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**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: County Auditor-Controller

SUBMITTAL DATE:
May 13, 2008

SUBJECT: Internal Auditor's Report #2007-011 – Department of Public Social Services-Foster Care Program

RECOMMENDED MOTION: Receive and file Internal Auditor's Report #2007-011 - Department of Public Social Services-Foster Care Program.

Require the Department of Public Social Services to report back within six months on the actions taken to address the findings identified in the report.

BACKGROUND: The Auditor-Controller completed an audit of the Riverside County Department of Public Social Services' (DPSS) Foster Care Program. Our purpose was to provide management and the Board of Supervisors with an independent assessment regarding internal controls over DPSS' monitoring of the foster care providers and compliance with the rules and regulations governing these programs.

(Continued)

Departmental Concurrence

Robert E. Byrd
Robert E. Byrd
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: APPROVE
BY: *Rob Rockwell*
Rob Rockwell

County Executive Office Signature

Dep't Recomm.: Consent Pollic y
 Per Exec. Ofc.: Consent Pollic y

3.8

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
RE: Internal Auditor's Report #2007-011 – Department of Public Social Services-Foster Care Program

PAGE 2

BACKGROUND CONTINUED:

Based upon the results of our audit, we identified significant noncompliance with federal and state regulations and at least \$2,982,768.78 of questioned costs. Because our audit was limited to a sample of three group homes and three foster family agencies, the results may not be reflective of all foster care providers. Regardless, our audit results identified the need for DPSS to implement formal monitoring of all foster care providers.

California Department of Social Services (CDSS) regulations do not clearly delineate whether the county or the state is responsible for monitoring foster care providers; however, in a letter dated March 21, 2008, CDSS identified itself as "the single state agency responsible for the administration of Title IV-E Foster Care funds."

We believe a dual responsibility should be shared between CDSS and Riverside County DPSS due to the requirements of Office of Management and Budget Circular (OMB Circular) A-133. The OMB Circular specifically requires the auditee to maintain internal controls which provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. DPSS meets the OMB Circular A-133 definition of an auditee: "any non-Federal entity that expends Federal awards which must be audited under this part."



County of Riverside

INTERNAL AUDITOR'S REPORT

Department of Public Social Services- Foster Care Program

May 13, 2008

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



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**COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER**
Robert E. Byrd, CGFM
AUDITOR-CONTROLLER
Bruce Kincaid, CPA
ASSISTANT
AUDITOR-CONTROLLER

May 13, 2008

Susan Loew, Director
Department of Public Social Services
4060 County Circle Drive
Riverside, CA 92503

Subject: Internal Auditor's Report #2007-011 – Department of Public Social Services-Foster Care Program

Dear Ms Loew:

We have completed an audit of the Department of Public Social Services' (DPSS) Foster Care Program. The Foster Care Program is funded by the use of federal, state and county funds. Funding is obtained through the Title IV-E Aid to Families with Dependent Children-Foster Care (AFDC-FC) funds. We conducted the audit during the period November 14, 2006 through June 1, 2007, for operations of January 1, 2005 through December 31, 2006.

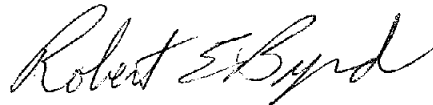
Our purpose was to provide management and the Board of Supervisors with an independent assessment regarding internal controls over DPSS' monitoring of the foster care providers and compliance with the rules and regulations governing these programs.

Our audit of six foster care providers identified significant noncompliance with federal and state regulations and at least \$2,982,768.78 of questioned costs. California Department of Social Services (CDSS) regulations do not clearly delineate whether the county or the state is responsible for sub-recipient monitoring; however, in a letter dated March 21, 2008 (Attachment A), the State identified itself as "the single state agency responsible for the administration of Title IV-E Foster Care funds." We believe a dual responsibility should be shared between CDSS and Riverside County DPSS due to the Office of Management and Budget Circular (OMB Circular) A-133 requirements. OMB Circular A-133 Sub-part C, Section 300, Part b, requires the auditee to maintain internal controls over Federal programs which provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. DPSS meets the OMB Circular A-133 definition of an auditee: "any non-Federal entity that expends Federal awards which must be audited under this part." Because our audit was limited to a sample of three group homes and three foster family agencies, the

results may not be reflective of all foster care providers. Regardless, our audit results identified the need for DPSS to implement formal monitoring of all foster care providers.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank DPSS management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.



Robert E. Byrd, CGFM
County Auditor-Controller

Cc: Board of Supervisors
County Counsel
District Attorney
Executive Office
Grand Jury

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Executive Summary

Overview

Foster Care is the temporary care for children who are unable to remain in their own homes and are placed in the custody of Riverside County Department of Public Social Services (DPSS). DPSS is responsible for the placement of foster children in certified homes or facilities. Such facilities include foster family agencies (FFA) or group homes. FFAs are private, not-for-profit agencies licensed by the State of California Department of Social Services (CDSS) Community Care Licensing (CCL) to certify individual homes for the placement of foster children. The FFA is paid a monthly rate which is determined by CDSS. This rate includes a basic foster care rate determined by the child's age, a monthly per child increment and additional monies to cover FFA administrative and social work costs. When a child is placed in an FFA certified home, the county pays the FFA the total rate for that child. The FFA is then responsible for payment to the certified home. Group homes are facilities licensed by CDSS CCL to provide services in a group setting to children in need of care and supervision. Group home rates are established by CDSS and are determined by the level and type of service provided to the child.

Currently, DPSS does business with 65 group homes and 32 FFAs. During the years ending June 30, 2005 and 2006, DPSS received \$47,016,342 and \$50,820,033, respectively, in Foster Care funding. The Foster Care Program is funded by the use of federal, state and county funds. Funding is obtained through the Title IV-E Aid to Families with Dependent Children-Foster Care (AFDC-FC) funds. Funding is shared by the agencies as follows: federal 50% of the costs for federal eligible children, county 30% and state 20%. For non-federal eligible expenses, the county pays 60% and the state pays 40%.

Our audit sample was selected based on total funding and upon suggestions from DPSS management and includes three group homes and three foster family agencies, one of which also operates a group home. During the two-year audit period, total funding for our audit sample was \$20,175,279.

Overall Objective

Our primary objective was to ensure compliance with rules and regulations governing the foster care programs, including: Federal Office of Management and Budget Circular A-122 and A-133 and California Department of Social Services Manual of Policies and Procedures (CDSS-MPP). Specifically, we reviewed DPSS' internal controls over the monitoring of foster care providers and each agency's expenditures, revenue, personnel files, and insurance policies.

Overall Conclusion

Our audit of six foster care providers identified significant noncompliance with federal and state regulations and at least \$2,982,768.78 of questioned costs. California Department of Social Services (CDSS) regulations do not clearly delineate whether the

county or the state is responsible for sub-recipient monitoring; however, in a letter dated March 21, 2008 (Attachment A), the State identified itself as "the single state agency responsible for the administration of Title IV-E Foster Care funds." We believe a dual responsibility should be shared between CDSS and Riverside County DPSS due to the Office of Management and Budget Circular (OMB Circular) A-133 requirements. OMB Circular A-133 Sub-part C, Section 300, Part b, requires the auditee to maintain internal controls over Federal programs which provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. DPSS meets the OMB Circular A-133 definition of an auditee: "any non-Federal entity that expends Federal awards which must be audited under this part." Because our audit was limited to a sample of three group homes and three foster family agencies, the results may not be reflective of all foster care providers. Regardless, our audit results identified the need for DPSS to implement formal monitoring of all foster care providers.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

Objectives

To ensure:

- DPSS maintains internal controls over the monitoring of the foster care providers;
- all group home and FFA employees meet the personnel provisions outlined in the CDSS-MPP: Title 22, Division 6, Chapter 5 and 8.8;
- foster care funding is spent in accordance with CDSS-MPP regulations 11-401 through 11-404;
- the group home/FFA is paid in accordance with the guidelines established by the CDSS rate classification levels;
- foster care funding spent on shelter costs does not exceed 12 percent of the fair market value of owned, leased or rented buildings in accordance with CDSS-MPP 11-402.827;
- the group home/FFA maintains appropriate insurance coverage; and
- the Board of Directors is in compliance with the applicable California Corporations Codes and Health and Safety Codes.

Methodology

To accomplish our objectives, we:

- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- conducted interviews and performed walk-throughs with department personnel;
- performed a risk assessment of the foster care providers based on dollar amount paid and discussions with DPSS personnel;
- reviewed group home/FFA personnel files;
- analyzed group home/FFA expenditures to ensure compliance with CDSS MPP 11-402.82;
- traced and agreed group home/FFA general ledgers to supporting documentation to ensure costs are actual, allowable and reasonable per state and federal regulations;
- traced the provider's payments from DPSS' payment list to the "Days of Care Schedule", to determine if the provider was paid the appropriate amount;

- traced payments to the providers monthly bank statement to ensure payments are deposited to the agency's operating account;
- reviewed automobile, worker's compensation and general liability insurance certificates to ensure reasonableness;
- reviewed the Board of Directors' meeting minutes to ensure compliance with California Corporations Code (CCC); and
- traced shelter costs to the appropriate lease agreement to ensure payments do not exceed 12 percent of the fair market value of the applicable property.

Sub-Recipient Monitoring

Finding 1

DPSS did not enter into a formal written contract with foster care providers. Additionally, DPSS has no policies and procedures in place to ensure provider contract compliance. Furthermore, DPSS did not consult with CDSS to ensure the foster care providers were monitored for state and federal compliance. As a result, significant noncompliance with state and federal guidelines exists. CDSS and DPSS, as recipients of Title IV-E funds, are responsible for ensuring that providers comply with federal guidelines.

Unallowable Costs

Six of six agencies had unallowable costs totaling \$1,613,505.56 which includes:

- \$539,118.30 of interest expense to finance the purchase of a building, which was not approved by the awarding agency. Over the entire life of the 15-year loan, the foster family agency will pay \$785,744 in interest payments. Interest payments are unallowable costs per OMB Circular A-122 Section 23 without the prior approval of the awarding agency.
- \$390,459.07 used to open and operate a learning center which provides assistance to children requiring tutoring services, including non-foster care children. CDSS 11-402.825(f) disallows the cost of formal educational activities.
- Net costs of \$246,086.86 to open and operate a counseling center during the period January 1, 2003 through December 31, 2006. CDSS MPP 11-402.82 states that reported costs shall be actual, allowable and reasonable. Because the counseling center provides services to non-foster care children and operates under a separate mental health contract, it is not appropriate to manage a counseling center with foster care funding.
- \$195,000 to purchase two Housing and Urban Development (HUD) homes not used for foster care purposes. During the year ending December 31, 2005, the agency spent additional monies on building improvements; however, inadequate recordkeeping prevents us from determining the amounts allocated to the two HUD homes and the five group homes. In addition, \$4,335.95 was spent on property taxes for the two HUD homes and \$125 on carpet cleaning. CDSS-MPP 11-402.82 states that reported costs shall be actual, allowable and reasonable; however, the two HUD homes were purchased for a purpose unrelated to the group home function.
- Net costs of \$91,407.03 to open and operate a thrift store during the period January 1, 2003 through December 31, 2004. The thrift store earned gross revenue of just \$10,900.46 during the same period. CDSS MPP 11-402.82 states that reported costs

shall be actual, allowable and reasonable; however, the thrift store was opened and operated for a purpose unrelated to the foster care function.

- \$43,468.88 of fines and penalties, such as IRS penalties, bank fees, and late fees. Fines and penalties are unallowable per OMB Circular A-122 Section 16.
- \$37,818.77 of interest payments to finance the purchase of 7 vehicles, including five vans and two luxury sport utility vehicles. Interest payments are unallowable per OMB Circular A-122 Section 23 which is unallowable without the prior approval of the awarding agency.
- \$28,353.97 for legal services, although the agency's professional liability insurance covers such services. OMB Circular A-122 Section 22(a)(3) states actual losses which could have been covered by permissible insurance are unallowable.
- \$15,836.18 of miscellaneous interest payments. The payment of interest is not permitted per OMB Circular A-122 Section 23.
- \$9,800 of rent payments for an idle facility not used for Foster Care purposes. Such costs are unallowable per OMB Circular A-122 section 21(a)(2).
- \$6,696.27 of student loan payments which do not appear to benefit the agency. CDSS MPP 11-402.82 states that reported costs shall be actual, allowable and reasonable.
- \$4,911.28 of fundraising costs that is unallowable per OMB Circular A-122 Section 17.
- \$66.73 of purchases made at a lingerie store for a boys group home which is not operated as a program for gay and lesbian children. This cost would not be considered actual, allowable and reasonable under CDSS MPP 11-402.82.
- \$21.27 of alcoholic beverage purchases, which is unallowable per OMB Circular A-122 Section 3.

In addition, five of the six agencies' Board of Directors approved the use of corporate assets for purposes unrelated to carrying out the charitable purpose of the group home/foster family agency. CDSS has published a manual entitled "Facts You Need to Know, Group Home Board of Directors" in response to Senate Bill 933, Chapter 311, Statute of 1998. The legislature requires the board members to sign a statement indicating they have received and read the booklet. Page 9 of the booklet states:

Certain distribution of corporate assets is prohibited such as: (1) transfers of corporate funds or assets to directors, officers, or members without fair consideration; (2) payment of excessive or unauthorized salaries or "bonuses"; (3) improper gifts of charitable assets to individuals; and (4) other uses of corporate assets unrelated to carrying out the charitable purposes of the corporation. A director may be

personally liable for making or receiving a prohibited "distribution" of the public benefit corporation's assets.

Page 3 of the manual states the directors are fiduciaries and "To protect the corporation's interest, the board must guard against harm to the corporation caused by any unfair or unreasonable transactions".

Unsupported Costs

Four of six agencies had unsupported expenses totaling \$610,464.64, which includes:

- \$272,932.48 of clothing allowances;
- \$136,900.70 of vehicle purchases;
- \$104,167.55 of miscellaneous expenditures;
- \$29,930.25 of credit card purchases; and
- \$66,533.66 of credit card cash advances.

Unsupported costs include expenditures for which no receipt, log, invoice or other pertinent documentation was provided. CDSS MPP 11-402.82 states that reported costs shall be actual, allowable and reasonable; however, without proper documentation, we cannot ensure foster care funding is spent accordingly.

Inadequately Supported Costs

Three of six agencies had inadequately supported expenses, totaling \$360,782.06, which includes:

- \$206,228.83 of credit card purchases;
- \$59,747 of Notes Payable;
- \$45,556.23 of miscellaneous expenditures and cash withdrawals; and
- \$49,250 for the repayment of employee loans.

Inadequately supported costs represent expenditures for which a receipt was provided but the business nature of the expenditure could not be easily determined. CDSS MPP 11-402.82 states that reported costs shall be actual, allowable and reasonable; however, without proper documentation, we cannot ensure foster care funding is spent accordingly.

Excessive Cash Reserves

Two of six agencies had excessive cash reserves based on the most recent audited financial statements available. Specifically,

- As of December 31, 2005 an agency retained cash and equivalents totaling \$1,089,434, of which \$895,000 is held in uninsured accounts.
- As of June 30, 2006 an agency retained cash and equivalents totaling \$1,798,456, of which \$1,413,064 is held in uninsured accounts.

Per OMB Circular A-122, a non-profit organization "uses its net proceeds to maintain, improve, and/or expand its operations". Thus, the agency should use its retained earnings to provide additional goods or services to the children under its care. Furthermore, best business practices allow for retained earnings equivalent to 60 days of operating expenses.

Unaccounted Revenue

One agency received foster care revenue which cannot be traced to the agency's bank accounts. Specifically, the agency was paid approximately \$2,578,861.38 for foster care services provided during the period January 1, 2005 through December 31, 2006. However, upon review of the agency's bank statements for the same period, we identified \$2,252,698.94 of deposits. This results in a difference of \$326,162.44.

An additional four agencies received warrants which could not be traced to deposits for the month received; however, additional testing was not performed to determine if the warrants were deposited in subsequent months. Regardless, funds should be available during the month for which they were intended.

Excessive Shelter Costs

Three of six agencies had excessive shelter costs totaling \$71,854.08. One of the three agencies shared office space with their lessor; however, no allocation of square footage identifying how much of the building is operated by each occupant was provided. The same agency provided an appraisal, which values the properties at a higher amount; however, the appraisal was conducted in 1989, before the last change in ownership. Based on the current real estate condition, it is probable the properties were worth more than what they were purchased for; however, without an updated appraisal we are unable to make that determination.

Audited Financial Statements

One of six agencies could not provide audited financial statements for the years ending December 31, 2005 and 2006. Furthermore, one additional agency provided us audited statements which appeared to be incomplete. Without complete audited financial statements, we were

unable to determine the agencies' financial position at year end. In accordance with OMB Circular A-133, DPSS should have procedures in place to ensure foster care providers have the required audits performed. In addition, per CDSS-MPP 11-405.213(a), all agencies that expend more than \$500,000 in foster care funds per year, are required to have audited financial statements prepared annually in accordance with OMB A-133.

Personnel Requirements

Two of six agencies did not ensure their employees met the personnel requirements outlined in state regulations. At one agency, we identified a Supervising Social Worker who had not obtained a Master's Degree as required by CDSS-MPP 88065.2. At the second agency, we identified four employees with no criminal record clearance in the employee's file, as required by Health and Safety Code 1522.

Recommendation 1.1 DPSS should clearly define its expectations of foster care providers, implement formal contracts and perform periodic monitoring of all providers to ensure compliance.

Recommendation 1.2 DPSS should work with CDSS to ensure Riverside County foster care providers comply with all state and federal regulations.

Management's Reply Partially Agree. The State is responsible for administering the Foster Care System and has assigned specific responsibilities to counties, which include: paying providers based on the State's approved rates, recommending the establishment of new providers or program changes for existing providers, and under limited circumstances, identifying the services offered and verifying that children in high level group homes are receiving the appropriate treatment services. The State guidelines are included as Attachment B.

In addition, DPSS regularly monitors the programs and services provided to children in foster care to ensure that children's needs are being met and that the environment is safe, stable and suitable. It is our current practice to notify CDSS and Community Care Licensing at any time that we identify potential irregularities. If the circumstances warrant, we will suspend placements with a provider pending a review by CCL.

Pursuant to State regulations, DPSS utilizes a State defined agreement for foster parents and group homes. Copies of the agreements are included as Attachment C. These are binding documents that delineate DPSS' responsibilities and the foster parent or group home's responsibilities with regard to the care of a specific child. An agreement is created for each child in foster care.

With regard to recommendation 1.1, DPSS has been following the guidelines as established by the State. DPSS is not opposed to establishing a more formal agreement that more clearly delineates the current roles and responsibilities of each party. DPSS will work with County Counsel, the Auditor-Controller and the State Department of Social Services to modify the current agreement as needed.

With regard to recommendation 1.2, DPSS has a close working relationship with CDSS. As mentioned above, we communicate regularly with CDSS and Community Care Licensing and do not hesitate to bring concerns to their attention for review and action as appropriate. We intend to maintain this relationship to ensure quality care is provided to our dependent children.

Auditor's Comment Management's partial agreement should be sufficient to address a portion of the finding identified; however, additional internal controls related to the monitoring of the providers may help the County to better meet its requirements under OMB Circular A-133.

Insurance

Finding 2 Six of six agencies did not consistently list DPSS as an additional insured party on their insurance policies; although in some instances, other counties or programs were listed. Additionally, one of the six agencies did not carry general liability insurance. Although State and Federal agencies do not stipulate specific insurance requirements, prudent management of risk should require foster care providers to carry insurance to mitigate the County's risk. Without proper insurance coverage, Riverside County is exposed to significant financial liability should a provider be accused of any wrongdoing.

Recommendation 2 DPSS management should require all contractors to carry insurance and list the County as additionally insured.

Management's Reply Agree. DPSS understands the rationale for protecting the County from liability and typically includes these provisions in contracts with vendors and other service providers. DPSS will work with Risk Management, CDSS and our foster care providers to clarify the need for insurance coverage. This requirement can be incorporated into modifications made to the agreements referenced in Recommendation 1.1.

DPSS Payment System

Finding 3

The payment system (C-IV) currently used by DPSS contains inaccurate information, such as, incorrect children's birthdates, length of placement and multiple vendor names for some providers. Specifically, we identified the following:

- children's birthdates per the Days of Care Schedule differed from the DPSS payment system;
- warrants were issued to the provider in an amount different than was reported on the Days of Care Schedule;
- agencies did not receive payment for children reported on the Days of Care Schedule;
- agencies received payment for children not reported on the Days of Care Schedule;
- agencies continued to receive payment for children over the age of 18 without an exception on file; and
- 4 of 6 agencies were paid under multiple vendor names.

Inaccurate placement information may result in significant over/under payments. The Title IV-E program disallows payments made on behalf of ineligible children, or to providers for services they did not provide.

Recommendation 3

DPSS should implement policies and procedures to ensure the C-IV payment is updated as necessary, resulting in more timely and relevant placement information.

Management's Reply

Agree. DPSS staff request clarification regarding the discrepancies identified, since several of the findings refer to a "Days of Care Schedule" that is not a DPSS form and may instead be a record keeping system maintained by the providers.

DPSS has detailed policies and procedures in place for administering Foster Care eligibility and payments. DPSS follows the State of California Eligibility and Assistance Standards (EAS) for the Aid to Families to Dependent Children-Foster Care (AFDC-FC) regulations when processing payment cases. The design of the C-IV automated eligibility and payment system is based on the AFDC-FC regulations contained in the EAS.

Additional information related to specific issues raised in the audit report is attached as Attachment D. DPSS is willing to review any specific cases with the Auditor to clarify any issues or concerns with the C-IV payment system.

Building Acquisitions

Finding 4

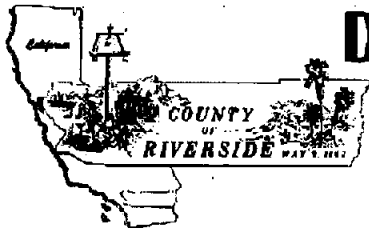
Two of 6 agencies own buildings purchased with foster care funding.

- One agency purchased a building for \$1.5 million, putting \$500,000 down and financing the \$1 million for 15-years at 8.625%. An additional \$169,407.52 was spent on building improvements. Per the agency, the building was purchased with Los Angeles County's funds and approval was obtained prior to the purchase of the building. However, approval documentation was not provided and an inquiry with Los Angeles County Contracts Administration noted that prior approval was not obtained. The agency provides foster care services in Los Angeles, Riverside, San Bernardino and Orange Counties. Without specific documentation to state otherwise, it is assumed that funds received from Riverside County were used in the purchase and finance of the building.
- The second agency used foster care funds to purchase two HUD homes. Both of the homes were purchased with cash. The agency does business with Los Angeles, Riverside and San Bernardino Counties, though the majority of the agency's clients are referred by Riverside County. The agency did not request, nor receive, prior written approval from any County to purchase the homes.

The Code of Federal Regulations (CFR), Title 45, Section 74.37 states the County may record a lien or other notice indicating real property has been acquired, constructed or improved with federal funds, and that use and disposition conditions apply to the property. All real property, equipment, intangible property and debt instruments that are acquired or improved with federal funds shall be held in trust by the County as trustee for the beneficiaries of the program and shall not be encumbered without the approval of the United States Department of Health and Human Services awarding agency.

Recommendation 4 DPSS management should consult with County Counsel to determine whether the County can place a lien on the properties to protect the County's interest, as regulated in CFR, Title 45, Section 74.37.

Management's Reply Given the seriousness of the preliminary audit findings, it is appropriate to take steps to protect the County's interests. DPSS will consult with County Counsel regarding the feasibility of implementing a lien on properties, should that be deemed appropriate.



Department of Public Social Services

Administrative Office: 4060 County Circle Drive, Riverside, CA. 92503
(951) 358-3000 FAX: (951) 358-3036

Susan Loew, Director

May 6, 2008

Mr. Robert E. Byrd, CGFM
County Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92502

**Subject: Draft Internal Auditor's Report #2007-011
Department of Public Social Services
Foster Care Program**

Dear Mr. Byrd:

We have reviewed your draft audit report on the Foster Care program and we share your concerns regarding the findings of non-compliance with respect to the use of these funds. DPSS' foremost concern is the safety and well-being of all children, and to ensure that children in foster care receive the care and support needed. Upon learning of these findings, DPSS conducted an immediate check of the children receiving care in these facilities. Despite the accounting irregularities, we determined that the children were receiving outstanding care and nothing warranted a change in placement.

As you have acknowledged, the State is the lead agency in administering the Foster Care System and administers most of the components. The State has assigned a few specific roles and responsibilities to counties, which we will discuss in more detail in response to the recommendations.

Since these concerns were brought to the State's attention, the State responded by advising you that they are responsible for ensuring that foster care providers comply with applicable federal and state statutes. As a result of the concerns identified, the State acknowledged that a complaint would be filed for review by the State's Program and Financial Audits Bureau and to the Community Licensing Division. A copy of the State's response is included as Attachment A.

I share your concern that the public's money be spent in accordance with the law. I am also concerned that Foster Care providers meet the stringent licensing standards established for the safety of our dependent children. In addition, as stewards of public funds, it is also important that we have clarity around the roles and responsibilities for

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INNOVATIONS IN AMERICAN GOVERNMENT AWARD WINNER · 1996

Mr. Robert E. Byrd, CGFM
County Auditor-Controller
May 6, 2008

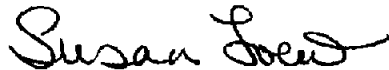
Page 2

administering the system in order to avoid duplication of services and use the limited resources available in the most efficient and effective manner.

We look forward to working with you and your staff to ensure that our children receive the care and support they need and that the funds provided for their care adhere to state and federal guidelines.

Please feel free to contact me at 358-3005 if you have any questions or wish to discuss this further.

Sincerely,



Susan Loew
Director

- Attachment A: Letter from G. Rose dated March 21, 2008 – 2 pages
- Attachment B: Responsibilities of County Welfare Departments – 1 page
- Attachment C: Agency Foster Parents Agreement - Form SOC 156 – 2 pages
Agency Group Home Agreement – Form SOC 154 – 2 pages
- Attachment D: C-IV Payment System – 2 pages

Recommendation 1.1:

DPSS should clearly define its expectations of foster care providers, implement formal contracts and perform periodic monitoring of all providers to ensure compliance.

Recommendation 1.2:

DPSS should work with CDSS to ensure Riverside County foster care providers comply with all state and federal regulations.

DPSS RESPONSE – Partially Agree

The State is responsible for administering the Foster Care System and has assigned specific responsibilities to counties, which include: paying providers based on the State's approved rates, recommending the establishment of new providers or program changes for existing providers, and under limited circumstances, identifying the services offered and verifying that children in high level group homes are receiving the appropriate treatment services. The State guidelines are included as Attachment B.

In addition, DPSS regularly monitors the programs and services provided to children in foster care to ensure that children's needs are being met and that the environment is safe, stable and suitable. It is our current practice to notify CDSS and Community Care Licensing at any time that we identify potential irregularities. If the circumstances warrant, we will suspend placements with a provider pending a review by CCL.

Pursuant to State regulations, DPSS utilizes a State defined agreement for foster parents and group homes. Copies of the agreements are included as Attachment C. These are binding documents that delineate DPSS' responsibilities and the foster parent or group home's responsibilities with regard to the care of a specific child. An agreement is created for each child in foster care.

With regard to recommendation 1.1, DPSS has been following the guidelines as established by the State. DPSS is not opposed to establishing a more formal agreement that more clearly delineates the current roles and responsibilities of each party. DPSS will work with County Counsel, the Auditor-Controller and the State Department of Social Services to modify the current agreement as needed.

With regard to recommendation 1.2, DPSS has a close working relationship with CDSS. As mentioned above, we communicate regularly with CDSS and Community Care Licensing and do not hesitate to bring concerns to their attention for review and action as appropriate. We intend to maintain this relationship to ensure quality care is provided to our dependent children.

Recommendation 2:

DPSS Management should require all contractors to carry insurance and list the County as additionally insured.

DPSS RESPONSE – Agree

DPSS understands the rationale for protecting the County from liability and typically includes these provisions in contracts with vendors and other service providers. DPSS will work with Risk Management, CDSS and our foster care providers to clarify the need for insurance coverage. This requirement can be incorporated into modifications made to the agreements referenced in Recommendation 1.1.

Recommendation 3:

DPSS should implement policies and procedures to ensure the C-IV payment is updated as necessary, resulting in more timely and relevant placement information.

DPSS RESPONSE - Agree

DPSS staff request clarification regarding the discrepancies identified, since several of the findings refer to a "Days of Care Schedule" that is not a DPSS form and may instead be a record keeping system maintained by the providers.

DPSS has detailed policies and procedures in place for administering Foster Care eligibility and payments. DPSS follows the State of California Eligibility and Assistance Standards (EAS) for the Aid to Families to Dependent Children-Foster Care (AFDC-FC) regulations when processing payment cases. The design of the C-IV automated eligibility and payment system is based on the AFDC-FC regulations contained in the EAS.

Additional information related to specific issues raised in the audit report is attached as Attachment D. DPSS is willing to review any specific cases with the Auditor to clarify any issues or concerns with the C-IV payment system.

Recommendation 4:

DPSS Management should consult with County Counsel to determine whether the County can place a lien on the properties to protect the County's interest, as regulated in CFR, Title 45, Section 74.37.

DPSS RESPONSE - Agree

Given the seriousness of the preliminary audit findings, it is appropriate to take steps to protect the County's interests. DPSS will consult with County Counsel regarding the feasibility of implementing a lien on properties, should that be deemed appropriate.

Attachment A

STATE OF CALIFORNIA - HEALTH AND HUMAN SERVICES AGENCY

ARNOLD SCHWARZENEGGER, Governor

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814

4/16/08 cc: Loew
Deputy

08 MAR 28 PM 3:07
RIVERSIDE COUNTY
AUDITOR-CONTROLLER

March 21, 2008

Mr. Robert E. Byrd, CGFM
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, California 92502

Dear Mr. Byrd:

This letter is in response to your letter dated December 11, 2007 and sent to Mary L. Ault, former Deputy Director of the Children and Family Services Division of the California Department of Social Services (CDSS), in which you sent CDSS a copy of a confidential draft report of an audit conducted by the County of Riverside Auditor-Controller's Office. This audit examined Riverside County Department of Public Social Services (DPSS)'s oversight of their foster care program. You indicated in your letter that the findings identified in the audit report raise serious issues, which you believe need to be investigated by CDSS. Further, you requested that CDSS advise you as to the course of action we plan to take regarding this matter.

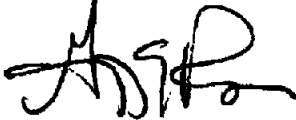
We appreciate you bringing to our attention the issues you identified as a result of your internal audit of Riverside County DPSS specifically regarding the six foster care providers in your sample of the County's foster care program. As the single state agency responsible for the administration of Title IV-E Aid to Families with Dependent Children-Foster Care Program funds, CDSS is responsible for determining group home compliance with applicable federal and state statutes. Pursuant to Welfare and Institutions Code Section 11486.21(a), CDSS requires all foster care providers that operate a group home program or foster family agency to submit Financial Audit Reports (FARs), annually or triennially, in order to receive a foster care rate. The CDSS uses the FARs submitted from providers as one of the tools for monitoring a provider's financial condition and may assess a risk to determine further review of the foster care provider. Additionally, group home and foster family agency funds and expenditures are monitored to ensure that they are dedicated to benefit foster care children, and the use of funds is controlled by CDSS' regulations in the Manual of Policies and Procedures Section 11-404.

Mr. Robert E. Byrd
Page Two

The information contained in the draft audit report is important; however, in its current version, it is not a document upon which CDSS can rely to establish findings. Therefore, CDSS is accepting the information provided in the draft audit report as a complaint that will be handled through our complaint process administered by the CDSS' Program and Financial Audits Bureau. Additionally, we are forwarding a copy of the draft audit report to CDSS' Community Licensing Division (CCLD) for their consideration as there are potential licensing violations identified.

If you would like further discussion, please call me at (916) 657-2614 or Barbara Eaton, Chief, Foster Care Audits and Rates Branch, at (916) 651-9152.

Sincerely,



GREGORY E. ROSE
Acting Deputy Director
Children and Family Services Division

c: Margarita Fernandez, Chief of Public Affairs
Susan Loew, Director, Riverside Department of Public Social Services
Robert L. Garcia, Chief Deputy Director, CDSS

Attachment B

RESPONSIBILITIES OF COUNTY WELFARE DEPARTMENTS

11-425 ~

- Paying the rate(s) determined by the Department on behalf of AFDC-FC eligible children placed with foster parents and providers.
- Recommending the establishment of a new program by a new or existing provider, or a program change which is either more than one RCL greater than the original RCL determination or a program change to RCL 13 or 14.
- Confirming the existence and legitimacy of more than one program as appropriate.
- Reviewing children placed by the placement agency in the program which is determined to have points at RCL 13 or 14 and verifying to the Department that all the children have special treatment needs.
- Upon request by the Department, counties shall report the county's understanding of the services offered by the program and the population served.
- Cooperating with other placement agencies to form a regional consortium to review group home program requests for county recommendation.
- Participating, if requested by the Department, in the rate review process.
- Submitting to the Department rate payment information for each fiscal year beginning with fiscal year 1983/84, for family homes, homefinding agencies, and group homes.
- Providing the Department with reasonable and applicable information and statistics as required.