio Admin. Code Section 5101:2-47-26(A)(7)-(A)(9) with respect to the unallowed expenditures in the amount \$606 as described above in numbered Paragraphs 1-4. The undocumented federal questioned cost equaled \$1,946. The total federal questioned cost equaled \$2,552.

³⁴

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

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

Management Comment:

The Twelve, Inc. did not adhere to the CCDCFS contract regarding documentation of allowable direct and administrative cost requirements and financial records retention in the amount of \$2,552. 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.³⁵ In addition to the independent auditor's report on the financial statements, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. CCDCFS should review these reports and follow up on any exceptions reported. CCDCFS did not have such requirements and as a result, annual audited financial statements and a report on internal controls were not submitted to CCDCFS during the Period.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES
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Objective:

To determine whether all receipts and deposits from the applicable public children services agencies to The Twelve, Inc. 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 The Twelve, Inc. 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.
4. We tested a sample of 10% of the monthly billings by the Placement Agency to the 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 The Twelve, Inc. received as: program service fees from various counties and donations. We obtained documentation from the County Auditor to determine the completeness of the receipts from the CCDCFS. Furthermore, we determined that all CCDCFS disbursements to The Twelve, Inc. were receipted, deposited and recorded in its accounting records.

³⁵

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

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

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS
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Objectives:

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

Procedures Performed:

1. We obtained from Cuyahoga County Department of Children and Family Services, the ODHS Title IV-E Disbursement Journals detailing the federal reimbursement to Cuyahoga County Department of Children and Family Services for the months of January 1998 to June 1999 for foster care services. We also obtained from the Cuyahoga County Auditor a vendor payment history report for The Twelve, Inc. for the same period and traced these payments to the invoices submitted by The Twelve, Inc.
2. We selected a representative sample of children identified by CCDCFS as Title IV-E eligible children being serviced by The Twelve, Inc. Federal maintenance payments to these children totaled \$95,412 or 42.4% of the sample.
3. We found the child's name on the appropriate month's ODJFS Title IV-E Disbursement Journal. We documented the amount of federal maintenance reimbursement that would have been paid for each child.
4. We compared payments received by The Twelve, Inc. from CCDCFS to the corresponding 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 Twelve, Inc. 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 The Twelve, Inc. and CCDCFS and between The Twelve, Inc. and foster caregivers.
9. We compared The Twelve, Inc.'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.

THE TWELVE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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

Payments for foster care maintenance are intended to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.³⁶

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 payments³⁷ made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments³⁸ made and 50% for administrative costs³⁹ incurred under the Title IV-E program.

We selected a sample of 137 children eligible for Title IV-E federal maintenance reimbursements. We found that the PNA billed and CCDCFS submitted \$224,878 to ODJFS for reimbursement. ODJFS did not require the Placement Agency to specifically identify the amounts for maintenance and administration. ODJFS then requested FFP for foster care maintenance costs of \$164,503 and received \$95,412 at the 58% FFP reimbursement rate, however the Placement Agency made maintenance payments to foster parents totaling \$101,348. The remaining \$63,155 was retained by The Twelve, Inc. and used for administrative costs or other purposes.

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

Table IV
Overpayment of Title IV-E Maintenance Reimbursement

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	\$95,412
Required PCSA Match for Federal Financial Participation	<u>69,091</u>
Total Title IV-E Maintenance Claimed by ODJFS	164,503
Amount Paid by PNA to Foster Parents for Maintenance	<u>(101,348)</u>
Overstatement of Maintenance Claim	<u>\$63,155</u>

³⁶ 42 U.S.C. Section 675(4)(A)

³⁷ 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.

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

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

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Projected Questioned Costs:

We specifically identified \$63,155 of maintenance overclaimed in our sample. In order to evaluate the potential effect caused by these systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned costs. We used the ratio approach, as illustrated below:

<u>Dollar Amount of Error :</u>		
Dollar Amount of Sample	\$63,155/\$164,503	38.39%
X Dollar Amount of Population		<u>\$1,105,392</u>
Projected overstatement of Maintenance Claim		\$424,360
Actual Maintenance Reimbursement Claim (58% Reimbursement Rate X \$424,360)		\$246,129
Allowable Administrative Reimbursement Claim (50% Reimbursement Rate X \$424,360)		<u>\$212,180</u>
Overpayment of Maintenance Claim		<u>\$33,949</u>

Federal Questioned Costs: \$33,949

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 cost claimed for federal reimbursement was overstated by \$63,155 and when extended to the population using the ratio approach resulted in questioned costs of \$33,949.

ODJFS should take the Federal Questioned Cost over reported to the County and re-compute the Title IV-E per diem reimbursement rate that should have been paid to the Placement Agency during the Period and reimburse HHS, ODJFS or the PCSA for the overstated costs.⁴⁰

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.⁴¹ 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.

⁴⁰ Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-03(H).

⁴¹ In Ohio Admin. Code Section 5101:2-47-26.1, Procedures to Monitor Cost Reports submitted by PCSAs, PCPAs, and PNAs, effective 12-1-01, ODJFS has set forth the cost report monitoring requirements.

THE TWELVE, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

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

We tested the payments from Cuyahoga County Department of Children and Family Services (CCDCFS) to The Twelve, Inc. for a sample of 187 foster children. The payments to the Placement Agency for this sample totaled \$303,921. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

The foster parents in the sample received \$134,916. We noted that these foster parents received the correct per diem rates per the CCDCFS contract. Of the \$303,976 received from CCDCFS by the Placement Agency the foster parents received \$134,916 or 44% of the total funds paid to the Placement Agency by CCDCFS. The remaining \$169,060 or 56% was retained by The Twelve, Inc. and used for administrative costs, other direct services to children or other purposes.

The contract between CCDCFS and The Twelve, Inc. sets forth the amounts to be paid as the daily per diem rate for the services specified in the contract. In addition, the contract set the minimum amount to be paid to foster parents from the daily per diem rate paid to The Twelve, Inc. by CCDCFS.⁴² The amount paid to foster parents ranged from 38% to 45% of the stated daily per diem rate, depending on the level of care.

Management Comment:

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

ISSUE 3-3	ENTRANCE AND EXIT DATES OF PLACEMENT
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Results:

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

We compared 187 placement dates of foster children recorded by CCDCFS and The Twelve, Inc. and found 29 dates where the records did not agree. Inaccurate information about the dates children entered and exit the care of a PCPA/PNA could result in inappropriate administrative decisions and incorrect payments to the PCPA/PNA.

Management Comment:

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

⁴²

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

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

ISSUE 4	TEST OF INTERNAL CONTROLS
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Objectives:

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

Procedures Performed:

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

Results:

As a result of performing the above procedures we identified no internal control weaknesses during the Period.

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

1. To identify the administrative compliance requirements of the foster care program.
2. To identify significant administrative noncompliance with the provisions of the foster care program.
3. To determine if the Family Foster Home Records, completed and maintained by the PCPA/PNA, were in compliance with applicable sections of the Ohio Administrative Code.
4. To determine whether Title IV-E maintenance funds received by The Twelve, Inc. 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 The Twelve, Inc. was accurate and completed in accordance with ODJFS regulations.

**THE TWELVE, INC.
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Procedures Performed:

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

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

Ohio Admin. Code Section 5101:2-5-20(C)(1) provides: "An agency shall not accept an application for a 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 The Twelve, Inc. did not take adequate measures to ensure the information on the family foster home applications submitted were complete and accurate. Foster parent income was not verified in four out of ten foster home application files reviewed. Failure to verify the completeness and accuracy of information on the Family Foster Home Application increases the risk that unsuitable applicants may be recommended and approved. In addition, ODJFS had not established guidelines and standards for Placement Agencies to document their compliance with this requirement.

Management Comment:

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

ISSUE 5-2	APPROVAL OF FOSTER PARENT PRIOR TO RECEIVING BCII CHECK
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Results:

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

In one out of ten foster home application files reviewed the agency recommended the foster parent for certification (5/27/98) prior to receiving the BCII records check (7/29/98).

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

Management Comment:

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

ISSUE 5-3	TITLE IV-E COST REPORT
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Results:

Two thousand five hundred fifty-two dollars (\$2,552) detailed as a federal questioned cost in Issue 1-1 of this report, was charged against the foster care program, and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

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

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

Management Comment

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews⁴⁴ of all cost reports.⁴⁵ Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

⁴³ Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-03(H).

⁴⁴ 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.

⁴⁵ 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.

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

SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Undocumented Expenditures	1-1	12	\$1,946
Unallowable Costs	1-1	12	\$606
ODJFS Systemic Overpayment of Title IV-E Maintenance ⁴⁶	3-1	17	<u>\$33,949</u>
TOTAL FEDERAL QUESTIONED COSTS			<u>\$36,501</u>

⁴⁶

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



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OFFICE OF THE AUDITOR

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THE TWELVE, INC.

STARK 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
FEBRUARY 12, 2002**