An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

October 2019

Report No. 20-007

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Overall Conclusion

While two of the five residential child care contractors (providers) audited had significant weaknesses in their financial processes, three providers had financial controls in place to help their operations maintain a sound fiscal basis.

The five residential child care contractors audited were:

- Sheltering Harbour, a general residential operation.
- Beacon of Hope Foster Care and Adoption Agency, a child placing agency.
- Silver Lining Residential, LLC, a general residential operation.
- South Bay Bright Future, Inc., a child placing agency.
- Texas Baptist Home for Children, a child placing agency.

Sheltering Harbour and Beacon of Hope had weaknesses in their financial controls, including a lack of oversight and weaknesses in their processing of expenditures. As a result, those providers did not always accurately report the funds that they expended providing 24-hour residential child care services for fiscal year 2018.

Background Information

Providers receive funds from the Department of Family and Protective Services (Department) for delivering goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in their care.

Providers deliver those goods and services through contracts with the Department, and they are required to report their expenditures on annual cost reports. This audit included two types of providers with which the Department contracts:

- General residential operations, which provide child care for 13 or more children up to the age of 18 years. The care may include treatment and other programmatic services.
- Child placing agencies, which place or plan for the placement of a child in an adoptive home or other residential care setting.

During fiscal year 2018, the Department had contracts with 231 child placing agencies or general residential operations to provide residential child care on a 24-hour basis.

The Department received approximately $506,790,670 for providing services to 34,161 children in foster care during fiscal year 2018.

Texas Government Code, Section 2155.1442(b), requires the Health and Human Services Commission to contract with the State Auditor's Office to perform on-site audits of selected residential child care providers that provide foster care services for the Department.

Sources: *An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors* (State Auditor's Office Report 19-004, October 2018); the Department's *Annual Report and Data Book 2018*; the Health and Human Services Commission's *2018 Cost Report Instructions for 24RCC*; and the Department.

Foster Home Monitoring

Two of the three child placing agencies audited—Beacon of Hope and South Bay Bright Future—did not always conduct quarterly supervisory visits of foster homes as required and did not always document the results of those visits. Texas Baptist Home for Children complied with most requirements for monitoring foster homes.

Additionally, Beacon of Hope did not always ensure that foster parents were paid in accordance with Department of Family and Protective Services (Department)

This audit was conducted in accordance with Texas Government Code, Section 2155.1442.

For more information regarding this report, please contact Becky Beachy, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

requirements. The other child placing agencies (South Bay Bright Future and Texas Baptist Home for Children) paid their foster parents the minimum amounts according to each child's level of care and days of service, as required.

Background Checks

All five providers complied with the Health and Human Services Commission's background check requirements. Specifically, the providers had current background checks as of April 30, 2019, for all individuals who were in positions that provided access to children and required those checks.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating [a]
1-A	Sheltering Harbour Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Report for Fiscal Year 2018	Priority
1-B	Sheltering Harbour Complied with Background Check Requirements	Low
2-A	Beacon of Hope Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Report for Fiscal Year 2018	Priority
2-B	Beacon of Hope Did Not Always Comply with All Foster Home Monitoring Requirements	High
2-C	Beacon of Hope Complied with Background Check Requirements	Low
3-A	Silver Lining Residential Had Controls Over Its Financial Processes; However, It Should Strengthen Its Oversight	Medium
3-B	Silver Lining Residential Complied with Background Check Requirements	Low
4-A	South Bay Bright Future Had Controls Over Its Financial Processes and Accurately Reported the Majority of Expenditures on Its Cost Report for 2018	Low
4-B	South Bay Bright Future Did Not Always Comply with All Foster Home Monitoring Requirements	High
4-C	South Bay Bright Future Complied with Background Check Requirements	Low
5-A	Texas Baptist Home for Children Had Controls Over Its Financial Processes and Accurately Reported the Majority of the Expenditures on Its Cost Report for 2018	Low
5-B	Texas Baptist Home for Children Complied with Foster Home Monitoring Requirements	Low
5-C	Texas Baptist Home for Children Complied with Background Check Requirements	Low

[a] A subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating [a]
A subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level. A subchapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.		

Auditors communicated other, less significant issues separately in writing to each provider's management.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The providers agreed with the recommendations addressed to them in this report.

Audit Objective and Scope

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors and verify whether the selected contractors are spending federal and state funds on required services that promote the well-being of foster children in their care.

The scope of this audit included the fiscal year 2018 cost reporting period for five providers that provided 24-hour residential child care services for the Department. Auditors also tested background checks for all of the providers' current employees, volunteers, foster parents, and frequent visitors as of April 30, 2019.

Contents

Detailed Results

Appendices

Detailed Results

Chapter 1

Sheltering Harbour, A General Residential Operation

Sheltering Harbour Background Information [a]	
Location	Spring, TX
Contract services audited	General residential operations
Year permit was issued to provider	1993
Number of children served	183
Total expenditures reported on 2018 cost report	$4,236,326
Federal tax filing status	Nonprofit
Number of staff as of December 31, 2018	69
[a] From January 1, 2018, through December 31, 2018.	

Sources: Sheltering Harbour, the Department, and the U.S. Internal Revenue Service.

Sheltering Harbour (provider), a general residential operation, had significant weaknesses in its controls over its financial processes, including a lack of oversight and weaknesses in its processing of expenditures, and inadequate financial policies and procedures. Additionally, it did not maintain supporting documentation for all expenditures. As a result, the provider did not always accurately report the funds that it expended providing 24-hour residential child care services for fiscal year 2018.

General residential operations are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for General Residential Operations* (Minimum Standards), which are listed in Title 26, Texas Administrative Code, Chapter 748.

The provider should strengthen its processes to (1) maintain supporting documentation for complete financial records, (2) establish adequate oversight, and (3) establish adequate and documented policies and procedures.

The provider complied with background check requirements for all employees and subcontractors who had access to children as of April 30, 2019.

Chapter 1-A

Sheltering Harbour Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Report for Fiscal Year 2018

Chapter 1-A Rating:
Priority [1]

The provider had significant weaknesses over its financial processes.

The provider did not have adequate controls over its financial processes, including inadequate support for its financial records, a lack of oversight, weaknesses in its processing of expenditures, and inadequate financial policies and procedures. Without establishing adequate financial controls, the provider increases its risk that it will not operate on a sound fiscal basis. (See text box for information about the fiscal requirements for general residential operations.)

Fiscal Requirements for General Residential Operations

Title 26, Texas Administrative Code, Section 748.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner and (2) making sure the needs of children in their care are being met. It also requires providers to maintain complete financial records.

Not Maintaining Adequate Support for Financial Records. The provider used an external accountant to perform the majority of its financial activities, including the preparation of its general ledger and cost report. However, the external accountant used limited supporting documentation, including bank statements and credit card statements, to create the provider's general ledger, and the provider did not maintain adequate supporting documentation for individual transactions. Bank and credit card statements did not always have detailed information regarding the item(s) purchased; the individual who made the purchase; whether the purchase was a business expense; and, in some cases, from which vendor the provider purchased the item(s). As a result, the provider's general ledger did not contain sufficient details, which contributed to the misreported costs in both the provider's general ledger and cost report for fiscal year 2018. Title 1, Texas Administrative Code, Section 355.105, requires providers to ensure that records are accurate and sufficiently detailed to support the legal, financial, and other statistical information contained in their cost reports.

Additionally, for 12 (48 percent) of 25 employees tested, the provider did not maintain in the related personnel files all of the information required by the Department's Minimum Standards. For example, four direct care staff with transportation duties did not have copies of current driver's licenses in their personnel files.

[1] The risk related to the issues discussed in Chapter 1-A is rated as Priority because they present risks or effects that if not addressed critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Lack of Oversight. The provider and its governing body did not adequately oversee its financial processes to ensure that it operated on a sound fiscal basis. Specifically, the provider did not (1) create a budget for fiscal year 2018 as required by the Department's Minimum Standards or (2) provide financial information to its governing body throughout the year. Without ensuring that it receives regular financial updates, the board, which has ultimate authority and responsibility for the provider's operation, cannot adequately monitor its financial health.

In addition, the provider did not (1) adequately review the general ledger or cost report prepared by its external accountant to verify that the information was correct or (2) perform independent reviews of the external accountant's bank reconciliations. The provider did not have a contract with the external accountant to outline responsibilities. While not required, a contract would help ensure that both parties had a clear understanding of requirements and expectations, and it would help the provider to monitor the external accountant's services.

Weaknesses in Expenditure Processing. The provider also did not consistently approve expenditures. For example:

- **Approvals Prior to Payment for Non-payroll Expenditures.** Four (17 percent) of 23 applicable non-payroll expenditures tested did not have the approvals that the client asserted were required.

- **Timesheets for Payroll Expenditures.** Four (14 percent) of 29 applicable payroll transactions tested did not have the approvals that the client asserted were required.

Inadequate Policies and Procedures. The provider did not have adequate policies and procedures for its key financial processes. For example, the provider did not have policies and procedures that contained guidance for reviewing and approving financial information, including expenditures and documentation requirements for expenses. While it had policies that described payroll, those policies did not discuss timesheet approvals and, as discussed above, the provider did not consistently approve employee timesheets. Additionally, the provider lacked adequate documented policies to meet the Department's Minimum Standards for protecting paper and electronic records, maintaining an adequate staffing plan, conducting background checks, protecting information technology, and addressing potential conflicts of interest. Detailed policies and procedures are important to help the provider comply with requirements and maintain consistency in the performance of key processes by assisting employees in understanding those processes and holding them accountable for following them.

The provider reported errors on its cost report.

The control weaknesses of the provider's financial processes contributed to the provider reporting unallowable non-payroll expenditures and misclassifying expenditures on its cost report for fiscal year 2018. (See text box for information about the cost report's purpose.) The provider also did not comply with related party transaction disclosure requirements in the cost report.

> **Purpose of a Cost Report**
>
> The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.
>
> Source: The Health and Human Services Commission.

Non-payroll Expenditures. The provider reported non-payroll line items and expenditures that were unallowable or misclassified according to cost report requirements. (See Appendix 1 for details about the samples selected and sampling methodology.) Specifically:

- **Unallowable Costs.** The provider reported $211,940 in costs that were unallowable on the cost report. That amount included 16 (52 percent) of 31 non-payroll items tested, in addition to other identified unallowable expenditures. Of the total unallowable amount, $198,706 was unsupported, which the client asserted included expenditures related to athletic sponsorships for non-resident children, direct disbursements to employees, and office supplies. The remaining $13,234 was unallowable due to the nature of the expenditure.

- **Misclassifications.** The provider misclassified $7,544 in payments to individuals for maintenance services under the line item Treatment Coordinators and Directors. That misclassification did not change the total amount of allowable and supported expenditures the provider reported; however, misclassifications could misrepresent the amounts submitted for reimbursement from the U.S. Department of Health and Human Services under Title IV-E programs.

Related Party Expenditures. The provider did not ensure that it reported all related party transactions and expenditures as required. Specifically, it did not disclose $165,010 in related party transactions and wages and did not have all required support for the $278,724 in related party wages that it properly disclosed on the cost report.

Recommendations

The provider should:

- Ensure that it has adequate oversight over financial processes and reporting, including creating an annual budget and presenting the budget and financial information to the board.
- Consider executing a contract with the external accountant to ensure that both parties have a clear understanding of requirements and expectations.
- Maintain complete and accurate supporting documentation that fully supports all financial transactions.
- Develop and implement written policies and procedures, including, but not limited to, levels of review for key financial processes.
- Prepare its cost report in accordance with requirements.

Management's Response

Sheltering Harbour agrees with the recommendations. Sheltering Harbour has already implemented new policies and procedures regarding financial transactions. Specifically, Sheltering Harbour has implemented a revised Fiscal Policies and Procedures Manual which details our financial processes. Sheltering Harbour has also made significant revisions to its Employee Handbook. These revisions to the Fiscal Policies and Procedures Manual and the Employee Handbook include updated policies and procedures regarding approval of timesheets, reviewing and approving financial information, conducting background checks, maintaining purchase orders with the appropriate approval, addressing potential conflicts of interest, maintaining an adequate staffing plan, protecting information technology and protecting paper and electronic records.

Additionally, Sheltering Harbour has created a budget for 2020, presented the budget to the Board of Directors, and been given approval for the budget from the Board. Monthly financial reports will be created to be presented to the Board. Sheltering Harbour's external accountant will produce the monthly financial reports and the Chief Financial Officer will review the reports before presenting them to the Board.

Sheltering Harbour has executed a contract with its external accountant. In addition, Sheltering Harbour will review the general ledger and cost report prepared by the external accountant to verify the information is correct and prepare its cost report in accordance with the requirements. Sheltering

Harbour will review the bank reconciliation performed by the external accountant. This will be the responsibility of the Chief of Financial Officer.

Chapter 1-B

Sheltering Harbour Complied with Background Check Requirements

Chapter 1-B Rating:
Low [2]

The provider conducted background checks in accordance with Title 26, Texas Administrative Code, Chapter 745[3], for employees and subcontractors who were in positions that provided access to children. Specifically, as of April 30, 2019, the provider had current background checks for the 77 individuals requiring them.

Based on the results of the background checks above and risk evaluations from the Centralized Background Check Unit at the Health and Human Services Commission, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care.

[2] The risk related to the issues discussed in Chapter 1-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

[3] Prior to July 15, 2019, the background check rules were in Title 40, Texas Administrative Code, Chapter 745.

Chapter 2

Beacon of Hope, A Child Placing Agency

Beacon of Hope Foster Care and Adoption Agency Background Information [a]	
Location	Corpus Christi, TX
Contract services audited	Child placing agency
Year permit was issued to provider	2007
Number of children served	175
Total expenditures reported on 2018 cost report	$1,430,205
Federal tax filing status	Nonprofit
Number of staff as of December 31, 2018	7
[a] From January 1, 2018, through December 31, 2018.	

Sources: Beacon of Hope, the Department, and the U.S. Internal Revenue Service.

Beacon of Hope Foster Care and Adoption Agency (provider), a child placing agency, had significant weaknesses in its controls over its financial processes, including a lack of oversight and weaknesses in its processing of expenditures, and inadequate financial policies and procedures. As a result, the provider did not always accurately report the funds that it expended providing 24-hour residential child care services for fiscal year 2018.

Child placing agencies are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for Child Placing Agencies* (Minimum Standards), which are listed in Title 26, Texas Administrative Code, Chapter 749.

The provider should strengthen its processes to (1) establish adequate oversight and (2) ensure that its financial policies and procedures provide for the oversight of expenditures.

In addition, the provider did not always ensure that foster parents were paid in accordance with Department requirements and did not always conduct and adequately document foster home monitoring visits as required.

The provider complied with background check requirements for employees and foster families, including household members 14 years of age or older, frequent visitors, and other caregivers who were reported as active as of April 30, 2019.

Chapter 2-A

Beacon of Hope Had Significant Weaknesses in Its Controls Over Its Financial Processes, Which Caused It to Report Errors in Its Cost Report for Fiscal Year 2018

Chapter 2-A Rating:

Priority [4]

The provider had significant weaknesses over its financial processes.

The provider did not have adequate controls over its financial processes. Specifically, it lacked (1) sufficient oversight and (2) adequate policies and procedures for oversight of its financial processes. A 2010 State Auditor's Office audit[5] identified similar weaknesses in the provider's financial processes. The provider has improved its documentation of expenditures since that 2010 report.

Fiscal Requirements for Child Placing Agencies

Title 26, Texas Administrative Code, Section 749.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner; (2) paying foster parents in compliance with the provider's agreement with the parents; and (3) making sure the needs of children in the provider's care are being met. It also requires providers to maintain complete financial records and make available for review (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

Lack of Oversight. The provider did not adequately monitor its financial information to ensure that it remains fiscally sound. (See textbox for information about the fiscal requirements for child placing agencies.) Specifically, the provider did not (1) create a budget for fiscal year 2018 as required by the Department's Minimum Standards, and (2) obtain an annual review of its financial records by an independent Certified Public Accountant or provide proof of reserve funds equal to at least three months of operating expenses as required. This lack of oversight contributed to three instances in which the provider's payroll payments were returned due to insufficient funds, which also resulted in the provider incurring financial penalties. Performing adequate oversight of financial processes, such as verifying that bank balances were sufficient to cover anticipated expenses or having sufficient reserve funds on hand, would have helped the provider avoid having insufficient funds for its payroll and assisted it in maintaining its operations on a sound fiscal basis.

The provider used an external accountant to perform the majority of its financial activities, including the preparation of its general ledger, which occurs at the end of the year, and cost report for fiscal year 2018. However, the provider did not adequately review the general ledger or the cost report to verify that the information was correct. As a result, it did not identify several instances in which payments were recorded in the general ledger to incorrect recipients. The provider did not have a contract with the external

[4] The risk related to the issues discussed in Chapter 2-A is rated as Priority because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

[5] See *A Report on On-site Audits of Residential Child Care Providers* (State Auditor's Office Report No. 10-043, August 2010).

accountant to outline responsibilities. While not required, a contract would help ensure that both parties had a clear understanding of requirements and expectations, and it would help the provider to monitor the external accountant's services.

Inadequate Policies and Procedures. The provider's financial policies and procedures were not sufficiently detailed to help ensure oversight of key financial processes. For example, the policies and procedures did not contain guidance for reviewing financial information or approving expenditures, including guidance on documenting those reviews and approvals. Detailed policies and procedures are important to help the provider comply with requirements and maintain consistency in the performance of key processes by assisting employees in understanding those processes and holding them accountable for following them.

The provider reported errors on its cost report.

The control weaknesses of the provider's financial processes contributed to the provider reporting unallowable and misclassified non-payroll expenditures on its cost report for fiscal year 2018 and not complying with related party transaction disclosure requirements. (See textbox for information about the cost report's purpose.)

Purpose of a Cost Report

The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.

Source: The Health and Human Services Commission.

Non-payroll Expenditures. The provider reported non-payroll line items and expenditures that were unallowable or misclassified according to cost report requirements. (See Appendix 1 for details about samples selected and sampling methodology.) Specifically:

- **Unallowable Costs.** The provider reported $28,113 in costs that were unallowable on the cost report. That amount included 10 (36 percent) of 28 non-payroll items tested, and other unallowable expenditures identified. Of the total unallowable expenditures, $1,768 was unsupported by source documentation, $24,010 was not supported by an allocation methodology, and $2,335 was unallowable due to the nature of the expenditure.

- **Misclassification.** The provider misclassified expenditures totaling $8,582 for foster parent payments related to mileage reimbursements and providing respite care. Those expenditures included 2 (7 percent) of 28 non-payroll items tested, in addition to other identified misclassified expenditures. Those misclassifications did not change the total amount of allowable and supported expenditures the provider reported; however, misclassifications could misrepresent the amounts submitted for reimbursement from the U.S. Department of Health and Human Services under Title IV-E programs.

Related Party Expenditures. The provider did not ensure that it reported all related party transactions and expenditures as required. It did not disclose $19,691 in related party transactions and did not have all required support for the $239,685 in related party director wages that it appropriately disclosed on the cost report.

The provider did not always ensure that foster parents were paid in accordance with Department requirements.

The provider did not always reimburse foster parents the correct amounts based on each child's level of care and days of service as required or verify that those payments were accurately recorded in its general ledger. (See Appendix 4 for information on the daily rate paid to foster families per child.) Specifically:

- For 3 (5 percent) of 60 payments tested, the reimbursement amount was less than the minimum daily rate paid to foster families per child. Those payments included two payments for which the amounts paid to the foster families were based on incorrect levels of care and one payment that was due to a foster family but was not paid.
- For 10 (17 percent) of 60 payments tested, the payment was incorrectly recorded into the provider's general ledger. Those payments included one amount that was incorrectly recorded and nine instances in which the recipient's name was incorrect.

Recommendations

The provider should:

- Ensure that it provides adequate oversight over financial processes and reporting, including, but not limited to, (1) reviewing the general ledger and cost report and (2) creating an annual budget.
- Consider executing a contract with the external accountant to ensure that both parties have a clear understanding of requirements and expectations.
- Maintain complete and accurate supporting documentation that fully supports all financial transactions.
- Obtain an annual review of its financial records or ensure that it maintains reserve funds equal to at least three months of operating expenses.
- Update and implement detailed policies and procedures for oversight of key financial processes.
- Prepare its cost report in accordance with requirements.
- Reimburse its foster families in accordance with Department requirements.

Management's Response

Beacon of Hope will create an annual budget beginning in January, 2020. Beacon of Hope will contact the current CPA who prepares our taxes, to conduct annual audits.

A contract outlining responsibilities of the external accountant will be implemented. Executive Director will review the General Ledger and Cost Report with the Accountant to ensure that all information is correct, prior to submitting the Cost Report. Complete and accurate records of all financial transactions will be maintained. Beacon of Hope Director will work more closely with external accountant to ensure that costs and expenditures are reported correctly. Policies and procedures will be updated and implemented. Policies will include more detail and guidance for reviewing financial information or approving expenditures.

Chapter 2-B

Beacon of Hope Did Not Always Comply with All Foster Home Monitoring Requirements

Chapter 2-B Rating:

High [6]

While the provider conducted required quarterly supervisory visits and two unannounced visits at each foster home tested, it did not consistently conduct and adequately document foster home monitoring visits in accordance with all requirements in Title 26, Texas Administrative Code, Section 749.2815. (See text box for information about monitoring visit requirements.) Specifically, for fiscal year 2018:

- For 3 (33 percent) of 9 applicable foster homes tested[7], the provider did not conduct all monitoring visits with both parents present every 6 months. One family did not receive any visits with both parents during the year, and the other two families received one visit with both parents during the year.
- For 4 (36 percent) of 11 foster homes tested, the provider did not conduct monitoring visits with all household members present at least once during the year. Each of those four families had one or more household members who was not present for the visit; however, the provider indicated all household members were present. (See Appendix 1 for details about samples selected and sampling methodology.)

Monitoring Visit Requirements

Title 26, Texas Administrative Code, Section 749.2815, requires child-placement staff to conduct supervisory visits: (1) in the foster home at least quarterly, (2) with both foster parents, if applicable, at least once every six months, and (3) with all household members at least once every year. It also requires at least two supervisory visits to be unannounced. Additionally, providers must document who was present during the visit, specific issues identified, and any rules evaluated during the visit, and they must obtain the signatures of each foster parent present for the visit and the child-placement staff conducting the visit.

The provider did not adequately document all monitoring visits as required.

The provider's quarterly foster home monitoring form included all areas necessary to fully comply with applicable requirements. However, for 2 (18 percent) of 11 foster homes tested, the provider did not document its monitoring visits in compliance with requirements. Specifically, the provider utilized a separate form, rather than the quarterly foster home monitoring form. That form did not specify which requirements it evaluated during the visit.

Additionally, for 2 (18 percent) of 11 foster homes tested, the provider did not obtain the signatures of both foster parents present during the visit as required.

[6] The risk related to the issues discussed in Chapter 2-B is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

[7] The remaining two foster homes did not have two foster parents; therefore, they are not subject to this requirement.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. Not always conducting and adequately documenting the results of all monitoring visits weakens the provider’s ability to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Recommendations

The provider should:

- Improve its processes for foster home monitoring to ensure that it complies with all monitoring requirements.
- Fully document monitoring visits, including obtaining all required signatures on foster home monitoring forms.

Management’s Response

Provider statements will be reviewed every month to ensure that all foster parents are reimbursed correctly and that LOC is recorded properly on our Case Book program. Employees will be held accountable for incorrect data entry. Paperwork will be reviewed to ensure that it meets all licensing standards, prior to being placed in the case file. Director will monitor for signatures and comply with licensing standards with regard to who must be present for the supervisory visits.

Chapter 2-C

Beacon of Hope Complied with Background Check Requirements

Chapter 2-C Rating:

Low [8]

The provider conducted background checks in accordance with Title 26, Texas Administrative Code, Chapter 745[9], for employees and foster parent families, including household members 14 years of age or older, frequent visitors, and other caregivers who were in positions that provided access to children. Specifically, as of April 30, 2019, the provider had current background checks for the 56 individuals requiring them.

Based on the results of the background checks above, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care.

[8] The risk related to the issues discussed in Chapter 2-C is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

[9] Prior to July 15, 2019, the background check rules were in Title 40, Texas Administrative Code, Chapter 745.

Chapter 3

Silver Lining Residential, A General Residential Operation

Silver Lining Residential, LLC Background Information [a]	
Location	Fresno, TX
Contract services audited	General residential operation
Year permit was issued to provider	2017
Number of children served	18
Total expenditures reported on 2018 cost report	$635,069
Federal tax filing status	Limited Liability Company (LLC)
Number of staff as of December 31, 2018	13
[a] From January 1, 2018, through December 31, 2018.	

Sources: Silver Lining Residential, the Department, and the U.S. Internal Revenue Service.

Silver Lining Residential, LLC (provider), a general residential operation, had financial controls in place to help its operation maintain a sound fiscal basis. Those controls included creating an annual budget, obtaining an audit of financial statements, and regularly updating its governing board about its financial position. However, it should strengthen other financial controls, including oversight of its general ledger and cost report.

General residential operations are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for General Residential Operations* (Minimum Standards), which are listed in Title 26, Texas Administrative Code, Chapter 748.

The majority of the provider's reported payroll and non-payroll expenditures in its cost report for fiscal year 2018 were allowable and supported.

In addition, the provider complied with background check requirements for all employees who had access to children as of April 30, 2019.

Chapter 3-A

Silver Lining Residential Had Controls Over Its Financial Processes; However, It Should Strengthen Its Oversight

Chapter 3-A Rating:

Medium [10]

The provider had controls over its financial processes to help ensure that it operates on a sound fiscal basis. (See text box for more information about fiscal requirements for general residential operations.) Those controls included:

> **Fiscal Requirements for General Residential Operations**
>
> Title 26, Texas Administrative Code, Section 748.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner and (2) making sure the needs of children in their care are being met. It also requires providers to maintain complete financial records.

- Creating an annual budget, as required by the Department's Minimum Standards.
- Obtaining an annual review of its financial records by an independent, external Certified Public Accountant.
- Presenting the results of audits and other financial information to its governing board.
- Implementing adequate segregation of duties over payroll by having its executive director review timesheets and its accountant perform payroll functions.

Weaknesses in Oversight. The provider used a contracted external accountant to perform the majority of its financial activities, including the preparation of its general ledger and financial statements. The provider maintained supporting documentation, such as documentation for individual transactions, and asserted that it frequently communicated with the external accountant. However, the provider did not have access to, or perform a review of, the general ledger that the external accountant created. The provider also used an external cost report preparer to complete its 2018 cost report. However, the provider did not review that cost report for accuracy and completeness before submitting it to the Department. Conducting reviews of its general ledger and cost reports prepared by external parties would help the provider ensure that its expenditures are correctly recorded and reported as required.

Lack of Financial Policies and Procedures. The provider had policies and procedures to meet the Department's Minimum Standards; however, the provider did not have policies and procedures in place to establish and document how its key financial processes should be completed. Detailed policies and procedures are important to help the provider comply with requirements and maintain consistency in the performance of key processes

[10] The risk related to the issues discussed in Chapter 3-A is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

by assisting employees in understanding those processes and holding them accountable for following them.

The provider generally complied with the requirements for the cost report.

The majority of the expenditures tested on the provider's cost report for fiscal year 2018 reconciled to its general ledger and other supporting documentation. (See text box for information about the purpose of a cost report.) Auditors tested 55 expenditures totaling $61,849 and 6 line items on the cost report totaling $449,799 (see Appendix 1 for details about the samples selected and sampling methodology). The majority of the tested expenditures were allowable and supported.

Purpose of a Cost Report

The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.

Source: The Health and Human Services Commission.

However, the provider did not comply with certain cost reporting requirements. Specifically, for its fiscal year 2018 cost report:

- **Reconciliation Worksheet and Revenue Reporting.** The provider did not create a comprehensive reconciliation worksheet to serve as a crosswalk between the expenditures recorded in its general ledger and the costs reported in its cost report. The Health and Human Services Commission's (Commission) cost report instructions require a crosswalk reconciliation worksheet to be submitted with the provider's cost report as supporting documentation. Without it, the Commission may not be able to verify the accuracy of the provider's cost report. Additionally, the provider incorrectly reported its revenue of $823,934 from the Department as non-Department revenue.

- **Misclassified Expenditures.** The provider misclassified expenditures totaling $228,767. Those expenditures included 5 (18 percent) of 28 non-payroll items tested, in addition to other identified misclassified expenditures. Those errors did not change the total amount of allowable and supported expenditures that the provider reported; however, misclassifications could misrepresent amounts for reimbursement from the U.S. Department of Health and Human Services under Title IV-E programs.

- **Unallowable Expenditures.** The provider reported $350 in bank fees that were unallowable for the cost report.

- **Incorrect Reporting.** The provider incorrectly reported 3 (11 percent) of 28 expenditures tested by reporting the prepaid amounts for those expenditures in addition to the actual expense for services.

- **Related Party Expenditures.** The provider reported $120,594 in related party wages that were allowable, supported, and appropriately disclosed. However, it did not disclose $51,350 in related party transactions as required. Those related party transactions also were not properly supported.

Recommendations

The provider should:

- Ensure that it provides adequate oversight over financial processes and reporting, including, but not limited to, (1) reviewing the general ledger and cost report for accuracy and completeness, and (2) obtaining access to the general ledger.
- Develop and implement written policies and procedures for financial processes.
- Prepare its cost report in accordance with all requirements.

Management's Response

A. Ensure that it provides adequate oversight over financial processes and reporting, including, but not limited to, (1) reviewing the general ledger and cost report for accuracy and completeness, and (2) obtain access to the general ledger.

> *Management will ensure to receive access to the General Ledger from the accountant and on a monthly basis, review for accuracy. Also, Management would also do a thorough review of cost reporting before it is submitted.*

B. Develop and implement written policies and procedures for financial processes.

> *Management would immediately work on developing the Policies that would give clear understanding of the financial process of the company*

C. Prepare its cost report in accordance with all requirements.

> *Management will continue to use the Services of an External Preparer to prepare the Cost Report but would inspect and cross check for accuracy before signing off and submitting the cost report.*

Chapter 3-B

Silver Lining Residential Complied with Background Check Requirements

Chapter 3-B Rating:

Low [11]

The provider conducted background checks in accordance with Title 26, Texas Administrative Code, Chapter 745[12], for employees who were in positions that provided access to children. Specifically, as of April 30, 2019, the provider had current background checks for the 14 individuals requiring them.

Based on the results of the background checks above, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care.

[11] The risk related to the issues discussed in Chapter 3-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

[12] Prior to July 15, 2019, the background check rules were in Title 40, Texas Administrative Code, Chapter 745.

Chapter 4

South Bay Bright Future, A Child Placing Agency

South Bay Bright Future, Inc. Background Information [a]	
Location	Belton, TX
Corporate Headquarters	Harbor City, CA
Contract services audited	Child placing agency
Year permit was issued to provider	2007
Number of children served	78
Total expenditures reported on 2018 cost report	$614,716
Federal tax filing status	Nonprofit
Number of staff as of December 31, 2018	7
[a] From January 1, 2018, through December 31, 2018.	

Sources: South Bay Bright Future, the Department, and the U.S. Internal Revenue Service.

South Bay Bright Future, Inc. (provider), a child placing agency, had financial controls in place to help its operations maintain a sound fiscal basis. For its fiscal year 2018 cost report, the provider reported expenditures that were allowable and supported.

Child placing agencies are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for Child Placing Agencies* (Minimum Standards), which are listed in Title 26, Texas Administrative Code, Chapter 749.

While the provider ensured that foster parents were paid in accordance with Department requirements, it did not always conduct and adequately document monitoring visits as required.

The provider complied with background check requirements for employees and foster families, including household members 14 years of age or older, frequent visitors, and other caregivers who were reported as active as of April 30, 2019.

Chapter 4-A

South Bay Bright Future Had Controls Over Its Financial Processes and Accurately Reported the Majority of Expenditures on Its Cost Report for 2018

Chapter 4-A Rating:

Low [13]

The provider had adequate controls over its financial processes to assist it in remaining fiscally sound.

The provider had developed and implemented controls related to key financial processes. (See text box for more information about fiscal requirements for child placing agencies.) For example, the provider:

- Instituted segregation of duties for its fiscal processes, including those for foster parent payments, non-payroll expenditures, and monthly bank reconciliations.
- Prepared an annual budget indicating predictable funds sufficient for the year, as required by the Department's Minimum Standards.
- Obtained an annual review of its financial records by an independent Certified Public Accountant, as required by the Department's Minimum Standards.

Fiscal Requirements for Child Placing Agencies

Title 26, Texas Administrative Code, Section 749.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner; (2) paying foster parents in compliance with the provider's agreement with the parents; and (3) making sure the needs of children in the provider's care are being met. It also requires providers to maintain complete financial records and make available for review (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

While the provider had certain financial controls in place, it should ensure that its policies and procedures and retention of required documentation within employee personnel files comply with the Department's Minimum Standards. Specifically:

- **Policies and Procedures.** The provider did not have documented policies and procedures for recordkeeping or personnel, and its information technology policies did not address all requirements.
- **Personnel Files.** All eight of the personnel files tested did not include a signed and dated statement indicating that the employee had read a copy of the provider's operational policies.

[13] The risk related to the issues discussed in Chapter 4-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The provider complied with the majority of cost reporting requirements.

The expenditures tested in the provider's cost report for fiscal year 2018 reconciled to its general ledger. (See text box for information about the cost report's purpose.) Auditors tested 79 expenditures totaling $60,047 and 5 line items on the cost report totaling $136,966. (See Appendix 1 for details about the samples selected and sampling methodology.) The majority of the tested expenditures were allowable, supported, and accurately recorded in accordance with cost report requirements.

> **Purpose of a Cost Report**
>
> The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.
>
> Source: The Health and Human Services Commission.

In addition, auditors tested all reported related party expenditures and determined that they were allowable, supported, and accurately recorded in the cost report. (See Appendix 1 for details about samples selected and sampling methodology.)

However, the provider did not disclose its California business entity in its fiscal year 2018 cost report as required. The provider asserted that this was because it misunderstood the cost report instructions.

The provider ensured that foster parents were paid in accordance with Department requirements.

For all 25 foster parent payments tested, the provider paid its foster parents the minimum reimbursement amounts according to each child's level of care and days of service, as the Department required. The payments were adequately supported and totaled $20,279.

Recommendations

The provider should:

- Develop and implement written policies and procedures for all key processes.
- Ensure that its employee personnel records include all required documentation.
- Ensure that it discloses its out-of-state business components as required by the cost report instructions.

Management's Response

South Bay Bright Future (SBBF) agrees with the recommendations. The Management shall ensure the development and implementation of written Policies and Procedures to address Record Keeping, Personnel, and Technology. In addition, SBBF shall also ensure required documentation be maintained in each employees personnel file, in accordance with the Texas Health and Human Services Commission Child Care Licensing - Minimum Standards (e.g. Copy of SBBF's Operational Policies signed and dated with a statement indicating the employee has read the policies).

Persons responsible for implementation are the Administrator and the Administrator's Assistant.

Policies and Procedures shall be implemented within 30 days of SBBF's Board of Directors approval.

The Implementation date for Employees Personnel File shall be November 21, 2019.

South Bay Bright Future (SBBF) did not purposely omit its Out-of-State business dealing. The Cost Report instructions regarding other business dealings were not clearly understood at the time the report was completed. However, all parties of interest including the Department of Family and Protective Services, Child Care Licensing, and the State Auditor's Team were aware of SBBF's California entity. SBBF's Management understands and agrees the wrong box was checked in the Cost Report, by human error.

The instructions for the Automated Cost Reporting & Evaluation System (ACRES) Cost Report will be reviewed and SBBF shall strive to improve and be error free.

The Accounting Manager is responsible for implementation.

The date of implementation for the Cost Report shall be immediate.

Chapter 4-B

South Bay Bright Future Did Not Always Comply with All Foster Home Monitoring Requirements

Chapter 4-B Rating:

High [14]

The provider conducted unannounced visits as required at all applicable foster homes tested. It also obtained the signatures of each foster parent present during each visit for all foster homes tested. However, it did not consistently conduct and adequately document monitoring visits in accordance with all requirements in Title 26, Texas Administrative Code, Section 749.2815. (See text box for more information about monitoring visit requirements.) Specifically:

Monitoring Visit Requirements

Title 26, Texas Administrative Code, Section 749.2815, requires child-placement staff to conduct supervisory visits: (1) in the foster home at least quarterly, (2) with both foster parents, if applicable, at least once every six months, and (3) with all household members at least once every year. It also requires at least two supervisory visits to be unannounced. Additionally, providers must document who was present during the visit, specific issues identified, and any rules evaluated during the visit, and they must obtain the signatures of each foster parent present for the visit and the child-placement staff conducting the visit.

- Two of the five foster homes tested were not active for the full year. For both of those two homes, the provider did not conduct all quarterly supervised visits and did not conduct a visit with both foster parents present as required; however, the provider did conduct supplemental visits with the homes and documented those visits using a contact log. Those contact logs did not include all the information required for a quarterly visit.

- For the other three foster homes that were active for all of fiscal year 2018, the provider conducted all quarterly supervised visits. However:

  - For 2 (67 percent) of the 3 foster homes active for the full year, the provider did not have documentation to support that it conducted monitoring visits with all household members present at least once during the year.

  - For 1 (50 percent) of the 2 applicable foster homes[15], the provider did not conduct all monitoring visits with both foster parents present every 6 months.

The provider also lacked documented policies and procedures related to foster home monitoring, which may have contributed to the issues discussed above.

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[14] The risk related to the issues discussed in Chapter 4-B is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

[15] The remaining foster home did not have two foster parents; therefore, it was not subject to this requirement.

The provider's foster home monitoring form did not fully comply with applicable requirements.

The provider transitioned to a new monitoring form during the 2018 calendar year; however, that new form did not comply with all applicable requirements. Specifically, the form:

- Did not prompt or indicate that a visit should be conducted with all household members present at least once during the year and did not require that information be documented.
- Did not require that information be documented related to (1) issues identified during the visit or (2) plans for achieving compliance with applicable requirements.
- Did not address the evaluation of certain health and safety requirements, including rules related to transportation and safety related to swimming pools and other bodies of water.

Monitoring visits are a primary way for the provider to help ensure that foster homes comply with all Department requirements. Not always conducting and adequately documenting the results of all monitoring visits weakens the provider's ability to identify areas in which the foster parents may need additional resources to meet the needs of the children in their care.

Recommendations

The provider should:

- Improve its processes for foster home monitoring to ensure that it complies with all monitoring requirements.
- Develop and implement its policies and procedures for foster home monitoring.
- Revise its foster home monitoring form to align with applicable requirements.

Management's Response

South Bay Bright Future (SBBF) agrees with the recommendations. The Management shall ensure the development and implementation of written Policies and Procedures for Foster Home Monitoring Visits and Monitoring Visit Forms in accordance with all requirements in Title 26, Texas Administrative Code, Section 749.2815. The Management shall also ensure

Foster Home Monitoring Visits be conducted in a timely manner and are properly documented. (e.g. Each Foster Home shall have monitored visits with both Foster Parents present every 6 months, and at least once per year with all household members present). The Foster Home Monitoring Form shall be revised to align with all applicable requirements, identified concerns, and plan of correction.

Persons responsible for Implementation are the Administrator and Case Managers.

Implementation date for Policies and Procedures shall be implemented within 30 days of SBBF's Board of Directors approval.

Implementation date for the Revised Foster Home Monitoring Form shall be November 21, 2019.

Chapter 4-C

South Bay Bright Future Complied with Background Check Requirements

Chapter 4-C Rating:

Low [16]

The provider conducted background checks in accordance with Title 26, Texas Administrative Code, Chapter 745[17], for employees and foster parent families, including household members 14 years of age or older, frequent visitors, and other caregivers who were in positions that provided access to children. Specifically, as of April 30, 2019, the provider had current background checks for the 41 individuals requiring them.

Based on the results of the background checks above, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care.

[16] The risk related to the issues discussed in Chapter 4-C is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

[17] Prior to July 15, 2019, the background check rules were in Title 40, Texas Administrative Code, Chapter 745.

Chapter 5

Texas Baptist Home for Children, A Child Placing Agency

Texas Baptist Home for Children Background Information [a]	
Location	Waxahachie, TX
Contract services audited	Child placing agency
Year permit was issued to provider	1987
Number of children served	147
Total expenditures reported on 2018 cost report	$3,022,777
Federal tax filing status	Nonprofit
Number of staff as of August 31, 2018	30
[a] From September 1, 2017, through August 31, 2018.	

Sources: Texas Baptist Home for Children, the Department, and the U.S. Internal Revenue Service.

Texas Baptist Home for Children (provider), a child placing agency, had financial controls in place to help its operation maintain a sound fiscal basis. For its fiscal year 2018 cost report, the provider reported expenditures that were allowable and supported. In addition, it accurately reported most expenditures tested in accordance with cost report requirements.

Child placing agencies are required to comply with the Department of Family and Protective Services' (Department) *Minimum Standards for Child Placing Agencies* (Minimum Standards), which are listed in Title 26, Texas Administrative Code, Chapter 749.

The provider also ensured that foster parents were paid in accordance with Department requirements.

In addition, the provider complied with most Department requirements for monitoring its foster homes. It also complied with background check requirements for employees and foster families, including household members 14 years of age or older, frequent visitors, and other caregivers who were reported as active as of April 30, 2019.

Chapter 5-A

Texas Baptist Home for Children Had Controls Over Its Financial Processes and Accurately Reported the Majority of Expenditures on Its Cost Report for 2018

Chapter 5-A Rating:

Low [18]

The provider had adequate controls over its financial processes to assist it in remaining fiscally sound.

The provider had developed and implemented adequate controls related to key financial processes. (See text box for information about the fiscal requirements for child placing agencies.) For example, the provider:

- Instituted segregation of duties for its fiscal processes including those for foster parent payments, non-payroll expenditures, and monthly bank reconciliations.
- Prepared an annual budget indicating predictable funds sufficient for the year, as required by the Department's Minimum Standards.
- Obtained an annual review of its financial records by an independent Certified Public Accountant, as required by the Department's Minimum Standards.
- Implemented financial policies and procedures.

Fiscal Requirements for Child Placing Agencies

Title 26, Texas Administrative Code, Section 749.161, requires providers to establish and maintain their operations on a sound fiscal basis, including: (1) paying employees in a timely manner; (2) paying foster parents in compliance with the provider's agreement with the parents; and (3) making sure the needs of children in the provider's care are being met. It also requires providers to maintain complete financial records and make available for review (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

The provider complied with the majority of cost reporting requirements.

Purpose of a Cost Report

The Health and Human Services Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs.

Source: The Health and Human Services Commission.

The expenditures tested on the provider's cost report for fiscal year 2018 reconciled to its general ledger. (See text box for information about the cost report's purpose.) Auditors tested 82 expenditures totaling $93,649 and 6 line items on the cost report totaling $689,793 (see Appendix 1 for details about the samples selected and sampling methodology). [19] The majority of the tested expenditures were allowable, supported, and accurately reported in accordance with cost report requirements.

[18] The risk related to the issues discussed in Chapter 5-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

[19] The provider did not report any related party expenditures in its cost report for fiscal year 2018.

The provider ensured that foster parents were paid in accordance with Department requirements.

For 25 foster parent payments tested, the provider paid its foster parents the minimum reimbursement amounts according to each child's level of care and days of service, as the Department required. The payments were adequately supported and totaled $21,633.

Chapter 5-B

Texas Baptist Home for Children Complied with Foster Home Monitoring Requirements

Chapter 5-B Rating:

Low [20]

The provider complied with most requirements for monitoring foster homes in Title 26, Texas Administrative Code, Section 749.2815. (See text box for more information about monitoring visit requirements.) The provider conducted all required monitoring visits and adequately documented those visits as required. Specifically, as applicable, for all 10 foster homes tested, the provider:

- Conducted a quarterly supervisory visit.
- Conducted a monitoring visit with both foster parents present every 6 months.
- Conducted at least 2 unannounced visits.
- Obtained signatures of all foster parents present during the visit.

Monitoring Visit Requirements

Title 26, Texas Administrative Code, Section 749.2815, requires child-placement staff to conduct supervisory visits: (1) in the foster home at least quarterly, (2) with both foster parents, if applicable, at least once every six months, and (3) with all household members at least once every year. It also requires at least two supervisory visits to be unannounced. Additionally, providers must document who was present during the visit, specific issues identified, and any rules evaluated during the visit, and they must obtain the signatures of each foster parent present for the visit and the child-placement staff conducting the visit.

In addition, for 9 (90 percent) of the 10 foster homes tested, the provider had documentation showing that it met with all household members at least once per year as required. (See Appendix 1 for details about samples selected and sampling methodology.)

[20] The risk related to the issues discussed in Chapter 5-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited..

The provider adequately documented all monitoring visits as required.

The provider ensured that it documented its monitoring visits in compliance with requirements in Title 26, Texas Administrative Code, Section 749.2815. For example, the provider consistently documented the dates of visits, challenging behaviors, stress level, and household members on the quarterly forms and on additional monitoring forms, in addition to adequately documenting all sections of its monitoring forms.

Chapter 5-C

Texas Baptist Home for Children Complied with Background Check Requirements

Chapter 5-C Rating:

Low [21]

The provider conducted background checks in accordance with Title 26, Texas Administrative Code, Chapter 745[22], for employees and foster parent families, including household members 14 years of age or older, frequent visitors, and other caregivers who were in positions that provided access to children. Specifically, as of April 30, 2019, the provider had current background checks for the 211 individuals requiring them.

Based on the results of the background checks above and risk evaluations from the Centralized Background Check Unit at the Health and Human Services Commission, the individuals tested did not have misdemeanors or felony convictions that would pose a risk to children in the provider's care.

[21] The risk related to the issues discussed in Chapter 5-C is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

[22] Prior to July 15, 2019, the background check rules were in Title 40, Texas Administrative Code, Chapter 745.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to perform on-site financial audits of selected residential foster care contractors and verify whether the selected contractors are spending federal and state funds on required services that promote the well-being of foster children in their care.

Texas Government Code, Section 2155.1442 (b), requires Health and Human Services Commission (Commission) to contract with the State Auditor's Office to perform on-site financial audits of selected residential child care providers that provide foster care services for the Department of Family and Protective Services (Department).

Scope

The scope of this audit included the fiscal year 2018 cost reporting period for five residential child care contractors (providers) that provided 24-hour residential child care services for the Department. Auditors also tested background checks for all of the providers' current employees, volunteers, foster parents, and frequent visitors as of April 30, 2019.

Methodology

The audit methodology included selecting five providers to audit based on (1) risk rankings developed by auditors with input from the Department and (2) the type of contract and the location of the contractor. The five providers selected were:

- Sheltering Harbour.
- Beacon of Hope Foster Care and Adoption Agency.
- Silver Lining Residential, LLC.
- South Bay Bright Future, Inc.
- Texas Baptist Home for Children.

Additionally, the audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and interviewing management and staff at the Department and the providers.

Data Reliability and Completeness

Auditors assessed the reliability of the data used in the audit and determined the following:

- All five providers had financial data and payroll data that was sufficiently reliable for purposes of this audit.
- All five providers had employee lists that were sufficiently reliable to perform audit procedures related to employee background checks.
- The child placing agencies—Texas Baptist Home for Children; South Bay Bright Future, Inc.; and Beacon of Hope—each had foster family lists, including foster parents, caregivers, and household members, that were sufficiently reliable to perform audit procedures related to foster home monitoring and background checks.

Sampling Methodology

Auditors selected nonstatistical samples for tests of compliance and controls for cost report line items, non-payroll expenditures, payroll expenditures, foster parent payments, and foster parent monitoring. The listed samples were selected primarily through random and risk-based selection. The test results, as reported, did not identify which items were randomly selected or selected using risk-based analysis. Therefore, it would not be appropriate to project those test results to the population.

In addition, auditors tested all related party expenditures reported on the cost reports or identified throughout testing.

Auditors also tested compliance with background check requirements for all employees and applicable foster parent families, including members 14 years of age or older, frequent visitors, and other caregivers who were in positions that provided access to children.

Table 2 on the next page lists the samples selected for each provider.

Table 2

Total Population and Samples Selected For the Providers' Fiscal Year 2018 Expenditures and Foster Parent Monitoring [a]					
Description	Sheltering Harbour	Beacon of Hope	Silver Lining Residential, LLC	South Bay Bright Future, Inc.	Texas Baptist Home for Children
Cost Report Line Items					
Total Amount of Expenditures Reported	$4,236,326	$1,430,205	$635,069	$614,716	$3,022,777
Total Amount of Expenditures Reported in Cost Report Line Items Tested	$3,321,469	$454,833	$449,799	$136,966	$689,793
Number of Cost Report Line Items Tested	10	10	6	5	6
Sampling Methodology	Risk Based	Risk Based	Risk Based	Risk Based	Risk Based
Non-payroll Expenditures					
Total Amount of Non-payroll Expenditures Recorded in the General Ledger	$1,088,069	$156,164	$205,415	$36,340	$533,652
Amount of Non-payroll Expenditures Tested	$127,189	$16,226 [b]	$28,949	$6,760	$29,328
Total Number of Non-payroll Expenditures Recorded	1,335	472	983	270	2,855
Number of Non-payroll Expenditures Tested	33 [c]	29 [b]	28	29	30
Sampling Methodology	Random and Risk Based	Random and Risk Based	Random and Risk Based	Random and Risk Based	Random and Risk Based
Payroll Expenditures					
Total Amount of Payroll Expenditures Recorded in the General Ledger	$2,325,735	$460,513	$307,677	$241,845	$854,448
Amount of Payroll Expenditures Tested	$47,869	$53,944	$32,900	$33,008	$42,688
Total Number of Payroll Expenditures Recorded	1,737	199	270	185 [d]	714
Number of Payroll Expenditures Tested [e]	30	25	27	25	27
Sampling Methodology	Random and Risk Based	Random	Random and Risk Based	Random	Random and Risk Based
Foster Parent Payments					
Total Number of Payments to the Provider from the Department	Not Applicable [f]	965	Not Applicable [f]	341	1,127
Amount of Payments to Foster Parents Tested	Not Applicable [f]	$49,537	Not Applicable [f]	$20,279	$21,633
Number of Payments Tested	Not Applicable [f]	60	Not Applicable [f]	25	25

Total Population and Samples Selected For the Providers' Fiscal Year 2018 Expenditures and Foster Parent Monitoring [a]					
Description	**Sheltering Harbour**	**Beacon of Hope**	**Silver Lining Residential, LLC**	**South Bay Bright Future, Inc.**	**Texas Baptist Home for Children**
Sampling Methodology	Not Applicable [f]	Risk Based	Not Applicable [f]	Risk Based	Random and Risk Based
Foster Parent Monitoring					
Number of Foster Families	Not Applicable [f]	38	Not Applicable [f]	20	48
Number of Families Tested	Not Applicable [f]	11	Not Applicable [f]	5	10
Sampling Methodology	Not Applicable [f]	Random and Risk Based	Not Applicable [f]	Random	Random

[a] The total number of sample items tested may not always match the results as reported as not all tests conducted were applicable to each sample item.

[b] This includes one expenditure that was identified as a related party transaction. The results of testing that expenditure are discussed with related party transaction testing in the provider's chapter. One of the 29 transactions tested was not reported on the cost report and is not included in the cost report section of Chapter 2-A.

[c] Two of 33 transactions tested were not reported on the cost report and are not included in the cost report section of Chapter 1-A.

[d] This provider's general ledger included monthly lump sum entries for its payroll expenditures. This figure is as determined by auditors.

[e] The number of payroll expenditures tested may include employees with multiple transactions.

[f] This provider is a general residential operation and does not have foster families; therefore, it was not tested for foster parent payments and monitoring.

Sources: The providers' cost reports for fiscal year 2018, the providers' fiscal year 2018 financial records, and the Department.

Information collected and reviewed included the following:

- Information from interviews with the Department's residential child care program management and staff.
- Department program monitoring and licensing reports for the providers audited.
- The providers' documentation related to their financial position, including estimated annual budgets, annual financial audits (if applicable), and governing board meeting minutes.
- The providers' cost reports for fiscal year 2018 and supporting documentation.
- The providers' financial records and supporting documentation, including records and supporting documentation for (1) payroll expenditures and (2) non-payroll expenditures.
- The providers' personnel files.
- The providers' foster parent monitoring plans, monitoring files, and records for payments to foster parents.
- The providers' policies and procedures.
- Lists of the providers' employees, volunteers, foster parents, family members, frequent visitors, and caregivers as of April 30, 2019.
- Information from the Commission on the results of background checks that providers performed.
- Information from the Department on the payments it made to the providers audited.

Procedures and tests conducted included the following:

- Testing internal controls and information technology controls at the providers.
- Testing expenditures related to services provided to children.
- Testing related party expenditures and contracts.
- Testing payroll records.
- Reviewing personnel files.

- Testing payments that the providers made to foster care parents.
- Comparing each provider's general ledger to sampled line items identified in each provider's cost report.
- Testing the providers' foster parent monitoring records.
- Testing to determine whether all required background checks were conducted on current employees, volunteers, foster parents, family members, frequent visitors, and caregivers as of April 30, 2019. The required background checks were:
    - Department central registry checks.
    - Department of Public Safety (DPS) name-based background checks.[23]
    - Federal Bureau of Investigation fingerprint background checks.[24]
- Reviewing background check results for convictions that would prohibit a person from being present in a child-care operation for current employees, volunteers, foster parents, family members, frequent visitors, and caregivers as of April 30, 2019.

<u>Criteria used</u> included the following:

- Title 26, Texas Administrative Code, Chapters 745[25], 748, and 749.
- Title 1, Texas Administrative Code, Chapter 355.
- Texas Government Code, Section 2155.1442.
- The Commission's *Uniform Terms and Conditions*.
- The Department's Residential Childcare Contract Special Conditions for Child Placing Agencies and General Residential Organizations.
- The Commission's *2018 Cost Report Instructions for 24RCC*.
- The Department's Licensed or Certified Child Care Operations: Criminal History Requirements.

[23] As of January 7, 2018, any person requiring an FBI fingerprint check no longer required a DPS name-based criminal history check.

[24] Fingerprint background checks were not required for frequent visitors.

[25] Prior to July 15, 2019, the background check rules were in Title 40, Texas Administrative Code, Chapter 745.

Project Information

Audit fieldwork was conducted from April 2019 through August 2019. We conducted this performance audit in accordance with generally accepted government auditing standards[26]. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The following members of the State Auditor's staff performed the audit:

- Anna Howe, CFE (Project Manager)
- Valeria Aguirre, MPA (Assistant Project Manager)
- Kirstin Adamcik, MBA
- Kayla Barshop
- James Collins
- Jessica McGuire, MSA
- Alana Montoro
- Melissa M. Prompuntagorn, CFE
- Daniel Spencer, MSA, CFE
- Ryan Walther
- Tony White, CFE
- Brenda Zamarippa, CGAP
- George D. Eure, CPA (Quality Control Reviewer)
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

[26] United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.

Appendix 2

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 3 provides a description of the issue ratings presented in this report.

Table 3

Summary of Issue Ratings	
Issue Rating	**Description of Rating**
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Selected Requirements for Residential Child Care Providers

The following is a summary of (1) selected Health and Human Services Commission (Commission) and Department of Family and Protective Services (Department) requirements in the Texas Administrative Code and (2) selected requirements in the Commission's *2018 Cost Report Instructions for 24RCC.* The requirements are related to residential child care contractors' (providers) cost reporting, financial records, and foster parent monitoring.

Cost Reporting

The Commission uses the information in providers' cost reports to (1) help determine foster care reimbursement rates for the providers and (2) request reimbursement of some direct service and administration costs from the U.S. Department of Health and Human Services under Title IV-E programs. Cost reporting processes and requirements include the following:

- **Cost report submission.** Each separately licensed provider that has a contract with the Department to provide residential child care services during a fiscal year is required to submit a cost report to the Commission. A separate cost report is required for each separately licensed facility that the provider operates. The cost report must cover all of the provider's 24-hour residential child care activities, including all programs that are not Department related, at the licensed facility during the reporting period. Child placing agencies are required to submit a cost report only for the corporation itself. Child placing agencies with regional specific licenses that operate as one legal entity must submit one cost report for the entire legal entity.

- **Accurate Cost Reporting.** Title 1, Texas Administrative Code, Section 355.102(c), states that providers are responsible for accurate cost reporting and for including in cost reports all costs incurred, based on an accrual method of accounting, that are reasonable and necessary.

- **Related Party Transactions.** Title 1, Texas Administrative Code, Section 355.102(i)(6), requires providers to disclose all related party transactions on the cost report for all costs that providers report, including related party transactions occurring at any level in the provider's organization. Providers must make available, upon request, adequate documentation to support the costs incurred by the related party.

- **Allowable and Unallowable Costs.** Title 1, Texas Administrative Code, Section 355.102, states that allowable and unallowable costs, both direct and indirect, are expenses that are reasonable and necessary to provide contracted client care and are consistent with federal and state laws and regulations. When a particular type of expense is classified as unallowable, the classification means only that the expense will not be included in the database for reimbursement determination purposes because the expense is not considered reasonable and/or necessary. Costs are "reasonable" if the amount spent is what a prudent and cost-conscious buyer would have spent. "Necessary" costs are appropriate and related to the provider's operation and are not for personal or other activities not directly or indirectly related to the provision of contracted services. The unallowable classification does not mean that the providers may not make the expenditure.

- **Cost Allocation Methods.** Title 1, Texas Administrative Code, Section 355.102(j), states that providers must use direct costing whenever reasonably possible. Direct costing means that costs incurred for the benefit of, or directly attributable to, a specific business component must be charged directly to that particular business component. Whenever direct costing of shared costs is not reasonable, providers must allocate costs either individually or as a pool of costs across the business components sharing the benefits. The allocation method must be a reasonable reflection of the actual business operations. Providers must apply any allocation method used for cost-reporting purposes consistently across all contracted programs and business entities. Any change in allocation methods for the current year from those used in the previous year must be disclosed on the cost report and accompanied by a written explanation of the reasons for the change. Allocation methods based on revenue or revenue streams are not acceptable.

- **Reporting Expenses.** Title 1, Texas Administrative Code, Section 355.102(b), states that costs may not be entered and reported on the cost report when no costs were actually incurred or when documentation does not exist for costs even if those costs were actually incurred during the reporting period. Additionally, Title 1, Texas Administrative Code, Section 355.101(c)(2)(A) states that it is the provider's responsibility to submit accurate and complete information in accordance with all pertinent Commission cost reporting rules and the cost report instructions on the cost report.

Financial Records

- Title 1, Texas Administrative Code, Section 355.105(b)(2)(A), requires providers to ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial and statistical information contained in their cost reports.

- The Commission's *2018 Cost Report Instructions for 24RCC* lists in detail the records that providers must retain, such as all accounting ledgers, journals, invoices, purchase orders, vouchers, canceled checks, timecards, payrolls, mileage logs, loan documents, asset records, inventory records, minutes of board of directors meetings, work papers used in the preparation of a cost report, trial balances, and cost allocation spreadsheets.

Foster Parent Monitoring

- Title 26, Texas Administrative Code, Section 749.2815, requires child placing agencies to conduct supervisory visits (1) in foster homes on at least a quarterly basis; (2) with both foster parents, if applicable, at least once every six months; and (3) with all household members at least once a year. At least two visits per year must be unannounced. Each visit must be documented in the home's record, and the documentation must be signed by the foster parent(s) present for the visit and the child-placement staff conducting the visit.

Payment Rates for 24-hour Residential Child Care Providers

All 24-hour residential child care providers are paid a fixed daily rate for each child placed in their care based on each child's service level of care. Child placing agencies are required to reimburse foster families for clients receiving services under a contract with the Department of Family and Protective Services. Table 4 lists the 24-hour child care rates effective September 1, 2017.

Table 4

24-hour Residential Child Care Daily Payment Rates
Effective September 1, 2017

Child's Service Level Classification [a]	Minimum Daily Rate Paid to Foster Family per Child	Daily Rate Paid to Child Placing Agency per Child	Daily Rate Paid to General Residential Operation per Child
Basic	$27.07	$48.47	$45.19
Moderate	$47.37	$85.46	$103.03
Specialized	$57.86	$109.08	$197.69
Intense	$92.43	$186.42	$277.37

[a] Emergency shelter services are also provided at the daily rate of $129.53.

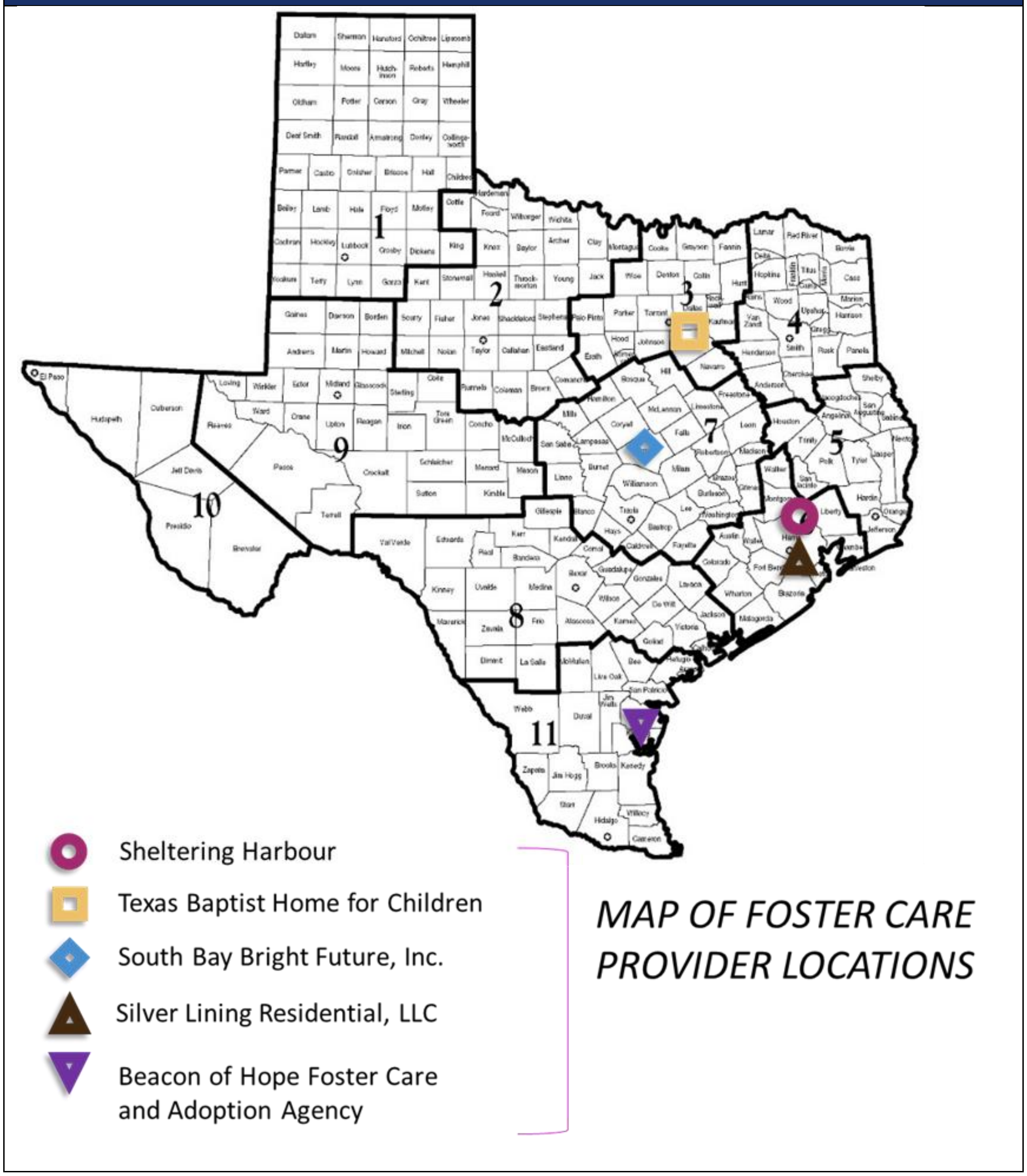
Source: The Department of Family and Protective Services.

Map of Providers' Locations

Figure 1 shows the locations of the five residential child care contracts (providers) audited and the Department of Family and Protective Services' 11 regions.

Figure 1

Locations of Audited Residential Child Care Contractors



Source: The map was created by the Department of Family and Protective Services; provider locations were identified by the State Auditor's Office.

Appendix 6

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	**Product Name**	**Release Date**
19-004	An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors	October 2018
18-022	An Audit Report on Foster Care Redesign at the Department of Family and Protective Services	March 2018
18-004	An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors	October 2017
17-011	An Audit Report on On-Site Financial Audits of Selected Residential Foster Care Contractors	October 2016
15-043	A Report on On-site Financial Audits of Selected Residential Foster Care Contractors	August 2015
14-043	A Report on On-site Audits of Residential Child Care Providers	August 2014

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dennis Bonnen, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Dustin Burrows, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Dr. Courtney N. Phillips, Executive Commissioner

Department of Family and Protective Services

Dr. Trevor Woodruff, Acting Commissioner

Board Members and Executive Directors of the Following Providers Audited

Beacon of Hope Foster Care and Adoption Agency
Sheltering Harbour
Silver Lining Residential, LLC
South Bay Bright Future, Inc.
Texas Baptist Home for Children