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State Auditor

An Audit Report on

On-site Financial Audits of Selected Residential Foster Care Contractors

The following providers were audited for this report:

- Caring Heart Residential Care Services LLC, a licensed general residential operation.
- New Horizons Ranch Residential Treatment Center, a licensed general residential operation.
- Buckner Rio Grande Children's Home Inc., a licensed child-placing agency.
- DePelchin Children's Center, a licensed child-placing agency.

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

Of the four residential childcare contractors (providers) audited, two providers—DePelchin Children's Center and Buckner Rio Grande Children's Home Inc.—established adequate financial processes to help maintain operations on a sound fiscal basis for fiscal year 2023. One provider—New Horizons Ranch Residential Treatment Center—should strengthen its financial processes to ensure compliance with the Health and Human Services Commission's (Commission) accounting and cost reporting requirements. One provider—Caring Heart Residential Care Services LLC—had significant weaknesses in its financial processes.

The two child-placing agencies audited—DePelchin Children's Center and Buckner Rio Grande Children's Home Inc.—did not consistently comply with all the Commission's foster home monitoring requirements.

PRIORITY

CARING HEART RESIDENTIAL CARE SERVICES LLC – FISCAL PROCESSES

Caring Heart did not have adequate financial processes. Significant weaknesses were identified with Caring Heart's oversight and cost reporting of its expenditures, including related-party transactions.

Chapter 1 | p. 10

MEDIUM

NEW HORIZONS RANCH RESIDENTIAL TREATMENT CENTER – FISCAL PROCESSES

New Horizons Ranch established financial processes that helped ensure it operated on a sound fiscal basis; however, it should strengthen its accounting and cost reporting processes to ensure compliance with the Commission's requirements.

Chapter 2 | p. 18

MEDIUM

BUCKNER RIO GRANDE CHILDREN'S HOME INC. – FISCAL PROCESSES

Buckner Rio Grande appropriately reported expenses on its cost report and paid its foster parents in accordance with the appropriate rates; however, it should improve its payroll process.

Chapter 3-A | p. 26

For more information about this audit, contact Audit Manager Willie Hicks or State Auditor Lisa Collier at 512-936-9500.

October 2024 | Report No. **25-005**

HIGH

BUCKNER RIO GRANDE CHILDREN'S HOME INC. – FOSTER PARENT MONITORING

Buckner Rio Grande did not verify that monitoring visits were conducted in compliance with the Commission's *Minimum Standards*.

Chapter 3-B | p. 30

LOW

DEPELCHIN CHILDREN'S CENTER – FISCAL PROCESSES

DePelchin established effective financial processes to help maintain its operations on a sound fiscal basis and paid its foster parents in accordance with the appropriate rates.

Chapter 4-A | p. 32

HIGH

DEPELCHIN CHILDREN'S CENTER – FOSTER PARENT MONITORING

DePelchin did not ensure that quarterly visits were performed and met the Commission's *Minimum Standards.*

Chapter 4-B | p. 35

Note on Confidential Findings

To minimize security risks, auditors communicated details about audit findings related to certain security weaknesses in separate reports to Caring Heart, Buckner Rio Grande, and DePelchin.

PRIORITY

The Caring Heart findings were rated Priority, indicating critical risk. Action is needed to address the noted concerns and reduce risks to a more desirable level.

MEDIUM

The Buckner Rio Grande and DePelchin findings were rated Medium, indicating moderate risk. Action is needed to address the noted concerns and reduce risks to a more desirable level.

Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Summary of Management Responses

Public Report

Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. Buckner Rio Grande and DePelchin agreed with the recommendations.

Caring Heart disagreed with some of the findings and one of the associated recommendations. Caring Heart's detailed management response is presented immediately following the recommendations in its chapter. After review and consideration of the management response, the State Auditor's Office stands by its conclusions based on evidence provided during this audit.

New Horizons Ranch disagreed with one of its two recommendations. New Horizons Ranch's detailed management response is presented immediately following the recommendations in its chapter. After review and consideration of the management response, the State Auditor's Office stands by its conclusions based on evidence provided during this audit.

Confidential Reports

Auditors made recommendations in the confidential reports to address the findings. Buckner Rio Grande and DePelchin agreed with the recommendations.

Caring Heart disagreed with the confidential findings and associated recommendation. Caring Heart's management response is documented in the confidential report. After review and consideration of the management response, the State Auditor's Office stands by its conclusions based on evidence provided during this audit.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objectives.

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.

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.

MEDIUM: Issues identified present risks or effects that if not addressed could ***moderately affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

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.

For more on the methodology for issue ratings, see Report Ratings in Appendix 1.

Background Information

Residential Foster Care Contractors

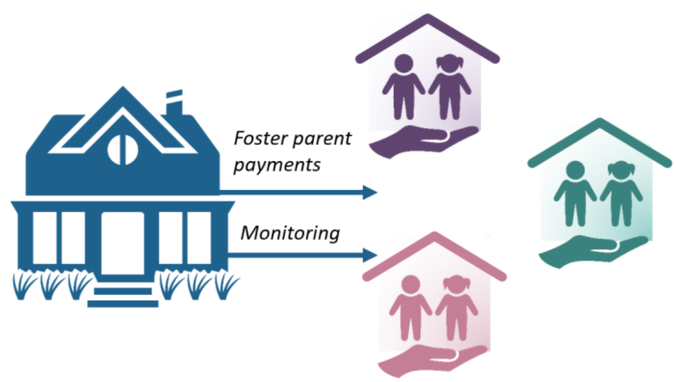
Residential foster care contractors (providers) deliver goods and services—such as therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in their care through contracts funded by the Department of Family and Protective Services (Department). Providers that contract with the Department must report revenues, expenses, and other required information to the Health and Human Services Commission (Commission) in annual cost reports. This audit included two types of providers with which the Department contracts: general residential operations and child-placing agencies (see Figure 1). In fiscal year 2023, the Department contracted with 244 of these providers (see Figure 2 on the next page).

Figure 1

Types of Residential Foster Care Providers

General Residential Operations (GROs)

GROs provide 24-hour care for 7 or more children 17 years or younger and may provide various treatment services, emergency care services, or therapeutic camps. The GRO category includes residential treatment centers.



Child-Placing Agencies (CPAs)

CPAs are persons or organizations other than a child's parent or guardian who plan for placement of a child or place a child in a childcare facility, foster home, or adoptive home. Foster family homes provide 24-hour care for 6 or fewer children 17 years or younger.

Source: The Commission.

Figure 2

Residential Foster Care Contract Information for Fiscal Year 2023

244	*21,616*	*$547 million*
Number of Department contracts with GROs and CPAs	Number of children in foster care	Department funding for foster care contract payments [a]

[a] Projected funding amount determined by the Department.

Source: The Department.

Audit Requirements

Texas Government Code, Section 2155.1442(b), requires the Commission to contract with the State Auditor's Office to perform on-site financial audits of providers that deliver foster care services for the Department as necessary. The State Auditor's Office, in consultation with the Commission, shall select the providers to audit based on providers' risk assessment rating, allegations of fraud or misuse of state or other contract funds, or other appropriate audit selection criteria.

Minimum Standards for Fiscal Requirements

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

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 either (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

Minimum Standards for Monitoring Visits Conducted by Child-Placing Agencies

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 a year. It also requires that at least two supervisory visits be unannounced. At least once every quarter, the supervisory visit must evaluate and document the following:

- Any change to household members, frequent visitors, or persons who will provide support as a caregiver during an unexpected event or crisis situation;
- Any major life change in the foster family as described in Title 26, Texas Administrative Code, Section 749.2805 (relating to *What is a "major life change in the foster family"?*);
- Any change to the foster home disaster and emergency plans as described in Title 26, Texas Administrative Code, Section 749.2907 (relating to *What disaster and emergency plans must each foster home have?*); and
- Any challenging behaviors of the current children in the home, the level of stress the foster family is currently experiencing (including any significant change in finances), and any methods for responding to each child's challenging behavior and/or alleviating any significant stress the foster family is experiencing.

Child-placing agencies must document each visit in the home's record. The documentation must include the names of all household members present during the visit, specific issues identified and any rules evaluated, results of the evaluation, deficiencies found, plans for achieving compliance, plans for follow-up to ensure that compliance was achieved, and any changes to the information in the foster home screening since the last supervisory visit, including the reasons for any change in the home's verification.

Documentation of the visit must be signed by each foster parent present for the visit and the child-placement staff conducting the visit.

Cost Report Requirements

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. The following cost report requirements were considered for purposes of the audit:

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.

Reporting 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.

Regarding compensation of owners and related parties, Title 1, Texas Administrative Code, Section 355.105(b)(2)(B)(xi), requires providers to maintain, at a minimum, a detailed written description of actual duties, functions, and responsibilities; documentation substantiating that the services performed are not duplicative of services performed by other employees; time sheets or other documentation verifying the hours and days worked; the amount of total compensation paid for these duties, with a breakdown detailing regular salary, overtime, bonuses, benefits, and other payments; documentation of regular, periodic payments and/or accruals of the compensation; documentation that the compensation is subject to payroll or self-employment taxes; and a detailed worksheet indicating how the total compensation was allocated across business components receiving the benefit of these duties.

Regarding bonuses paid to related parties, Title 1, Texas Administrative Code, Section 355.105(b)(2)(B)(xi)(I), requires the provider to maintain clearly defined bonus policies in its written agreements with employees or in its overall employment policy to include the basis for distributing the bonuses.

For bonuses to owners and/or related parties to be allowable, Title 1, Texas Administrative Code, Section 355.103(b)(1)(A)(i), requires, among other things, that bonuses must be clearly defined in a written agreement or employment policy, must not be made only to related parties, and must be made available to all employees of the same classification type, unless the employee classification type predominately consists of related parties, in which case the bonuses are unallowable costs.

Classification of Allowable Costs. Title 1, Texas Administrative Code, Section 355.102(a), states that allowable 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. An unallowable classification does not mean that the providers may not make the expenditure; it means that the expense should not be used to determine reimbursement.

Unsupported Expenses. Title 1, Texas Administrative Code, Section 355.102(b), states that costs may not be entered and reported on the cost report (1) when no costs were actually incurred or (2) when documentation for costs does not exist, even if those costs were actually incurred during the reporting period.

Financial Record Requirements for Cost Reports. 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.

Additionally, the Commission’s *2023 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)* lists in detail the records that providers must retain to demonstrate the necessity, reasonableness, and relationship of the costs to provider care, 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.

PRIORITY

Chapter 1
Caring Heart Residential Care Services LLC – Fiscal Processes

Caring Heart Residential Care Services LLC (Caring Heart), a licensed general residential operation, had significant weaknesses in its financial processes for fiscal year 2023, including inadequate oversight of its expenditures, insufficient controls over its information systems, and flaws in its cost reporting process. Without adequate financial processes, there is an increased risk that Caring Heart will not operate on a sound fiscal basis. (See Background Information for details about the fiscal requirements for a general residential operation and cost report requirements.)

Fiscal Year 2023 Summary [a]

General residential operation permit issued in 2019

An S corporation located in Richmond, Texas

15 employees

12 children served

Total expenditures reported on cost report:	**$415,236**

[a] From January 1, 2023, to December 31, 2023.

Sources: Caring Heart Residential Care Services LLC, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

Caring Heart had significant weaknesses in its financial processes.

Caring Heart established administrative policies and procedures that mostly met the Commission's *Minimum Standards for General Residential Operations* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 748, in the areas of personnel, record-keeping, information technology, and conflicts of interest.

However, Caring Heart did not establish adequate processes to ensure segregation of duties in its financial processes or establish alternative methods to minimize risk of errors, fraud, waste, and abuse. Specifically, one individual performed all functions related to paying vendors and completing and processing payroll; this individual also was the only one with access to the accounting system. Not ensuring segregation of duties or implementing alternative processes increases the risk of fraud and abuse and reduces Caring Heart's ability to identify and correct errors.

Additionally, Caring Heart did not consistently perform required activities or maintain required documentation to support the accuracy and appropriateness of expenditures in its general ledger in compliance with the Commission's *Minimum Standards*. Specifically:

- **Financial Records.** Caring Heart did not perform reconciliations between its bank accounts and its general ledger. Caring Heart did not record all its expenditures in its general ledger for fiscal year 2023. A total of $20,168 in expenditures, including $4,155 in payroll expenses, were reported on bank statements but were not recorded in the general ledger.

- **Non-payroll Expenditures.** Caring Heart could not provide documentation to show that payments were appropriate and accurately recorded in the general ledger for 54 (73 percent) of the 74 expenditures tested.[1] Of the remaining 20 expenditures that could be supported, 7 (35 percent) were either unallowable costs involving personal expenses or recorded incorrectly in the general ledger.

- **Payroll Expenditures.** Caring Heart could not provide documentation to support the accuracy of hourly pay rates and salaries paid to its employees for 22 (59 percent) of 37 payroll expenditures tested.[2] Caring Heart also could not provide documentation that supported the hours

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[1] The sample of non-payroll expenditures tested was based on a population of 988 transactions totaling $198,992 recorded in Caring Heart's fiscal year 2023 general ledger. The sample was chosen primarily using random selection; 14 targeted sample items were selected using professional judgment based on the payee and payment amount.

[2] The sample of payroll expenditures tested was based on a population of 179 payroll transactions totaling $255,316 recorded in Caring Heart's fiscal year 2023 general ledger. The sample was chosen primarily using random selection; one targeted sample item was selected using professional judgment based on the payment amount.

and days worked by employees for 10 (27 percent) of 37 payroll expenditures tested.

- **Annual Budget**. Caring Heart did not prepare an annual budget for fiscal year 2023. Additionally, Caring Heart did not adopt a policy for developing an annual budget. The Commission's *Minimum Standards* require a general residential operation to establish and maintain a budget to help ensure that sufficient funds are on hand to maintain operations on a sound fiscal basis.

- **Personnel Records.** Caring Heart did not maintain all information required by the Commission's *Minimum Standards* for 6 (55 percent) of 11 employee personnel records tested. Specifically:

  - Five employee records were missing documentation to show employee agreement with operations policies or demonstrate that these individuals met minimum age or education requirements. This set of employees included the director and the administrator of Caring Heart.

  - For one former employee, Caring Heart could not provide a personnel file to provide the date and reason for termination or document that the associated payroll expenditures tested were paid to an actual employee and that this employee met the minimum qualifications for the position.

- **Staffing Policies.** Caring Heart did not adopt policies (1) defining the job description for its director and its administrator and (2) establishing a written professional staffing plan as required by the Commission's *Minimum Standards*.

- **Information Technology.** Caring Heart did not have adequate controls over its accounting and payroll system. Auditors communicated details about the weaknesses identified in a separate report to Caring Heart.

The cost report included unallowable costs.

Auditors tested a sample of (1) 74 non-payroll expenditures totaling $69,007; (2) 37 payroll expenditures totaling $57,673; and (3) 11 expenditure line items[3] from Caring Heart's fiscal year 2023 cost report totaling $340,315. The expenditures tested were not always allowable or accurately reported on the cost report. Specifically, Caring Heart reported unallowable non-payroll and payroll expenditures tested, totaling $39,826, on its fiscal year 2023 cost report. As discussed above, these unallowable items included unsupported expenditures, personal expenses incurred by the director, and inaccuracies that were identified for both non-payroll and payroll expenditures.

The cost report did not include all related-party costs.

Auditors tested the two related-party transactions for employee payroll that Caring Heart identified in its cost report. These transactions, totaling $74,570, involved the director and the administrator.

However, auditors identified 5 additional related-party transactions, totaling $120,894, that were not reported in compliance with Commission cost report instructions. (See Background Information for the cost report requirements pertaining to related-party transactions). The related-party transactions not provided in the cost report included (1) wages paid to 2 family members of the director, totaling $63,377; (2) $37,960 in payments for property leased from the director; and (3) $19,557 in payments for 2 vehicles that were also leased from the director. Additionally, Caring Heart did not maintain documentation to support the accuracy and appropriateness for the salaries paid to the director, administrator, and a related family member, as well as for the payments for the property and leased vehicles.

[3] The targeted sample was selected by identifying significant line items that had high dollar amounts or belonged to commonly misreported expenditure categories.

Recommendations

Caring Heart should:

- Establish segregation of duties or alternative measures to address the risk of fraud, waste, or abuse in the operational process.
- Ensure that all expenditures on its cost report are adequately supported and accurately reported.
- Prepare and adopt an annual budget each fiscal year.
- Retain required documentation in employee personnel files.
- Ensure that all related-party expenses are identified, reported, supported, and disclosed in accordance with Commission cost report instructions.

Management's Response

> **Financial Records:**
>
> We agree with the findings that no reconciliation was done though we do reconcile occupied bed nights with payments from the state. We disagree that expenditures were omitted from the General Ledger. Expenses are ported directly from bank and credit cards into QuickBooks, and payroll expenses are recorded automatically in QuickBooks since payroll is processed in QuickBooks.
>
> **Non-Payroll Expenses:**
>
> We had a flooding incident in the facility in the summer of 2023 caused by a sprinkler head getting too hot and hundreds of gallons of waters spread all over the house. Having to move a lot of things around within minutes, and having to bring in contract labor to help pack things in order to get the house back in order, some papers and records were damaged or misplaced.

Payroll Expenses:

We disagree with this finding. Pay records and electronic time punches were submitted to auditors as requested. The only items not provided where pay increases given that were verbal.

Annual Budget:

We disagree with this finding. We do have an annual budget for 2023 but wasn't provided at time of Audit due to other activities that was taking up time. The budget is attached to this email.

Personnel Records:

We agree with this findings that Director and Administrator's files did not have signed acknowledgement for company policies. This was because we didn't think it was needed as owners but those acknowledgements have since been added. We disagree that those files do no demonstrates that employees met minimum age requirements. Every employee file have ID cards showing date of births.

We agree that employee file of a former employee could not be provided. This file was one of the records damaged/misplaced during the house flooding incident we had in the summer of 2023.

Staffing Policy:

(1) We agree the Director and the Administrator's files didn't have job descriptions because we didn't deem it necessary as owners. (2) We agree to not presenting a staffing plan. We are actively developing one.

Related Party Transactions:

2 employees that are relatives would be reported as related party going forward, and declared. We didn't think this was classed as related parties since they were just employees.

Building and vehicle leased from owners would be declared as related party activities as recommended going forward.

Recommendations:

- We agree. Adedamola Solawon would be made an administrator on the time clock and Accounting software. To be implemented by 11/30/24 by Raphael Solawon (Executive Director)

- We agree. Raphael Solawon (Executive Director) would create a folder to store receipts. To be implemented 11/30/24
- We disagree. Annual budget for 2024 was attached to the last email.
- We agree. Raphael Solawon (Executive Director) would maintain and retain employee files.
- We agree. All related party transaction would be identified and disclosed in cost reports. To be implemented by Raphael Solawon (Executive Director) by 11/30/24

Auditor Follow-up Comment

The conclusions and findings to this report were discussed with Caring Heart's management throughout the audit. Additionally, Caring Heart's management was given many opportunities to provide supporting documentation to address findings. In review of management's response auditors offer the following clarifications:

- **Financial Records.** Auditors identified expenditures from the bank statements that were not recorded in the general ledger. Caring Heart was presented with this information during the audit and confirmed that the expenditures auditors identified were not recorded in the general ledger.
- **Payroll Expenditures.** As described in the report, Caring Heart did not provide documentation for all payroll expenditures tested. Caring Heart could not provide documentation to support the actual hours and days worked that were used to calculate the payroll expenditures tested.
- **Annual Budget.** During the audit, Caring Heart asserted to auditors that it did not maintain an annual budget because its funding is dependent on the number of children it cared for during the year, and it was hard to predict staffing needs. Caring Heart included a budget document with its management response; auditors could not validate the date of document preparation and adoption.
- **Personnel Records.** The documentation Caring Heart provided from its employee personnel records for the six employees discussed did not

include support to show compliance with the minimum age and education requirements tested.

After review and consideration of management's responses, the State Auditor's Office stands by its conclusions based on the evidence provided during this audit.

MEDIUM

Chapter 2
New Horizons Ranch Residential Treatment Center – Fiscal Processes

New Horizons Ranch Residential Treatment Center (New Horizons Ranch), a licensed general residential operation, had financial processes in place during its 2023 fiscal year to help maintain its operations on a sound fiscal basis. However, it should strengthen oversight of its non-payroll expenditures. Additionally, New Horizons Ranch should ensure that it identifies and reports related-party expenditures in its cost report. (See Background Information for details about the fiscal requirements for a general residential operation and cost report requirements.)

New Horizons Ranch had adequate financial processes; however, it should ensure that all expenditures are supported.

New Horizons Ranch's financial processes included:

- Obtaining an independent audit from a certified public accountant.
- Adopting an annual budget that was approved by the governing board for fiscal year 2023.

Fiscal Year 2023 Summary [a]

General residential operation permit issued in 1987

A nonprofit corporation located in Goldthwaite, Texas

94 employees

45 children served

Total expenditures reported on cost report:	**$7,126,270**

[a] From September 1, 2022, to August 31, 2023.

Sources: New Horizons Ranch Residential Treatment Center, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

- Preparing monthly bank reconciliations. Bank reconciliations were performed for all four months tested.

- Reviewing and approving hourly employees' timecards. The 41 timecards for hourly employees tested were appropriately approved.

- Maintaining adequate processes for information technology, including appropriate user access, current antivirus protocols and secure data backups.

- Documenting policies and procedures for financial management and to meet the Health and Human Services Commission's (Commission) *Minimum Standards for General Residential Operations* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 748, in the areas of information technology, record-keeping, personnel, and conflicts of interest.

In addition, New Horizons Ranch maintained the information required by the Commission's *Minimum Standards* in its personnel records for the 52 employees associated with the payroll expenditures tested, such as qualifications for the position and job description.

However, New Horizons Ranch should improve its financial processes to ensure that it maintains adequate documentation to support the appropriateness and accuracy of its non-payroll expenditures recorded in its general ledger, as required by the Commission's *2023 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)* and its policies and procedures. Specifically:

- 2 (3 percent) of 71 non-payroll expenditures tested[4] did not have supporting documentation. Each of these two expenditures were recorded for the months of September 2022 and August 2023 in the general ledger and comprised multiple store purchases made on various days throughout the month. The two expenditures totaled $12,768; of that amount, $9,412 (74 percent) in purchases were unsupported.
- 4 (6 percent) of 71 non-payroll expenditures tested, which were petty cash transactions totaling $37,299, were not fully supported by all required documentation. The items of support that were either missing

[4] The sample of non-payroll expenditures tested was based on a population of 1,010 transactions totaling $1,485,541 recorded in New Horizons Ranch's fiscal year 2023 general ledger. The sample was chosen primarily using random selection; 11 targeted sample items were selected using professional judgment based on payee, payment amount, and commonly misreported expenses.

or unreadable included transactions, receipts, employee signatures, and explanations for the use of funds.

The cost report included unallowable costs.

Auditors tested samples of (1) 71 non-payroll expenditures totaling $316,667; (2) 67 payroll expenditures totaling $244,538[5]; and (3) 8 expenditure line items[6] from New Horizons Ranch's fiscal year 2023 cost report totaling $5,800,576. While the payroll expenditures tested were allowable, supported, and accurately recorded, the non-payroll expenditures tested were not always allowable, due to missing supporting documentation. As discussed previously, the non-payroll expenditures tested did not have adequate support to determine the allowability and accuracy of the purchases as required by Commission cost report instructions.

The cost report should have identified a related-party transaction.

Vendor payment amounts for contracted cleaning services, totaling $7,800, were determined to be supported, reasonable, and appropriately included in the expenditures reported on the cost report; however, the payments were not disclosed as a related-party transaction. A New Horizons Ranch employee was contracted—outside of their existing position—to provide cleaning services during fiscal year 2023. The Commission's *Minimum Standards* specify that a related party is a person or organization related to the contracted provider by blood/marriage, common ownership, or any association that permits either entity to exert power or influence, either directly or indirectly, over the other. Disclosure of related-party information is required for all allowable costs reported by a contracted provider.

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[5] The sample of payroll expenditures tested was based on a population of 976 monthly transactions totaling $3,434,025 recorded in New Horizon Ranch's fiscal year 2023 payroll register. The sample was chosen primarily using random selection; seven targeted sample items were selected using professional judgment based on the dollar amount of bonuses paid to employees.

[6] The targeted sample was selected by identifying significant line items that had high dollar amounts or belonged to commonly misreported expenditure categories.

Recommendations

New Horizons Ranch should:

- Maintain complete and accurate documentation that supports all expenditures.
- Ensure that all related-party expenses are identified, reported, and disclosed in accordance with the Commission's *Minimum Standards*.

Management's Response

RECOMMENDATION 1

Agreed

New Horizons Ranch did maintain records to support the costs, however the documentation was not determined to be sufficient in the opinion of the State Auditor's Office and New Horizons agrees.

New Horizons utilizes a paperless system for the accounting processes, documentation, and reporting functions of the Agency. In the paperless documentation a weakness in the scanning process was found, whereby receipts were not legible when scanned or some receipts covered a portion of other receipts in the scanning process. Summary transaction documentation and control forms were present. This included credit card transactions and petty cash transactions which were verified by administrative staff as verification of the purpose of the transaction and approval at the program level. Finance utilizes the summary transaction data for entry into the accounting system and failed to verify the scanned receipt process in some instances.

The specific transactions relate to expenditures at the Ranch Qualified Residential Treatment Program where staff are buying clothes and other personal items to take care of our kids. These expenditures generally happen by staff empowering kids under our philosophy and guidelines, to be involved in shopping for clothes and personal items for themselves with staff supervision. The staff conducting this work are focused on working with our kids and in some cases, the needs of

Finance may not be their main interest. Many times, our staff are handling multiple purchases for multiple kids at a time. New Horizons has supervisory staff that ensure the purchases are within reasonable standards, for our kids, and as expected upon return to the program. The detail documentation process was missed as we are focused on taking care of our kids as we should be.

Regardless of our belief that our focus should be on our kids, New Horizons does agree that strengthening the process of scanning and formalizing a review process, would be a beneficial step in documentation integrity for petty cash, credit card, and expenditure transactions at the program level. These weaknesses were limited to documentation that is processed at the program level and not to the accounting processes overall within our Finance Office. A formal review of the documentation at the program level including a monthly Finance Department review with original receipts retained until verified, has been implemented to provide assurance of the integrity of the documentation. New Horizons has already implemented the appropriate steps to ensure complete and accurate documentation of all expenditures identified during the audit.

Responsible Party - CFO

Timeline – Immediately

RECOMMENDATION 2

Disagree

New Horizons contracted with a staff member who is a therapist to perform cleaning at the on-campus school building. ***New Horizons disagrees that this should have been disclosed as a related party transaction under the definition in the TAC 355.102(1)(2)(3). The determining factors are common ownership and control. The fact of employment is not a determining factor in the assessment of a related party.***

<u>Per TAC 355.102(1)</u>

Common ownership exists if an individual or individuals possess any ownership or equity in the contracted provider and the institution or organization serving the contracted provider. ***There was no common ownership between the parties.***

Control exists if an individual or an organization has the power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or institution. ***No power existed for the staff to exert control or influence on the policies of New Horizons as the staff was not an Officer, Program Administrator, Board Member or Member of the Executive Management Team during the period under audit.***

Per Sub-Section (1) - If the elements of common ownership or control are not present in both organizations, then the organizations are deemed not to be related to each other. ***Common ownership is not present because New Horizons does not have owners as a non-profit organization and Sub-Section (2) below does not apply. Control is not present in both organizations as the staff has no basis of control/influence of New Horizons in accordance with Sub-Section (3). New Horizons agrees that it may have some influence over the staff in the capacity of an employee, however without both present, the parties are not related.***

Per TAC 355.102(2)

In the case of a non-profit organization, ownership or equity interest will be determined by reference to the interest in the assets of the organization in the form of a reversionary interest provided for in the articles of incorporation. ***No reversionary interest exists with the staff in the assets of New Horizons. This further supports the lack of common ownership.***

Per TAC 355.102(3)

The term control includes any kind of control, whether it is legally enforceable and exercised or exercisable. The reality of control is decisive and not the form or the mode of exercise. ***Under this Section the control that New Horizons could exercise on the staff may or may not be present, however this section further clarifies that the facts and circumstances in each case must be examined to ascertain whether legal or effective control exists. The control that the staff may exercise on New Horizons clearly does not exist as the staff has no influence. Although argument could be made that New Horizons may exercise control of the staff, there is no argument that the staff could control***

> ***New Horizons by definition. The form or fact of employment is not decisive.***
>
> In summary, since control is not present in **both** organizations per **TAC 355.102(1)**, the parties are not related in the opinion of New Horizons and therefore disclosure as a related party would not be required.
>
> New Horizons however will review its determination process for related parties to ensure consistency, clarity, and application of the determining factors per TAC 355.102 for future Fiscal Years in accordance with this definition.
>
> *Responsible Party - CFO*
>
> *Timeline – Immediate*

Auditor Follow-up Comment

The Health and Human Services Commission (Commission) specifies in the Texas Administrative Code, Title 1, Section 355.102(i), that:

> (1) In determining whether a contracted provider organization is related to a supplying organization, the tests of common ownership and control are to be applied separately. *Related to a contracted provider means that the contracted provider to a* ***significant extent is associated or affiliated with,*** *has control of, or is controlled by the organization furnishing the services, equipment, facilities, leases, or supplies* [emphasis added]. Common ownership exists if an individual or individuals possess any ownership or equity in the contracted provider and the institution or organization serving the contracted provider.
>
> (4) The purpose of this principle is twofold: to avoid the payment of a profit factor to the contracted provider through the related organization (whether related by common ownership or control), and to avoid payment of artificially inflated costs which may be generated from less than arm's-length bargaining. The related organization's costs include all actual reasonable costs, direct and indirect, incurred in the furnishing of services, equipment, facilities, leases, or supplies to the provider. The intent is to treat the costs incurred by the supplier as if they were incurred by the contracted provider itself.

Based on this requirement, auditors, with agreement from the Commission, determined that New Horizons Ranch is deemed, to a significant extent, associated or affiliated with an employee who is also providing contracted services. New Horizons Ranch's payments for those contracted services should be reported as related-party transactions as required by the Commission's *2023 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)*.

After review and consideration of management's responses, the State Auditor's Office stands by its conclusions based on the evidence provided during this audit.

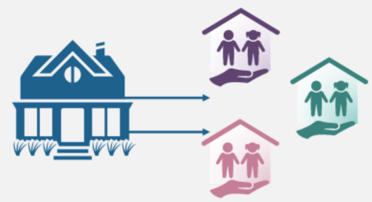
MEDIUM

Chapter 3-A
Buckner Rio Grande Children's Home Inc. – Fiscal Processes

Buckner Rio Grande Children's Home Inc. (Buckner Rio Grande), a licensed child-placing agency, had financial processes in place during its 2023 fiscal year to help maintain its operations on a sound fiscal basis and it made appropriate payments to its foster parents. However, it should more closely comply with its payroll processing policy. (See Background Information for details about the fiscal requirements for a child-placing agency and cost report requirements.)

Buckner Rio Grande had adequate financial processes; however, it should strengthen its payroll process.

Fiscal Year 2023 Summary [a]



Child-placing agency permit issued 2018

A nonprofit corporation located in Mission, Texas

10 employees

38 children served

Total expenditures reported on cost reports: **$860,522**

[a] From January 1, 2023, to December 31, 2023.

Sources: Buckner Rio Grande Children's Home Inc., Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

Buckner Rio Grande's financial processes included:

- Obtaining an annual review of its financial records by an independent certified public accountant.
- Adopting an annual budget that was approved by the governing board for fiscal year 2023.
- Preparing monthly bank reconciliations. All four months of bank reconciliations tested were appropriately completed and the applicable account balances reconciled to the general ledger.

- Maintaining adequate processes for information technology, including appropriate user access, current antivirus protocols, and secure data backups.
- Documenting policies and procedures for financial management and to meet the Commission's *Minimum Standards for Child-Placing Agencies* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 749, in the areas of record-keeping, personnel, and conflicts of interest.

In addition, Buckner Rio Grande maintained most of the information required by the Commission's *Minimum Standards* in its personnel records for the eight employees associated with the payroll expenditures tested.

Buckner Rio Grande also maintained most of the documentation to support the accuracy and appropriateness of the 42 payroll expenditures tested[7]. However, 5 (19 percent) of 27 applicable payroll expenditures tested for hourly employees did not have documentation to show that employee timecards were approved by the employee and/or manager prior to payroll processing as required by its policy. Buckner Rio Grande indicated that it processes payroll on a set deadline each pay period based on the timecards in its payroll system. If an error is discovered after the deadline, Buckner Rio Grande will make corrections in the payroll system. However, running payroll without first verifying the accuracy of the hours increases the risk of overpayments due to inaccurate or false reporting of the hours worked.

Buckner Rio Grande appropriately reported expenses on its cost report.

The expenditures tested in Buckner Rio Grande's cost report for fiscal year 2023 reconciled to its general ledger. The non-payroll and payroll expenditures tested were allowable, supported, and accurately recorded in the cost report.

[7] The sample of payroll expenditures tested was based on a population of 205 transactions totaling $390,253 recorded in Buckner Rio Grande's fiscal year 2023 payroll register. The sample was chosen primarily using random selection; two targeted sample items were selected using professional judgment based on uncommon payments made to employees.

Auditors tested 64 non-payroll expenditures[8] totaling $135,602; 42 payroll expenditures totaling $68,218; and 9 line items[9] on the cost report totaling $418,403.

Buckner Rio Grande paid its foster parents in accordance with the Commission's *Minimum Standards*.

Buckner Rio Grande accurately recorded payments to foster parents in its general ledger and ensured that its foster families were verified before issuing payments. For 49 (98 percent) of 50 foster parent payments tested,[10] totaling $48,503, Buckner Rio Grande paid the correct amount to foster parents based on its fee policy. (See Appendix 2 for information on the daily rate paid to foster families per child).

Recommendation

Buckner Rio Grande should follow its review and approval procedures for processing payroll for hourly employees.

Management's Response

> Buckner agrees with the observation regarding fiscal processes for payroll approvals. Buckner will provide additional training and

[8] The sample of non-payroll expenditures tested was based on a population of 1,382 transactions totaling $1,079,552 recorded in Buckner Rio Grande's fiscal year 2023 general ledger. The sample was chosen primarily using random selection; four targeted sample items were selected using professional judgment based on the payee and payment amount.

[9] The targeted sample was selected by identifying significant line items that had high dollar amounts or belonged to commonly misreported expenditure categories.

[10] The random sample of foster parent payments tested was based on a population of 249 foster care payments, totaling $423,559, from the Department to Buckner Rio Grande for fiscal year 2023. Each payment was tested to determine its accuracy based on level of care and days of service.

> leadership support to ensure policies for payroll processes are followed. The policies and procedures for the payroll processes are managed by the Senior Director of People Operations and the accountability to adhere to the policies is managed by the Regional Director of Foster Care & Adoption.
>
> Per the Buckner Employee Handbook, current payroll policies indicate non- exempt team members are required to approve their timecards at the end of each pay-period and managers are required to approve team member timecards no later than 9AM on the Monday following the last day of the pay period.
>
> To ensure these policies are adhered to, leaders receive monthly reminders to approve timecards and bi-weekly notifications regarding any pending time-off requests or punch corrections from Buckner's Human Resources Business Partner. New employees are provided with training on how to approve their timecards during the HR led New Hire Orientation. Additionally, new leaders are required to complete Manager Training in which they receive detailed guidance on timecard approvals, including applicable responsibilities and deadlines.
>
> To provide further guidance on these policies, team members will receive additional training and reminders for reviewing and approving timecards. Buckner will continue to provide oversight into fiscal processes, including payroll approvals to ensure accuracy of hours worked and avoid discrepancies in payroll reporting.

HIGH

Chapter 3-B
Buckner Rio Grande Children's Home Inc. – Foster Parent Monitoring

Buckner Rio Grande established a foster home monitoring form and related processes that were adequately designed to help ensure compliance with the Commission's *Minimum Standards*. However, Buckner Rio Grande did not consistently ensure that the monitoring visits were conducted in accordance with all requirements. (See Background Information for more details about the monitoring visit requirements for child-placing agencies.)

In addition, Buckner Rio Grande should strengthen its controls over its case management system. Auditors communicated details about the weaknesses identified in a separate report to Buckner Rio Grande.

Buckner Rio Grande did not complete all required foster home monitoring visits and documentation.

Buckner Rio Grande had 11 foster homes during fiscal year 2023 that required quarterly visits, and auditors tested each home for compliance. Buckner Rio Grande conducted monitoring visits with all foster homes, including quarterly supervisory visits, and those visits were adequately documented, as required by the Commission's *Minimum Standards*.

However, those visits did not include all items required to be observed and documented in the quarterly monitoring forms. Buckner Rio Grande did not have documentation to verify that it conducted:

- Visits with all household members present at least once a year for 4 (44 percent) of 9 applicable foster homes.
- Monitoring visits every 6 months with both foster parents present for 2 (22 percent) of 9 applicable foster homes.
- At least two unannounced monitoring visits for 1 (13 percent) of 8 applicable foster homes.

Buckner Rio Grande also did not obtain the signatures of the foster parent(s) present during the visit for 3 (27 percent) of 11 foster homes.

Monitoring visits are a primary way for child-placing agencies to help ensure that foster care homes comply with all Commission requirements. A lack of consistency in conducting and adequately documenting its visits with both foster parents, as well as in performing unannounced visits, weakens Buckner Rio Grande's ability to identify areas in which foster parents may require additional resources to meet the needs of the children in their care. In addition, having the foster parents who are present sign the quarterly forms shows acknowledgment of the visit and agreement with the related findings.

Recommendations

Buckner Rio Grande should implement a process to verify that monitoring visits are conducted in compliance with the Commission's *Minimum Standards*.

Management's Response

> Buckner agrees with the observations regarding Foster Parent Monitoring. An Action Plan has been implemented in tandem with DFPS Licensing effective July 2024 for findings identified. Implementation of this Action Plan will be managed by the Senior Director of Foster Care and Adoption and the Regional Director to be completed by December 2024.
>
> The Action Plan includes a quarterly monitoring tracking sheet that is reviewed and updated during monthly case staffings. The tracking sheet manages signatures, timeliness and types of quarterly visits as completed. Additionally, quarterly monitoring reports are also reviewed through Buckner's case management system, extendedReach; and a CQI Monitoring Tool on a regular basis.
>
> To provide further support and specific training, the Senior Director and Regional Director have completed additional site visits to the Rio Grande location. Following the implementation of the Action Plan, both Directors will provide ongoing oversight and ensure that Buckner completes consistent and adequate documentation with regard to who is present during quarterly visits, obtaining signatures and unannounced visits moving forward.

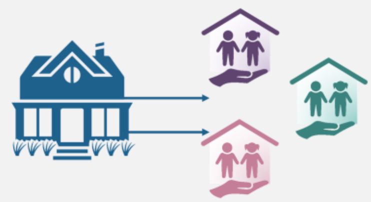
LOW

Chapter 4-A
DePelchin Children's Center – Fiscal Processes

DePelchin Children's Center (DePelchin), a licensed child-placing agency, had financial processes in place during its 2023 fiscal year to assist its operation in maintaining a sound fiscal basis, and it appropriately reported expenses on its cost report for fiscal year 2023.

Additionally, DePelchin appropriately processed foster parent payments. (See Background Information for details about the fiscal requirements for a child-placing agency and cost report requirements.)

Fiscal Year 2023 Summary [a]



Child-placing agency permit issued 1995

A nonprofit corporation located in Houston, Texas

299 employees

621 children served

Total expenditures reported on cost reports: **$12,385,456**

[a] From January 2023 through December 2023.

Sources: DePelchin Children's Center, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

DePelchin had adequate financial processes.

DePelchin's financial processes included:

- Obtaining an independent audit conducted by a certified public accountant.
- Adopting an annual budget that was approved by the governing board for fiscal year 2023.
- Preparing monthly bank reconciliations. The four months of bank reconciliations tested were appropriately completed and the applicable account balances reconciled to the general ledger.
- Reviewing and approving employee timesheets. All 63 employee time sheets tested were appropriately approved.

- Maintaining adequate controls over information technology, including appropriate user access, current antivirus protocols, and secure data backups.
- Documenting policies and procedures for financial management and to meet the Commission's *Minimum Standards for Child-Placing Agencies* (*Minimum Standards*), which are listed in Title 26, Texas Administrative Code, Chapter 749, in the areas of information technology, record-keeping, personnel, and conflicts of interest.

In addition, DePelchin maintained the information required by the Commission's *Minimum Standards* in its personnel files for the 35 employees associated with the payroll expenditures tested.

DePelchin appropriately reported expenses on its cost report.

The expenditures tested in DePelchin's cost report for fiscal year 2023 reconciled to its general ledger. The non-payroll and payroll expenditures tested were allowable, supported, and accurately recorded in accordance with the cost report. Auditors tested 64 non-payroll expenditures[11] totaling $21,767; 63 payroll expenditures[12] totaling $132,153; and 6 line items[13] on the cost report totaling $6,274,149.

[11] The sample of non-payroll expenditures tested was based on a population of 5,981 transactions totaling $923,457 recorded in DePelchin's fiscal year 2023 general ledger. The sample was chosen primarily using random selection; four targeted sample items were selected using professional judgment based on the payee, payment amount, and purchased item(s).

[12] The sample of payroll expenditures tested was based on a population of 2,639 payroll transactions totaling $2,159,793 recorded in DePelchin's fiscal year 2023 payroll register. The sample was chosen primarily using random selection; three targeted sample items were selected using professional judgment based on the timing of payment and the number of hours paid.

[13] The targeted sample was selected by identifying significant line items that had high dollar amounts or belonged to commonly misreported expenditure categories.

DePelchin paid its foster parents in accordance with the Commission's *Minimum Standards*.

DePelchin accurately recorded payments to foster parents in its general ledger and ensured that its foster families were verified before issuing payments. The 60 foster parent payments tested[14], totaling $57,029, were the correct amounts according to DePelchin's fee policy. (See Appendix 2 for information on the daily rate paid to foster families per child).

[14] The random sample of foster parent payments tested was based on a population of 4,417 foster care payments, totaling $8,198,332, from the Department to DePelchin for fiscal year 2023. Each payment was tested to determine its accuracy based on level of care and days of service.

HIGH

Chapter 4-B
DePelchin Children's Center – Foster Parent Monitoring

DePelchin established a foster home monitoring form and related processes that were adequately designed to help ensure compliance with the Commission's *Minimum Standards*. However, DePelchin did not consistently ensure that all items required to be observed and documented in the quarterly monitoring visits were completed. (See Background Information for more details about the monitoring visit requirements for child-placing agencies.)

In addition, DePelchin should strengthen its controls over its case management system. Auditors communicated details about the weaknesses identified in a separate report to DePelchin.

DePelchin did not consistently comply with foster home monitoring requirements.

For 56 (93 percent) of the 60 foster homes tested[15] that received quarterly visits, DePelchin did not always have documentation to show compliance with the foster home monitoring requirements. Specifically, DePelchin did not have documentation to verify that it conducted:

- All required quarterly visits for 5 (9 percent) of 56 foster homes tested.
- Monitoring visits every 6 months with both foster parents present for 14 (42 percent) of 33 applicable foster homes tested.
- Visits with all household members present at least once a year for 6 (25 percent) of 24 applicable foster homes tested.
- At least 2 unannounced monitoring visits for 14 (58 percent) of 24 applicable foster homes tested.

DePelchin also did not obtain required information for the 56 foster homes tested, including (1) the signatures of the foster parent(s) present during the visit for 24 (43 percent) of the foster homes and (2) the names of the

[15] A random sample of 60 foster homes tested was selected from the 350 foster homes that had children in their care during DePelchin's 2023 fiscal year.

household members present during the visit for 6 (11 percent) of the foster homes.

Additionally, DePelchin could not provide documentation to show that required quarterly monitoring visits were performed for the remaining 4 (7 percent) of 60 foster homes tested. As a result, it could not be determined whether those four foster homes had visits that were conducted in compliance with the Commission's *Minimum Standards*.

Monitoring visits are a primary way for child-placing agencies to help ensure that foster homes comply with all Commission requirements. A lack of consistency in conducting and adequately documenting its visits with both foster parents weakens DePelchin's ability to identify areas in which foster parents may require additional resources to meet the needs of the children in their care.

Recommendations

DePelchin should implement a process to verify that monitoring visits are conducted in compliance with the Commission's *Minimum Standards*.

Management's Response

> DePelchin Children's Center agrees with the finding. Beginning in early Q2 2024, our program and compliance staff identified gaps in the documentation of quarterly visits to foster parents. In response, we initiated efforts to enhance these visits and ensure accurate documentation throughout Summer 2024. These corrective measures are ongoing and the effectiveness will be assessed at the end of Q4.
>
> To ensure compliance with quarterly visits, Foster Care staff and specialists from our Continuous Quality Improvement (CQI) team have implemented the following measures:
>
> - **Checkbox Integration:** Checkboxes have been added to the top of each quarterly visit form within our case management software. This enhancement will streamline tracking and enable supervisors and

quality improvement teams to generate compliance reports more efficiently.

- **Inactive Family Tracking:** A new section in the quarterly visit form now documents the dates when a family becomes inactive or closes, improving reporting accuracy.
- **Quarterly Supervisor Checklist Training:** In August 2024, we mandated and confirmed the completion of training for case managers and compliance support specialists. This training focused on the accurate completion and documentation of quarterly visits, emphasizing the necessity of unannounced visits and securing the foster parent's signature.
- **Two-Step Approval Process:** In October 2024, we will implement a two-step approval process for completing quarterly visit forms, requiring supervisor approval. This additional oversight will help promptly identify and resolve issues within the quarter.
- **Monthly Tracking Initiative:** Beginning in November 2024, the CQI team will provide foster care programs with updated data on all quarterly visits completed during the month. This will include details about the type of reports and the specific foster care branch responsible. Any discrepancies will be addressed in collaboration with the relevant Foster Care Branch Manager.

The Chief Financial Officer will ensure the implementation of the measures have occurred or will occur.

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to perform on-site financial audits of selected residential foster care contractors (providers) and verify whether the selected providers 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 the Health and Human Services Commission (Commission) to contract with the State Auditor's Office to perform on-site financial audits of selected providers.

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

- Jacqueline Thompson, CIA, CFE (Project Manager)
- Lilia C. Srubar, CPA (Assistant Project Manager)
- Alyssa Alvarado
- Alariyah Burr
- Charlotte Carr, M.Ed.
- Alec Dickerson
- Kayla Exford
- Karmalita Fults
- Jennifer Grant, MPA, CFE
- Surabi Jagdish
- Alex Kipple
- Daniel Spencer, MSA, CFE
- Ansley Tarbet, MBA
- Brian Thornton
- Robby Webb
- Josh Wright
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Willie Hicks, CIA, MBA, CGAP (Audit Manager)

Scope

The scope of this audit included the fiscal year 2023 cost-reporting period for four selected providers that delivered 24-hour residential childcare services for the Department of Family and Protective Services (Department).

The scope also included a review of significant internal control components related to the providers' financial and foster parent monitoring process.

Methodology

We conducted this performance audit from March 2024 through October 2024 in accordance with generally accepted government auditing standards. 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 objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to each provider's management for consideration.

Addressing the Audit Objectives

We selected four providers to audit based on (1) risk rankings developed by auditors with input from the Department, (2) contract value, and (3) the type of contract and the location of the provider. The four providers selected were:

- Caring Heart Residential Care Services LLC, a general residential operation.
- New Horizons Ranch Residential Treatment Center, a general residential operation.
- Buckner Rio Grande Children's Home Inc., a child-placing agency.
- DePelchin Children's Center, a child-placing agency.

During the audit, we performed the following:

- Tested appropriateness of user access controls over the information systems used by the providers and, if applicable, their subcontractors. We tested the entire population of users for the information systems identified.
- Determined whether selected providers had adequate controls over financial processes, foster parent monitoring, and cost reporting, to ensure compliance with requirements in Texas Administrative Code, Title 1, Chapter 355, and Title 26, Chapters 748 and 749; and the Commission's *2023 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)*, by:

- Interviewing management and staff at the Commission to identify processes for managing fiscal responsibilities, cost reporting, and monitoring foster parents, including the internal controls and information that supports those processes.
- Reviewing providers’ policies and procedures.
- Testing all related-party expenditures reported on the providers’ cost reports or identified throughout testing.
- Comparing providers’ general ledgers to selected expenditure line items on providers’ cost reports. We selected line items based on certain risk factors.
- Determining whether providers reconciled all applicable bank accounts appropriately by testing a non-representative sample of four monthly bank reconciliations.
- Selecting and testing non-statistical samples of the following:
  - Providers’ general ledgers, payroll records, and foster parent payment records (if applicable) to ensure coverage of the providers’ expenditures.
  - Child-placing agencies’ foster home monitoring forms to ensure coverage of the providers’ monitoring visits.

  Most of the samples were chosen through random selection to obtain a cross section of the populations tested. In some cases, we selected targeted sample items using professional judgment to address certain risk factors. In addition, the samples described were not necessarily representative of the populations, and the results, as reported, do not identify which items were randomly selected or selected based on risk factors; therefore, it would not be appropriate to project the test results to the populations. See the report chapters for information about the sample sizes, including the populations used and the risk factors considered to select samples.

Data Reliability and Completeness

For financial data and payroll data collected from providers, we assessed the reliability of the data by reconciling (1) financial data to the trial balance reports and (2) payroll data to the financial data. The financial data and payroll data from the four providers were sufficient and reliable for the purposes of the audit.

Report Ratings

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.

Appendix 2

Payment Rates for 24-hour Residential Childcare Providers

All 24-hour residential childcare providers are paid a fixed daily rate for each child placed in their care based on the service level for each child. Child-placing agencies are required to reimburse foster families the minimum daily rate for children receiving services under a contract with the Department of Family and Protective Services. Figure 3 lists the 24-hour childcare rates from September 1, 2019, through August 31, 2023, for the selected providers audited. Figure 4, on the next page, lists the 24-hour childcare rates effective September 1, 2023, which includes an increase in the daily rate paid to child-placing agencies and general residential operations.

Figure 3

24-hour Residential Childcare Daily Payment Rates per Child, Effective September 1, 2019, through August 31, 2023

Child's Service Level Classification	Minimum Daily Rate Paid to Foster Family	Daily Rate Paid to Child-Placing Agency	Daily Rate Paid to General Residential Operation
Basic	$27.07	$49.54	$45.19
Moderate	$47.37	$87.36	$108.18
Specialized	$57.86	$110.10	$197.69
Intense	$92.43	$186.42	$277.37

Source: The Department of Family and Protective Services.

Figure 4

24-hour Residential Childcare Daily Payment Rates per Child, Effective September 1, 2023

Child's Service Level Classification	Minimum Daily Rate Paid to Foster Family	Daily Rate Paid to Child-Placing Agency	Daily Rate Paid to General Residential Operation
Basic	$27.07	$57.71	$52.65
Moderate	$47.37	$101.77	$126.03
Specialized	$57.86	$126.62	$227.34
Intense	$92.43	$218.11	$324.52

Source: The Department of Family and Protective Services.

Appendix 3

Related State Auditor's Office Reports

Figure 5

Report Number	Report Name	Release Date
24-004	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2023
23-006	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2022
22-006	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2021
20-007	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2019
19-004	*An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors*	October 2018

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Ms. Cecile Erwin Young, Executive Commissioner

Department of Family and Protective Services

Ms. Stephanie Muth, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Caring Heart Residential Care Services LLC

New Horizons Ranch Residential Treatment Center

Buckner Rio Grande Children’s Home Inc.

DePelchin Children’s Center