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

Dear Director Hayes:

As you know, my office has been involved in the most extensive review of Ohio's state-supervised, county-administered foster care system in the past 20 years. This letter summarizes the results of 28 foster care related audits, including the audit of 25 private agencies which ODJFS requested. Working with numerous stakeholders, we found a system stretched beyond its ability to ensure accountability as it contends with exploding caseloads.

Foster care is the essence of public service. Protecting neglected and abused children through an effective and efficiently functioning foster care system is one of the government's most important functions. Yet in the past few years, we have discovered this system has significant gaps in monitoring and oversight. We determined more than \$14 million in improper spending of tax dollars by certain nonprofit corporations that place and care for foster children. We also identified weaknesses in compliance with rules intended to protect neglected and abused children and place them in suitable homes when required.

Private agencies provide critical services to underprivileged children, and most that we reviewed were well run and accountable. Yet we found too many instances of impropriety not to demand reform.

On December 27, 2002 my office issued its report on the last of the 25 private agencies audited. This wrap-up report details system control weaknesses leading to these situations, as well as recommendations and actions taken by involved stakeholders. We have offered numerous recommendations to improve fiscal accountability and legal compliance and to reduce child safety risks.

I am pleased to report that significant progress and improvement has been made. Several Ohio counties, including Montgomery and Franklin, have been successful in recovering some misspent funds. Corrective action has been taken at the state, county and private agency level. In addition, administrative rules have been adopted by ODJFS to implement some of our recommendations and strengthen accountability and program results.

I thank all the stakeholders involved for their work in creating a more efficient and effective foster care system for Ohio's children and taxpayers.

## **Introduction**

In May 1998, 13 members of the Ohio House of Representatives requested that the Auditor of State's Office (AOS) conduct a comprehensive audit of foster care in the State of Ohio. This followed a series of news articles published in the *Dayton Daily News* (Montgomery County) alleging fiscal accountability and compliance problems with certain private foster care placement agencies. The representatives' letter stated, in part:

“Though there appear to be real problems in the system, it seems that all levels of government involved are insistent that the responsibility does not lie with them to uncover the problems and prevent them in the future. That is why we are requesting you take a leadership role in this situation and conduct performance audits of these agencies and the county and state oversight mechanisms to determine that best efforts are being made to ensure public funds are not being wasted under the guise of helping some of our state's most needy citizens.”

Ohio's foster care program is “state supervised” and “county administered.” State government, through the Ohio Department of Job and Family Services (ODJFS)<sup>1</sup> sets program parameters, allocates funds and supervises county performance, while county-level public children services agencies administer the actual delivery of foster services. However, as ODJFS is the primary recipient of federal child welfare funding in Ohio, it is ultimately responsible for the proper administration of the program and funds in accordance with federal laws and regulations.

By 1999, more than 35,000 Ohio children were placed into the custody of county public children services agencies – a 27% increase since 1991. With more cases than they can handle, these county agencies are becoming increasingly reliant on nonprofit private agencies to place these children in foster homes. In 2000, nearly half of Ohio's 11,000 foster homes were part of 195 private agency networks. However, these private agencies have operated with little government oversight or scrutiny.

## **Scope of the Foster Care Review**

Ohio's child welfare programs, particularly foster care, had not undergone a comprehensive program review for two decades. The AOS, working with ODJFS and other system stakeholders, developed a three step strategy to assist ODJFS in its efforts to reform child welfare.

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<sup>1</sup> The Ohio Department of Human Services was renamed the Ohio Department of Job and Family Services after merging with another agency in July 2000. For consistency, the agency is referred to as ODJFS throughout this report.

- Step 1 was a performance audit in which auditors, using Montgomery County Children Services Agency (MCCSA) as a benchmark, reviewed procedures at the state and county levels, as well as six private agencies licensed by ODJFS that provided child placement services to MCCSA. The audit findings and recommendations consequently spanned all three levels – state, county and private agency. The final report, issued February 10, 2000, contained 38 recommendations for improving fiscal accountability, legal compliance and child safety. Further, it revealed a pattern of financial self-dealing at one private agency named Kids Are Really Essential (KARE) totaling \$306,382. Auditors also found a systemic misclassification of costs submitted by ODJFS to the federal government totaling \$3,023,923, resulting in over-reimbursement. During fieldwork on the performance audit AOS received allegations of misspending at a private agency in Franklin County. Those allegations led to a separate special audit of Searchlight C.A.R.E., Inc., a private placement agency in Franklin County. The audit identified \$186,640 in improper and undocumented spending of foster care funds by the agencies co-founders.
- Step 2 involved audits of 25 private placement agencies operating in Ohio. This began as a joint project with ODJFS, but the Auditor of State concluded it. These agencies report 72% of federal foster care funds (Title IV-E) reported by private agencies, and also represent 68% of all active family foster homes among private agencies at the time of the audit. The audits, released from November 2000 through December 2002, contain 437 recommendations to improve fiscal accountability and legal compliance and to reduce child safety risks. They also revealed \$13,772,114 of inappropriate or undocumented spending by private agencies.
- Step 3 was a comprehensive performance audit of ODJFS child welfare system management and processes. This report, released February 9, 2001, offered 91 recommendations to improve the 11 different programs that comprise Ohio’s child welfare program. Eight of those recommendations were directed specifically at ODJFS foster care licensing procedures.

## **Fiscal Accountability Issues**

### **Improper/Undocumented Spending**

Total -- \$19,078,272

Systemic misclassification -- \$5,508,526

Improper agency actions -- \$14,265,471\*

\*Includes KARE and Searchlight

The combined audits identified a total \$19,078,272 in foster care funds that were questionably spent and subject to potential recovery under federal and state guidelines, as well as agency contracts. In addition, certain real estate and automobile transactions that could not be computed were also questioned. These transactions represented funds that were inappropriately spent, as well as funds for which there was no supporting documentation to demonstrate how the expenditures provided a benefit to Ohio's foster care program. With the exception of the ODJFS systemic misclassification of costs, these questioned costs can be attributed to actions by the private agencies.

Summarized below are common audit findings in the area of fiscal accountability as well as recommendations for addressing these findings and where applicable, a summary of ODJFS' response to these reported problem areas.

**Over-Reimbursement From ODJFS Systemic Misclassification of Costs (\$5,508,526)**

ODJFS submits quarterly reports to the U.S. Department of Health and Human Services (HHS) for reimbursement of the federal share of foster care payments made to private placement agencies. The federal government would reimburse approximately 58% of all maintenance costs and 50% of all administrative costs incurred by private agencies.

ODJFS processes for cost reporting by private agencies and reimbursement claims by county public children services agencies were poorly designed and administered. Specific problems noted were undocumented and unapproved increases to maintenance cost made by ODJFS personnel and the lack of any reconciliation between reported costs and claims submitted. The aggregate result was a repayment of \$5,508,526 for over reimbursement caused by a systemic overstatement of maintenance costs.

*Recommendation:* ODJFS should negotiate with HHS to correct the overpayment of maintenance reimbursement. It was also recommended that ODJFS redesign its cost reporting, rate setting and cost reimbursement processes to ensure proper classification and claims.

*Response:* ODJFS has repaid the over-reimbursement and redesigned its processes.

**Private Agency Fiscal Accountability Issues**

**General Overview**

This assessment includes 27 agencies: Searchlight C.A.R.E., KARE and the 25 agencies reviewed thereafter. In general, auditors determined three broad categories of private placement agencies in assessing financial performance and accountability.

- In the first category are generally smaller organizations in which the agency's founder(s) often had tremendous or direct influence and revenues primarily came from a single county. These organizations often lacked basic policies and procedures to ensure financial accountability, leading to weaknesses in the control environment. Volunteer boards overseeing these nonprofit agencies were frequently plagued with issues that could impair their independence to its management. As a result, auditors noted several transactions that could pose a conflict of interest. These agencies accounted for approximately one-third of the 27 reviewed and \$3.5 million in questioned spending.
- In the second category are two multi-state organizations serving numerous counties throughout the state. These agencies were part of complex organizational structures that included both parent and affiliate organizations. Management fees paid to the parents by affiliates from foster care funds were not based on a reasonable allocation of foster care cost that benefited Ohio's foster care program. In addition, less than arms length transactions were conducted without a clear benefit to Ohio's foster care program. These two organizations (Specialized Alternatives for Families and Youth of Ohio, Inc., (SAFY) and Ohio Youth Advocate Program, Inc. (OYAP) accounted for nearly \$10 million in questioned spending.
- In the final category were agencies that appeared to have independent and involved boards, and strong policies and procedures without complex organizational structures. On the whole, these agencies demonstrated stronger compliance and accountability. Nearly two-thirds of the agencies were in this category and accounted for only \$700,000 in questioned spending.

## **General Categories of Improper Spending By Agencies**

### **I. Transactions Between Foster Care Agencies and Organizations With Common Control**

Many issues involve related-party transactions. ODJFS has implemented regulations governing less-than-arms-length transactions between private foster care agencies and organizations with common control elements such as shared officers or executives. Examples include:

- SAFY of Ohio, Inc. and OYAP, Inc. each paid approximately \$5 million to parent organizations through a variety of complex financial transactions. For example, they each paid more than \$3 million in management fees to affiliate non-profit parent organizations. These fees were based on the number of youths in placement for SAFY (\$12 per day) or 10% of the monthly revenues for OYAP. These fees were not based on the cost of services provided, nor did the national affiliates have a rationale or systematic method of allocating its administrative costs related to foster care among its various state affiliates.

- Two organizations, KARE and Symbiont NFP, Inc., made payments totaling more than \$900,000 in apparent “self-deals” largely through for-profit corporations owned by their principal officers. For example, KARE’s executive director purchased the agency’s administrative offices, and then rented them back to KARE at more than double the previous price, costing \$120,000 in added rent. KARE’s principal officers also owned a corporation which KARE paid \$154,000 for services that could not be documented as actually rendered or at a fair price. Symbiont NFP, Inc. spent \$349,477 to discharge the liabilities that a related for-profit company had incurred in operating a residential facility for those with mental disabilities. By transferring the facility from the for-profit company to a nonprofit, Symbiont NFP, Inc. assumed the facility’s massive liabilities and thereby alleviated the cash-flow problems for its common founders.

## **II. Undocumented Expenditures**

Nearly every agency had instances of spending without documentation to demonstrate a sufficient benefit to the foster care program. Auditors requested supporting documentation such as receipts, invoices, billing statements, calendar dates of the foster care related event, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. Documentation was so poor at one agency (Homes with a Heart, Inc.), that cancelled checks totaling \$160,000 were not even available for review to determine the nature of the spending. This category spans a variety of issues, such as:

- Auditors found check and credit card expenses for more than \$300,000 in undocumented meals, auto expenses, groceries, department store items, office supplies, travel, and lodging. These could very well be legitimate purchases, but they required documentation such as receipts to prove a benefit to the foster program. Parmadale, Inc. had the most undocumented spending in this area at \$64,214.
- OYAP, Inc. and SAFY of Ohio, Inc. were unable to provide adequate documentation to support payments to affiliates for administrative costs. The Auditor of State’s office issued subpoenas to SAFY of Ohio, Inc. and its affiliates for supporting documentation after they refused to provide requested information.
- Auditors noted cash payments (either directly to individuals or checks endorsed for cash) totaling approximately \$555,000 with insufficient documentation. For example, Homes with a Heart, Inc. had nearly \$300,000 in such cash transactions involving dozens of board members, employees, and foster parents. The founders of Searchlight C.A.R.E., Inc., either received or endorsed for cash nearly \$100,000 that cannot be documented. The retired founder of Youth Services Network of Ohio, Inc., also received nearly \$100,000 in consulting fees with insufficient documentation to support the work she performed. YSN’s Board authorized the consultant agreement. Yet its executive director, who is the founder’s son, approved these payments without board review.

### **III. Unallowable Distribution of Earnings**

Auditors found several instances of agencies using foster care funds for purposes not benefiting the foster care program. Some improper uses of the foster care money included:

- Three agencies used foster care funds to start up ventures not related to the Ohio foster care program totaling \$365,000. These transactions may have been well-intended, but nonetheless failed to meet the criteria of federal cost guidelines, the Ohio Administrative Code or the agencies' contract with individual counties. For example, Parenthesis Family Advocates used \$207,938 in foster care funds to start up and operate a drug and alcohol treatment venture. Consistent with the intent of their county contract and federal requirements, these funds should have been spent on the foster care program.
- Youth Services Network of Southwest Ohio, Inc. paid its founder \$292,400 in retirement payments, justifying part of the payments due to her "inadequate compensation" during her previous years with the nonprofit.
- The founder/administrator of V. Beacon, Inc. invested accumulated agency profits of \$1,028,384 into the stock market between 1993 and 2000, losing \$670,409 in principal. These investments were made without the knowledge of the contracting public children services agency. He also withdrew \$443,000 from these investment accounts which cannot be documented as redeposited into the agency's accounts.

### **IV. Unallowable Expenditures**

#### **A. Contributions/Lobbying/Fundraising (\$79,129)**

Auditors determined improper expenditures for this category among 13 agencies. The vast majority of instances involved spending for lobbying/fundraising, including Bellefaire Jewish Children's Bureau paying a law firm \$45,000 to procure funds/grants from the state. However, Lifeway for Youth, Inc. contributed \$9,000 for the agency's director, in his official role as a church pastor, to travel to Peru on a humanitarian relief mission. The directors of Searchlight C.A.R.E., Inc. donated \$2,183 to causes such as a church, the high school where their daughter attended and a county sheriff's office.

#### **B. Personal Items (\$81,216)**

Auditors determined improper spending for personal items among 18 agencies. While these purchases spanned a variety of goods and services, the most common was floral items totaling \$12,374 by at least 12 agencies. Often, these purchases reflected rewards and gifts for employees of these agencies, such as nearly \$15,000 in gifts/gift certificates for employees and board members at Parmadale, Inc.

More troubling were certain instances where personal spending appeared to benefit principal officers or executives of private agencies. For example, the president & CEO of Shoemaker's Christian Homes spent \$2,222 on personal items such as veterinary hospital fees, airline tickets for his children and a background check for him to run for the Florida House of Representatives. The founder/administrator of V. Beacon, Inc. spent \$4,532 on items such as plastic surgery and a home security system. The administrator/board president of Symbiont NFP, Inc. even spent \$588 for fuel for his private plane.

**C. Entertainment (\$75,853)**

Auditors determined improper spending for entertainment among 15 agencies. Much of the spending appeared to be for staff parties and employee events, such as a \$5,300 holiday party at The Buckeye Ranch, Inc. Also, Bellefaire Jewish Children's Bureau spent \$17,600 for Cleveland Indians tickets and travel. Searchlight C.A.R.E., Inc. spent at least \$11,500 for trips apparently related to the directors' show horses, professional sporting event tickets, rental of a recreational vehicle for a vacation and purchase of camera equipment prior to a vacation. Symbiont, NFP, Inc. spent \$14,781 for Ohio State season tickets, Rolling Stones tickets, a Carnival cruise, and other questionable items.

**D. Unallowable Fringe Benefits (\$48,697)**

Ohio foster care funds improperly paid for fringe benefits to employees or other parties at six agencies. This included \$10,300 to pay for the malpractice insurance of an independent contractor at Parmadale, Inc., and \$2,180 for an uninsured employee's dental work at Lifeway for Youth, Inc.

**E. Interest and Other Financial Penalties (\$23,460)**

Poor financial management led to 16 agencies paying unnecessary interest, financial penalties and even parking tickets with funds that could have benefited the foster program. This includes: \$2,064 for non-sufficient fund fees at Homes with a Heart, Inc.; \$2,558 in fees/penalties from 11 different accounts at SAFY of Ohio, Inc.; \$3,168 in fees/penalties from 14 different accounts at OYAP, Inc. and \$4,765 in fees/penalties at St. Joseph Treatment Center.

**F. Membership Fees (\$19,818)**

Auditors determined improper expenditures for membership among 10 agencies. Some of these included memberships to: the Kissimmee Bay (Fla.) Country Club for the president and CEO of Shoemaker's Christian Homes (\$664); the "Racquet Club" for the executive director of Youth Services Network of Southwest Ohio, Inc. (\$915); Bally's Health Club for the founder/administrator of V. Beacon, Inc. (\$1,103); the Mound Builders Country Club for Symbiont NFP, Inc. (\$4,776) and Athletic Club of Columbus (membership, food and other items), Capital Club dues and National Football Foundation for The Buckeye Ranch, Inc. (\$6,339).

**G. Public Relations/Marketing Materials (\$17,185)**

Seven agencies had improper purchases for public relations and/or promotional materials. The largest purchase was \$11,831 in advertising and public relations costs incurred by Symbiont NFP, Inc.



#### **V. Personal/Improper Use Of Cars (at least \$106,862)**

At least five agencies paid for vehicles that were personally used by key officers. Some of the agencies did not have sufficient data to calculate the questioned cost. This included the lease of a 1997 BMW for an officer at Symbiont NFP, Inc. (\$26,281). Also, V. Beacon Inc. bought a 1987 Mercedes Roadster for use by its founder/administrator (\$70,827 including registration). Though this individual stated the car was used only for business, the excessive cost still provides no benefit to the foster care program.

#### **VI. Errors in Cost Reporting (\$90,400)**

Four agencies made errors in completing cost reports for ODJFS. These include costs that should have been charged to another grant at Marycrest (\$26,423) and duplicate reporting of wages at Lifeway for Youth, Inc. (\$25,223).

#### **VII. Employee/Related-Party Loans (\$63,941)**

Seven agencies made \$171,292 in loans to employees, board members or other related parties and charged no interest in most cases. Of this amount, \$63,941 was outstanding at the end of the audit period and considered a questioned cost. These include \$11,038 in outstanding loans to employees and relatives of the board president/financial director at the House of New Hope. Three board members of Shoemaker's Christian Homes owed more than \$12,000 in loans which they voted in favor of granting themselves. Also, Boys Village purchased personal computers for employees using \$72,895 in no-interest loans, of which \$34,695 was outstanding at the end of the audit.

#### **VIII. Other Unallowable Payments (\$62,648)**

These included nearly \$15,000 in unallowable Medicaid billings (four agencies), \$4,580 Symbiont NFP, Inc., unnecessarily paid in sales tax, a \$4,544 duplicate payment by St. Joseph Treatment Center to a foster parent and a \$2,000 "retainer" Beech Brook paid a foster parent to for an open bed, and other miscellaneous items.

#### **IX. Tax Reporting Issues**

As nonprofit corporations, the private placement agencies must adhere to laws concerning compliance with their federal tax-exempt status and Ohio laws governing their incorporation. However, auditors noted instances with at least eight agencies regarding potential noncompliance. Some were significant, such as Youth Services Network of Southwest Ohio, Inc., failing to report to the Internal Revenue Service more than \$300,000 it paid its founder after her retirement. Also, the \$349,477 transfer of a residential facility to Symbiont NFP, Inc. from an affiliated for-profit company raises questions under federal law prohibiting tax-exempt organizations from "operating for the benefit of private interests such as ... the creator or his family."

#### **Fiscal Accountability, Control Weaknesses and Recommendations**

The improper spending by private agencies can be traced to several weaknesses in internal controls auditors discovered throughout the project.

## **I. Board Independence/Conflict of Interest**

Board members must be independent to ensure proper oversight of agency operations. They should not be involved in agency management, have a vested interest in the agency or be related to those with a vested interest. However, auditors discovered instances at eight agencies (30%) of those reviewed that could impair board independence.

For example, at least eight of the 11 board members at Shoemaker's Christian Homes were closely related family members – three of whom voted in favor of granting themselves loans. Three of the board members of Lifeway for Youth, Inc. were also closely related, while the remaining three attended the church where the board chair/executive director was pastor. The board designated this individual and his wife the power to make financial decisions without board approval, allowing them to be involved in both sides of various transactions between the church and Lifeway.

Both SAFY of Ohio, Inc. and OYAP, Inc. shared common officers or executives with the parent affiliate housed at the same address. Consequently, the parent organizations had the ability to control or at least influence finances, such as requiring SAFY of Ohio, Inc. and OYAP, Inc. to pay substantial management fees not based on the cost of services provided. Although OYAP had fewer common officers, it was structured so as to allow its national affiliate to exercise substantial control over its property and policies.

Even when boards were independent, auditors still determined potential conflicts of interests in transactions at three other agencies. Applewood Centers, Inc., bought \$45,000 in computer equipment from a business owned by its information specialist coordinator without documenting the purchase was competitive and favorable to the agency. Adriel School leased employees and shared employee expenses with three affiliated organizations that all had the same chief financial officer without documenting the agency received favorable and competitive terms.

*Recommendation:* Agencies should seek independent board members, as well as document and maintain quotes or competitive bids from other vendors when transacting with related parties to ensure favorable terms. The Auditor of State recommended new reporting rules requiring agencies to disclose related-party transactions on their cost reports submitted for reimbursement.

*Response:* In December 2001, ODJFS enacted Ohio Administrative Code rule 5101:2-47-26.1 which requires agencies to disclose all related party transactions on their cost report and to establish a conflict of interest policy that addresses those related party concerns as set forth in the administrative code rule. ODJFS also amended its cost report to incorporate a related party disclosure schedule.

## **II. Board Monitoring and Oversight**

Equally important to an independent board of directors is one that actively provides effective oversight of the agency's finances and operations. Yet auditors noted significant monitoring deficiencies in violation of the Ohio Administrative Code Section 5101:2-5-08 with boards of five agencies, including three agencies that also had board independence issues.

For example, the board of Homes with a Heart, Inc. failed to perform basic duties such as evaluating the performance of its administrator/founder in writing; reviewing, approving and/or monitoring the budget; reviewing agency audits or written policies. The board met only annually, was not aware that \$157,323 in agency checks had been made payable to cash, was unsure if the agency owned or leased a van used by the founder, and other issues. Likewise, the board of V. Beacon, Inc. did not have a written investment policy, nor did it review the agency's monthly financial reports. This may have contributed to the founder/administrator/board president's ability to withdraw more than \$1 million from agency bank accounts over 10 years and invest it into the stock market.

*Recommendation:* Auditors recommended that, at a minimum, boards engage in all activities for which Ohio Administrative Code Section 5101:2-5-08 requires board approval.

### **III. Cost Report Reviews**

One reason so many unallowable costs reported by private agencies went undetected was the failure of ODJFS to effectively implement a process to detect ineligible cost reported for federal reimbursement. The Montgomery County audit determined that between 1994 and 1997, ODJFS audited only 40 of 459 cost reports submitted by private agencies.

*Recommendation:* ODJFS should include a comprehensive desk review of all cost reports and comparison of those cost reports to detect ineligible costs.

*Response:* In July 2000, ODJFS implemented a comprehensive desk review process which examines costs reported on the cost report to determine whether the costs are allowable, reasonable, related to foster care and appropriately classified. Also, in December 2001, ODJFS enacted Ohio Administrative Code rule 5101:2-47-26.1 which specifies that ODJFS shall establish a desk review process designed to provide reasonable assurance that reported cost are allowable, reasonable, related to foster care and presented fairly in accordance with Administrative Code rules.

### **IV. Segregation of Duties**

Separating key fiscal duties among staff, such as transaction authorization, cash handling and accounting, helps reduce the chance for fraud by creating checks and balances. However, auditors noted conditions at 11 agencies where this control was not properly established. At Youth Services Network of Southwest Ohio, Inc., House of New Hope and Lifeway for Youth, Inc. one person exercised nearly complete control of the cash receipting and disbursing cycles. Though it had a contract for employees of its national affiliate to perform various management functions, SAFY of Ohio, Inc. had no fiscal employees and no opportunity for an independent review of these services. Funds of the SAFY affiliates were co-mingled among various accounts.

*Recommendation:* Auditors recommended that agencies eliminate conflicting duties being assigned to the same person. Realizing that some agencies have limited administrative staff, auditors also recommended increased board oversight.

## **V. Per Diem (Individual Childcare) Agreements Between Private Agencies and Foster Parents**

During the period, the Ohio Admin. Code Section 5101:2-42-91 required agreements between placement agencies and foster parents establishing the terms of the foster care relationship. These agreements currently addressed in Ohio Admin. Code Section 5101:2-42-90 help ensure that foster parents are correctly paid, as well as helping ensure the child receives the level and quality of services needed. This was a significant issue in the Montgomery County audit, where 238 of 426 agreements (56%) were either missing from the file located at the Montgomery County Children Services Agency or stated a per diem different from the one billed. Likewise, of the 25 agencies later reviewed only eight maintained and correctly updated per diem agreements. Four had no agreements documented, two had agreements for only a portion of files tested and 11 did not make or were untimely in updating the agreements.

*Recommendation:* Private agencies must complete and update (for rate changes) per diem agreements with foster parents.

## **VI. Contract Agreements Between Public Children Services Agencies and Private Agencies**

During the period, Ohio Admin. Code Section 5101:2-33-18 required that public children services agencies enter into master contracts with private placement agencies. It required that the agreement specify that foster care maintenance, administrative case management and case planning and related administrative activities are being provided. However, the OAC did not require that issues of fiscal accountability, compliance and record retention be addressed in these contracts, and sound business practices dictate these should also be included.

Master contracts are the responsibility of county-level public children services agencies. In both the Montgomery County audit and subsequent private agency audits, it was noted that Montgomery County often did not enter into master contracts. Consequently the only written agreements were those between private agencies and foster parents, which varied in detailing the responsibilities of the contracting parties. Cuyahoga County used a standard contract that lacked key accountability stipulations. It failed to monitor contract compliance resulting in SAFY of Ohio, Inc., and OYAP, Inc., underpaying 19% and 33% of foster parents, respectively.

*Recommendation:* ODJFS should establish, through rule, a standard contracting requirement between public children services agencies and private placement agencies including compliance requirements, fiscal accountability standards and allowable costs.

*Response:* ODJFS has established through rule standard contracting and contract monitoring requirements. The rule (Ohio Admin. Code Section 5101:2-47-23.1) was enacted on December 1, 2001. In addition, ODJFS developed and published a sample contract that counties may use which purchasing child placement services. Note: The former rule (Ohio Admin. Code Section 5101:2-33-18) was repealed, effective August 1, 2002.

## **VII. Administrative Cost Cap Issue**

Currently there is no requirement in the OAC for contracts between public children services agencies and private placement agencies to cap the administrative costs a private agency may retain. Among the 25 private agencies, an average 48.6% of foster funds went to foster parents while the remaining 51.4% was retained for administrative costs or other direct services to children. The private agency with the highest administrative cost (Youth Services Network, 64%) also had more than \$400,000 (over 5 years) in excessive payments to its former executive director. The agency was primarily publicly funded and received approximately \$1.1 million in revenue in 1998.

It is important to note there is no “one size fits all” formula in comparing maintenance vs. administrative costs. Some agencies may pay foster parents to provide services such as medical care or counseling, while others may include this as part of their administrative cost. Nonetheless, a carefully construed administrative cost cap could help avoid potential abuses.

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

*Response:* ODJFS is in the process of reviewing this recommendation.

## **VIII. Surrender or Revocation of Agency License**

During the course of the project, four private agencies ceased operations.

- Homes with a Heart, Inc. (Surrendered license) – Lucas County Children Services ceased its relationship with Homes with a Heart, Inc. in 1999 following foster parent complaints about late payments and IRS sanctions. However, indicators of fiscal distress/mismanagement dated back to 1996.
- Shoemaker’s Christian Homes (Revoked) – ODJFS revoked the license of Shoemaker’s Christian Homes in 2000 citing numerous rules violations including falsification of documents and related-party transaction later noted in its audit.
- Searchlight C.A.R.E., Inc. (Surrendered license) – Franklin County Children Services (FCCS) cancelled its contract with Searchlight C.A.R.E., Inc. after the release of its audit in 1999. Searchlight’s foster homes were transferred to FCCS or other networks.
- KARE (Surrendered license) – After release of the Montgomery County audit in 2000, Montgomery County Children Services drastically reduced its placements with KARE. In 2002 KARE’s former executive director and financial officer negotiated a settlement with five counties (Allen, Hamilton, Lorain, Montgomery, and Summit) and the state Department of Youth Services to repay \$160,000. They also agreed to cease any future business activity in foster care, and the agency ceased operations.

*Recommendation:* ODJFS should establish policies and procedures to ensure timely assessment and intervention when it receives indications of fiscal distress or mismanagement by a private agency. If a private agency voluntarily surrenders its license or has it revoked, there should be a timely closeout audit. If the private agency is dissolving, it should notify the Charitable Laws Section of the Attorney General’s Office to possibly monitor disposition of the assets. Finally, it must consider the significance of these situations should principals and key employees ever again apply for certification as foster care providers.

*Response:* ODJFS Children Services Licensing Section will notify the Charitable Law Section of the Attorney General’s Office and the ODJFS Internal Audits Section whenever an agency surrenders its license or when a proposed adjudication order to revoke the agency’s license is mailed. In the cases of agency license revocation or settlement agreement related to such actions, the principals are barred from any ODJFS license or certification for two years.

## **Potential Program Compliance and Oversight**

In addition to fiscal accountability, auditors reviewed documents to ensure compliance with various program rules to ensure suitable placements. It is important to note that lack of documentation does not automatically infer the safety control was ignored, but simply that the matter was not available for review in the foster home’s file. It is important to document these matters as evidence that all precautions were taken. Key issues noted by auditors include:

### **I. The Application Process**

#### **A. Certification of Foster Care Homes**

Currently ODJFS receives recommendations for certification of foster care homes from PCPAs and PNAs, as well as PCSAs. These recommending agencies assess each applicant by determining their compliance with Chapter 5101:2-7 of the Ohio Administrative Code, and by documenting their assessment of each applicant by completing ODJFS Form 1349 “Family Foster Home Study”. ODJFS bases its approval or denial of the foster care home certification on the recommending agencies’ recommendations for certification or denial of certification. However, since the private agencies will eventually benefit financially from the licensing of the recommended foster care home, ODJFS should recognize the risk they may not be sufficiently independent and objective to perform this function.

For example, KARE had five of ten applicants move or change their address between the periods the application and homestudy was completed, three more moved within six months after being licensed. The move increased the beds available for placement of children and the potential amount of foster care reimbursement payable to the foster caregiver and the agency. Five of the applicants moved into homes owned or leased by KARE through a company owned by KARE’s Executive Director and her husband, D&W Services, Inc.

*Recommendation:* ODJFS should promulgate rules and promote the necessary statutory revisions to permit only public children services agencies or ODJFS to recommend family foster homes for licensure. This finding is a symptom of the larger issue of private agency independence. Since private agencies will eventually benefit from the licensing of foster care homes they recommend and that are part of their network, they are not independent parties to be relied upon for documenting the prospective foster parent's assessment.

At the least, ODJFS must take a more active role in reviewing the licensing of foster homes. With the process at the time of the audit period, many applications may have never been reviewed due to the use of sampling methods and staffing levels at ODJFS to perform the reviews. It should hire ten additional foster care licensing specialists, one additional licensing supervisor and one additional enforcement coordinator. Likewise, private agencies within the same ODJFS district should consider rotating their licensing specialists to help ensure greater independence.

*Response:* No action reported to address recommendation.

### **B. Complete and Accurate Information on Applications**

The Montgomery County audit found that 21% of family foster home applications reviewed had incomplete or inaccurate information such as employment and income. Also, reviews of files at 8 of 25 private agencies found incomplete application information. At two agencies (Marsh Foundation and Applewood Centers, Inc.), the files did not document that the applicant's income was sufficient to meet the basic needs of the household in 9 of 10 cases reviewed apiece. In 2 of 10 files reviewed at Beech Brook, all members of the household were not included on the application.

Failure to verify the completeness and accuracy of applications increases the risk of unsuitable individuals being recommended or approved. For example, monies intended for the child could be diverted to meet household expenses. During the Montgomery County audit, one private agency (KARE) paid for several household needs for foster homes without charging foster parents in an apparent attempt to circumvent this rule and obtain the placement revenues. Certain members of KARE's management and their relatives personally benefited from various "self-dealing" transactions.

Even when applications are complete, it is important for placement agencies to ensure their accuracy. All but one of the 25 private agencies were not always documenting that they had verified information provided on income and/or employment. Of 295 case files reviewed at these 24 agencies, 190 (64%) lacked documentation that income had been verified.

*Recommendation:* ODJFS should design and implement a system of controls over the licensing process that ensures the detection of incomplete or inaccurate information on applications. It should particularly establish standards for recommending agencies to document the sufficiency of the applicants' income. It should also develop procedures to monitor compliance with this requirement.

*Response:* The ODJFS Children Services Licensing Section will develop a process of randomly selecting a sampling of initial foster caregiver applications for desk review from those agencies demonstrating the lowest level of compliance. The desk reviews will include documentation of income.

### **C. Initiating the Home Study Prior to Receipt of a Completed Application**

The home study is the portion of the licensing process involving at least one visit by an agency caseworker to the applicant's home to assess physical facilities, interview all members of the household over four, perform criminal background checks and contact other references.

During the audit period, Ohio Admin. Code Section 5101:2-5-20(C) prohibited a placement agency from beginning a home study prior to receiving an application. Without a complete and accurate application, the placement agency lacks the necessary information to properly complete a family foster home study and determine if the environment is suitable.

During the private agency project, auditors found instances where 12 agencies started the home study process before receiving a complete application. This occurred in 70 of 184 (47%) case files reviewed at these agencies, and most often involved requesting a criminal records check prior to the completion of an application.

*Recommendation:* Placement agencies should comply with ODJFS rules intended to ensure a thorough and complete foster home homestudy is completed prior to licensing. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

*Response:* ODJFS has amended this rule, effective January 1, 2003, to delete the requirement that a placement agency cannot begin a home study before receiving a completed application.

## **II. Criminal Background Checks**

### **A. FBI Checks for Foster Parents Without Proof of Residency**

The Ohio Admin. Code Section 5101:2-5-09.1 requires a national FBI background check for foster parent applicants that have lived in Ohio less than five years. This helps ensure that those with criminal histories in other states do not become foster parents in Ohio.

Twenty-nine percent of foster home files reviewed during the Montgomery County audit did not contain documentation the foster parents recommended for licensing had resided in Ohio for the five-year period immediately prior to their date of application. Likewise, eight of the private agencies later audited lacked similar documentation (31 of 89 files tested, or 35%). Seven of ten files reviewed at Lifeway for Youth, Inc. and 10 of 10 at Shoemaker's Christian Homes contained no documentation that recommended foster parents had resided in Ohio five years or that they had undergone an FBI check in that period.



*Recommendation:* Placement agencies should request and retain documentation or proof of residency in the State of Ohio to determine whether FBI criminal records checks are required. Also, ODJFS should establish guidelines and standards for placement agencies to document their compliance with administrative rules governing criminal records checks.

*Response:* No action reported in response to this recommendation. ODJFS states it monitors documentation through routine inspections.

### **B. Approval of Foster Caregiver Prior To Results of Criminal Records Check**

During the private agency project, auditors determined instances at 7 agencies where no documentation existed to prove criminal records checks had been received prior to recommending certain applicants for licensure. All of these agencies had a single instance of no such documentation with the exception of Applewood Centers, Inc. In that case five of 11 files tested contained no documentation to support that criminal background checks had been conducted on prospective foster parents, who were eventually recommended for licensure.

*Recommendation:* This is further evidence of the need for an OAC revision permitting only ODJFS or a PCSA to recommend family foster homes for licensure. In the meantime, private agencies must establish procedures to ensure compliance with ODJFS rules to ensure that criminal background checks are obtained prior to recommending a foster home for licensing. Also, ODJFS licensing specialists should take steps to ensure continuous compliance in this area.

*Response:* ODJFS will increase its required level of compliance on this particular issue and will review each case as a potential enforcement cause.

### **C. Annual Background Checks**

Even though Ohio law mandates criminal background checks for prospective foster parents, it does not require an annual background checks after certification of the foster home. The potential risk exists that a certified foster parent or adult member of the household could be involved in the criminal justice system without the knowledge of the placement agency after the initial date of certification.

*Recommendation:* ODJFS should initiate a revision to OAC to require an annual updated criminal records check for all persons responsible for a child in out-of-home care, including certified foster parents and any adult member of the foster caregiver's household. If ODJFS believes annual background checks would be administratively burdensome, it should seek a revision to the OAC to select a statistically valid sampling of family foster parents for annual review.

*Response:* A statutory change would be required. While ODJFS recognizes the potential benefit of more frequent background checks, this must be weighed against the increased cost and demands on the system. ODJFS questions whether the 18,000-plus additional background checks for foster caregivers and several thousand more for residential staff each year would create issues for BCII.

#### **D. WebCheck**

Agencies typically submit applicant fingerprint and personal data by mail to Ohio's Bureau of Identification and Investigation. If incomplete or inaccurate information is submitted, background checks can take at least four to six weeks to complete.

*Recommendation:* ODJFS should allocate the necessary resources to allow public and private agencies to have access to WebCheck technology and receive results within 15 minutes to 2 days. The total cost of installing WebCheck hardware and software to all 88 public agencies and 195 private agencies is a one-time expense of \$707,500.

*Response:* ODJFS concurs that WebCheck or similar technology can greatly expedite the criminal records check process. However, ODJFS does not believe it will be necessary for it to fund additional installations because the technology is already available in many locales. It notes that private agencies might be eligible for Title IV-E reimbursement of utilization costs.

### **III. Safety Controls Regarding Placement**

#### **A. Placement Made Contrary To Agreed-Upon Home Usage or Home Study**

During the Montgomery County review auditors noted KARE repeatedly circumventing occupancy limits for foster children. In 7 of 10 cases KARE recommended or placed more than three foster children in the home when the foster parent had been certified less than two years – in violation of the Ohio Admin. Code Section 5101:2-5-32 unless the individual has “professional child care experience as documented by the agency.” It justified the placements by using questionable “professional childcare experience” documentation such as: listed as alternative caregivers from 1989 to present with a letter of reference from applicant's family members, “I have six stepchildren of my own,” and a substitute residential advisor for six months.

During the private agency review, auditors noted instances among six agencies where placements were made contrary to the homestudy or legal agreements between the foster parent and placement agency. Each agency experienced one instance with the exception of OYAP, where auditors noted four of 30 (13%) files tested had placements contrary to foster parent/agency agreements. These involved designated number of children, age and sex of children to be placed. There was no evidence a waiver was requested.

*Recommendation:* ODJFS should seek an OAC revision that clearly defines the criteria for waiving occupancy limits based on “professional childcare experience.” It should be sufficiently high to protect the interest of the foster children. Also, private agencies must ensure all placements comply with the home study and parent-agency agreements. ODJFS licensing specialists should follow up on this issue to ensure continuous compliance.

*Response:* No action was reported to address the recommended rule change.

## **B. Respite Care Policy**

Ohio Admin. Code Section 5101:2-7-08(B) requires that private agencies approve alternative arrangements for the care of a foster child by someone other than the foster parent. However, five of the six agencies reviewed in the Montgomery County project did not have written policies for alternative care arrangements, and procedures for approving such respite care varied. Likewise, five of the agencies later audited also lacked written policies on how to authorize or approve alternative care arrangements, although they documented when they approved this care. Without a board-approved policy, an agency may not comply with all OAC regulations and there could be inconsistencies in the authorization and approval of alternative care arrangements that could pose risk to the child.

*Recommendation:* ODJFS should amend its rules governing respite care and establish minimum guidelines to be used by the recommending agencies to make and document decisions about respite care that minimize exposure to risk. ODJFS should also require placement agencies to have written plans designed to ensure child safety and organizational compliance.

*Response:* No action was reported to address the recommended rule change. ODJFS noted that individual child care agreements between the custody-holding agency, recommending agency and the caregiver must specify alternative care arrangements.

## **C. Accurate Accounting of Dates Foster Child Enters and Exits Care of Private Agency**

Accurate accounting for the dates a child enters and exits the care of a placement agency is necessary to ensure the child is continuously maintained in a safe environment. This also provides documentary evidence in the event of litigation and calculating payments due to the private agency.

In the Montgomery County project, auditors compared 370 placement dates recorded by Montgomery County Children Services and private agencies and eventually confirmed 98 discrepancies (26%). Likewise, during the review of 25 private agencies, similar discrepancies were noted at 11 agencies totaling 669 exceptions to 2,560 (26%) placement dates.

*Recommendation:* ODJFS should make the necessary procedural and programming changes to the Family and Children Services Information System (FACSIS) that would ensure integrity of data needed by placement agencies to manage the foster care program. Also, a system should be developed to integrate all placement information into a complete, accurate and easily accessible database. The county public children services agencies and private placement agencies should review the process of recording the date children enter and exit private agencies to find the most effective and efficient process.

*Response:* Current plans are that the FACSIS system will be replaced with a new state of the art, Statewide Automated Child Welfare Information System (SACWIS). The Ohio Department of Administrative Services recently issued a Request for Proposal on December 11, 2002 to select a contract that will analyze, designed, develop and implement a SACWIS system for the State of Ohio. The estimated award date is July 11, 2003.

#### **D. ODJFS Inspection of Foster Care Homes**

Even though they have primary responsibility for the safety of Ohio's foster care children, auditors determined that ODJFS and the public children services agencies were not performing complete and thorough foster care home inspections. Instead, they performed desk reviews of files during their inspections of public and private agencies. With no direct relationship or monitoring of family foster homes, ODJFS had no assurance these homes were providing adequate care for Ohio's children.

The Montgomery County audit contained findings at KARE of substitute care placement inconsistent with the best interest of children and circumvention of child occupancy limits. The private agency project found instances at 10 agencies of not following or documenting proper procedures entailing changes in address, marital status or adult occupancy in the foster home.

*Recommendation:* ODJFS should conduct on-site reviews of family foster homes to detect and deter unsuitable placements. Since a whole-scale effort to inspect 11,000 foster homes is implausible, it should select a statistically valid sampling of family foster homes for periodic on-site review. A reliable sample could be obtained by adding 5 employees at \$240,000 annual cost.

*Response:* Since May 2001, ODJFS licensing specialists have conducted on-site inspections of a small number of foster homes from each agency utilizing a standardized inspection checklist. Given the scattered geographical location of the foster homes and the fact that many foster parents work outside the home, especially during the day when children are in school, the number of homes visited is not large enough to be statistically valid. If additional staff are brought on board, the size of the sampling will be increased.

#### **E. Investigating Alleged Rule Violations**

Ohio Admin. Code Section 5101:2-5-11 requires alleged violations of administrative rules for family foster homes to be investigated by the licensing agency. Rules violations could include issues such as inappropriate discipline, a child being left unsupervised, or a lack of food for the foster child.

However, ODJFS and counties rely upon private agencies to document investigations involving its own network of foster parents. Nor are private agencies required to notify ODJFS or counties of an investigation for a rules violation, essentially allowing private agencies to police themselves.

During the Montgomery County audit, auditors found several instances of foster parents who had numerous investigations rules violations continuing to receive placements even when the allegations were substantiated. While violators were notified, rarely was there a corrective action plan, required training or additional support or counseling provided to the foster parent regarding the violation. There appeared to be no difference in the procedures used whether the results of the investigation were substantiated or unsubstantiated.

*Recommendation:* ODJFS should establish policies and procedures to strengthen controls over the process of investigating allegations of rule violations by foster parents that includes the monitoring of compliance with those rules.

*Response:* No action was reported to address this recommendation. ODJFS noted that it required public and private agencies to investigate themselves when they believe a violation of a licensing rule has occurred and that an agency could receive a citation for failing to do so.

## **Project Outcomes to Date**

When state legislators first requested a review of Ohio's foster care system, they noted concern that various levels of involved government appeared to insist that responsibility did not lie with them to uncover and fix problems. Refreshingly, the project has resulted in stakeholders at the state, county and private agency level pulling together to address several key issues. While there have been some noted differences among these parties in the process, there have also been numerous areas of agreement. Many improvements have come through revisions in state law and administrative code to which all stakeholders contributed ideas. In short, it appears the key stakeholders are defining and implementing the roles they will play to ensure an efficient and effective foster care system.

In addition to the ODJFS responses to specific recommendations, noted above, the following project outcomes are noted.

### **I. At Private Agency Level**

#### **A. Agencies Experiencing Significant Consequences**

As previously mentioned, four agencies closed during the course of the project including two (KARE and Searchlight C.A.R.E., Inc.) as a direct result of its audit. The audit project has also resulted in significant consequences at other agencies, such as:

- Symbiont NFP, Inc. – In 2002 Symbiont repaid \$47,702 to Franklin County Children Services. It also froze referrals of children until completion of a corrective action plan, which FCCS reports Symbiont has fulfilled. However, the Attorney General has filed a lawsuit to remove the agency's directors alleging breach of fiduciary and misappropriation of charitable funds. It also seeks restitution of foster funds that personally benefited the directors or their for-profit businesses.

- V. Beacon, Inc. – Beacon’s two largest customers, Cuyahoga and Franklin counties, have frozen referrals to the agency until they are satisfied that audit issues have been resolved. Franklin County Children Services has demanded repayment of \$142,119 and it reports that V. Beacon has submitted a program improvement plan addressing audit findings, contract breaches and negotiating paybacks. Beacon has also hired new administrators and had already implemented 30% of its audit recommendations before the report’s final release. These included new policies segregating fiscal duties, investments and car use.

### **B. Implementation of Audit Recommendations**

Of the 437 total recommendations given to the 25 private agencies, nearly 10% were implemented prior to the audit release. The House of New Hope immediately implemented 38% including policies prohibiting loans and conflicts of interest. It also negotiated repayment of outstanding related-party loans. Even agencies with few issues, such as Beech Brook and St. Joseph Treatment Center, implemented 44% and 40%, respectively.

In recent testimony before the Welfare Oversight Council Committee (December 5, 2002), the professional association representing several private agencies testified on certain actions it has taken as a result of the audit. The executive director of the Ohio Association of Child Caring Agencies noted that OACCA has worked with stakeholders to improve the cost reporting process for better accuracy. It has also provided training to members on accountability and cost documentation.

### **II. At The Public Children Services Agency (County) Level**

The Auditor of State surveyed two of the key public children services agencies involved in the project – Franklin and Montgomery counties – on project outcomes. These counties have distinguished themselves for their aggressive efforts to improve program administration, both from implementing audit recommendations and developing solutions on their own.

Many of their actions should be considered “best practices” for other counties to consider.

#### **A. Recovery of Misspent Public Funds**

As noted above, Franklin County Children Services has recovered \$47,000, and continues negotiations with several provider agencies. Former KARE officers agreed to repay Montgomery County Children Services \$160,000, with \$40,000 paid at the time of the agreement and \$120,000 paid over a period of four years and it is receiving regular payments. It also is negotiating with other private agencies. The Cuyahoga County Department of Children and Family Services has also partnered with its county prosecutor to begin recovery discussions with several provider agencies.

## **B. Monitoring and Oversight Improvements**

Franklin County Children Services has taken numerous actions to improve control, such as:

- Hiring an internal audit administrator to work with agencies that have experienced audit findings and provide technical assistance to others. This individual annually reviews Title IV-E cost reports, annual audit and tax return of all provider agencies and verifies cost allocations and reviews for audit findings.
- Establishing procedures for developing Program Improvement Plans that address audit findings, contract breaches and negotiating paybacks.
- Changing contract requirements regarding related party matters, undocumented expenditures, cost reports and audits. Includes a “New” agency review and contract protocol involving complete review of fiscal, governance and programs before a contract is executed for placement of children.

Likewise, control improvements by Montgomery County Children Services include:

- Conducting a review of out-of-home placements with a goal of reducing reliance on contract providers, so that fewer children would be placed in substitute homes not directly supervised by MCCA.
- Requiring copies of private agencies annual audits as well as updated lists of the Board of Directors and any policies relative to their compensation. MCCA asks for more information from private agencies than in the past.
- Establishing two new positions to monitor contract compliance with purchased care providers. This is in addition to rewriting financial resolutions to provide more detailed information and monthly monitoring reports for all direct service contracts.

Among audits results cited by the counties were increased communication from ODJFS, and increased ODJFS monitoring of cost reports to avoid the inclusion of unallowed expense in the per diem rate. MCCA noted more oversight of the private agencies at the state level and indicated it received information on agency performance and a heads up on any impending action by the state. Likewise, Franklin County noted it benefited from a new awareness of closely held corporate and related party transactions and an increased focus on documenting Title IV-E expenditures and audit requirements.

## **III. Changes by ODJFS**

The Ohio Legislature and ODJFS have implemented numerous reforms, many of which were based on audit recommendations. In May 2000 the General Assembly unanimously passed Sub HB 448, (Child Protection Accountability) sponsored by Rep. Kerry Metzger. It established several fiscal accountability and child safety reforms. In addition to the ODJFS responses to program compliance and oversight issues, outlined above, the following is a summary of administrative rule changes enacted as a result of our reports.

- Cost-Reporting Rule (Ohio Admin. Code Section 5101:2-47-26.1) – Private agencies will file a new consolidated cost report showing all program revenues (such as foster care maintenance, administrative costs, Medicaid/behavioral healthcare, and educational costs) at the end of each year. This will help clear up confusion among agencies on how to classify costs. ODJFS now conducts comprehensive desk reviews of each cost report, including comparisons against an agencies’ audited financial statement. These ensure costs reported are: (1) allowable and fairly presented in accordance with department rules, (2) reasonable, (3) related to foster care and (4) appropriately classified. In addition to resolving the systemic misclassification issue, this rule will help deter abuse. It requires agencies to retain documents that support reported costs for a minimum of three years. It requires public or private placement agencies to adopt a conflict of interest policy prohibiting transactions among related parties unless the goods or services are provided at a competitive cost or under favorable terms to the agency. It also requires providers to disclose related party transactions on the cost report
- Model Contract Rule (Ohio Admin. Code Section 5101:2-47-23.1) – This maintains and enhances systems for contracting between public children services agencies and private agencies. Contracts must detail the services the child is to receive and the amount the country agrees to pay for those services. The PCSA must develop a contract monitoring system. ODJFS is required to publish a model contract on its website (<http://www.state.oh.us.odjfs/ocf/publications.stm>).
- Fiscal Accountability Rule (Ohio Admin. Code Section 5101:2-33-19) – This outlines certain penalties ODJFS may impose at its discretion when a public children services agency or private placement agency fails to comply with fiscal accountability procedures. Consequences of noncompliance include joint development of a corrective action plan, which if not complied with, may result in the cancellation of a private agency’s Title IV-E rate or revocation of its certificate, or in the requirement by ODJFS that a public children services agency reimburse or share in the cost of a final disallowance of federal financial participation.

In addition, the Ohio Department of Job & Family Services, Office for Children and Families (OCF) has developed partnerships with the public and private agencies, the Ohio Department of Mental Health, and Ohio Department of Alcohol and Drug Addiction Services to develop a statewide single cost report for reporting Title IV-E and Medicaid costs. OCF has also created the Bureau of Accountability and Regulation to focus solely on correcting the weaknesses that were discovered in the system.



As of the release of this report, the HHS has ordered ODJFS to repay \$703,854 based on its review of sixteen private agency audits. This represents 88% of the federal share of the total questioned costs reported in our Step 2 audits as resulting from agency misspending. It is important to remember that repayment is applicable only to the federal share (50%) of the total questioned cost. Unfortunately, the remaining nine audits reported more than \$12 million in federal questioned costs based on agency misspending. Assuming half of that represents the federal share, ODJFS could still be ordered to repay \$6 million.

At this time ODJFS has not sought recovery from the private agencies for the \$703,854 that was refunded to HHS.

In summary, based on responses from ODJFS and the counties the foster care program has improved significantly as a result of the audits. ODJFS noted that the audits had improved the fiscal accountability and business practices of the Title IV-E programs through the enactment of its fiscal accountability rules. Likewise, FCCS observed the stronger fiscal accountability, documentation and monitoring processes have begun or are in place in many private agencies across the state as a result of the audits.

Careful monitoring by the county and state to assure that these new procedures are followed is the key to ensuring lasting improvement in Ohio's foster care program.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

JIM PETRO  
Auditor of State