CHILD PROTECTIVE SERVICES

V. BEACON, INC.

REPORT ON AGREED-UPON PROCEDURES

JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

V. BEACON, INC.
REPORT ON AGREED-UPON PROCEDURES

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V. BEACON, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

BOARD OF DIRECTORS
AND ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 1998

NAME	TITLE	TERM
	BOARD OF DIRECTORS	
Vince Beacon	President	January 1997 - December 1999
David Howell	Vice President	January 1997 - December 1999
Anthony Shirley	Secretary	January 1996 - December 1998
Mary Montigue	Trustee	January 1996 - December 1998
Juanita Womack	Trustee	January 1997 - December 1999
Pat McAllister	Trustee	January 1997 - December 1999
	ADMINISTRATIVE PERSONNEL	
Kathy Marvin	Executive Director	June 1996 - October 2000
Yvonne Naserdin	Office Manager	June 1987 - August 2000
Vince Beacon	Founder/Administrator	March 1980 - Present

<u>Agency Address</u>

V. Beacon, Inc.
1718 Indian Wood, Suite A
Maumee, Ohio 43537

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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Independent Accountants' Report

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

Dear Director Hayes:

Pursuant to the memorandum of understanding signed July 6, 1999 between the Ohio Department of Job and Family Services[1] (ODJFS or Department), formerly known as the Ohio Department of Human Services (ODHS), and the Auditor of State (AOS), we have conducted a Child Protective Services/Special Title IV-E Review ("Review") and performed the procedures summarized below for V. Beacon, Inc. (Placement Agency) for the period January 1, 1998 through December 31, 1998 ("the Period").These procedures were performed solely to determine if the Placement Agency complied with the provisions of certain Federal and State laws and regulations applicable to a private noncustodial agency (PNA) and certain terms and conditions of its contract with Cuyahoga County Department of Children and Family Services (CCDCFS). The applicable laws, regulations and the provisions of its contract are described in the attached *Supplement to Report on Agreed-upon Procedures* under *Legal Authority.*

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. The report on agreed-upon procedures is intended for the information of ODJFS, however, the report will be a matter of public record and its distribution will not be limited. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed are summarized as follows:

1. We performed procedures to determine whether the Placement Agency complied with the terms and conditions of its contractual agreements and provisions of applicable laws and regulations for expenditures during the Period.

2. We scanned all receipts and deposits from the applicable public children services agencies to V. Beacon, Inc. for the Period to determine whether receipts were properly deposited and recorded in the accounting records of the Placement Agency.

3. We compared the Placement Agency's per diem paid to the foster parents with the corresponding per diem it received from Cuyahoga County Department of Children and Family Services Agency (CCDCFS) to determine the ratio of payments for administration and maintenance.

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

4. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures, relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

5. We performed procedures to confirm internal administrative controls over compliance with the requirements of the Title IV-E program and the Ohio Admin. Code Chapter 5101:2

On April 16, 2002 we held a post audit conference with the following:

Name	Office/Position
Vince Beacon	V. Beacon, Inc., Board President
Justin Harris	V. Beacon, Inc., Chief Financial Officer
Joanie Daugneaux	V. Beacon, Inc., Executive Director
Leslie DeMarco	Titus, Urbanski, & DeMarco, Inc., Independent Auditor
Greg Kelly	Auditor of State, Asst. Chief Deputy Auditor
Sam Long	Auditor of State, Asst. Auditor
Carolyn Edwards	Auditor of State, Auditor-In-Charge
Dan Shook	ODJFS, Representative

At the post audit conference we requested additional information to document the investment activity reported in Issue 1-3. The documentation was provided May 15, 2002.

Our detailed procedures and the results of applying these procedures are contained in the attached *Supplement to Report on Agreed-upon Procedures*. Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the Placement Agency's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report addresses transactions relating to the above procedures only and does not extend to the financial statements of the Placement Agency, taken as a whole.

This report is intended for the information of the officials of ODJFS and is not intended to and should not be used by anyone other than this specified party. However, this report is a public record, and is available upon specific request.

JIM PETRO
Auditor of State

May 15, 2002

V. BEACON, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

BACKGROUND INFORMATION

In response to concerns about a lack of fiscal accountability and questionable business practices, a memorandum of understanding was signed July 6, 1999, between ODJFS (formerly ODHS) and the Auditor of State (AOS). This memorandum formalized an agreement that ODJFS and AOS would perform investigations utilizing certain agreed-upon procedures under the supervision of the AOS. The agreement called for the AOS to supervise the engagement, issue the report and provide training to selected ODJFS staff members. The procedures are being performed at twenty-five private agencies for periods beginning January 1, 1998 and extending for a minimum of twelve months or a maximum of eighteen months. This is the nineteenth report released of the 25 reports to be issued.

LEGAL AUTHORITY

Administration of Title IV-E Funds

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

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

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

Public Children Services Agency Contractual Requirements

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

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

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

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

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

or adoption. Cuyahoga County Department of Children and Family Services (CCDCFS)[6], a PCSA, entered into such an agreement with V. Beacon, Inc., a PNA.[7]

Billing Process

The PCPA or PNA submits an invoice monthly to the PCSA. The invoice contains specific information on each child, his or her per diem rate and the number of days in placement. Each month, the PCSA pays the PCPAs and PNAs based on their previous month's invoice, and reports to ODJFS the amount paid for each child and for other services including, but not limited to, case management, transportation for the children, recruiting and training foster parents.[8]

Reports and Records

Not-for-profit PCPAs and PNAs that provide foster care services for children eligible under the Title IV-E program are required to submit cost reports annually to ODJFS.[9] Costs reported are used to determine a maximum allowable reimbursement rate under the Title IV-E program for foster care maintenance payments and administrative costs. ODJFS requires that the governing body of the PCPA or PNA authorize and review an annual audit with an opinion of the organization's finances by an independent certified or registered public accountant,[10] and ODJFS asks that a copy of the last completed audit be submitted with the annual cost report.

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

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

7 Cuyahoga County Department of Children and Family Services Vendor Agreement for Foster Care, Residential Care, Emergency Shelter, Independent Living, Group Homes and Day Treatment Services (Purchase of Service Agreement) between CCDCFS and V. Beacon, Inc. dated 4/8/98, for the period January 1, 1998 through December 31, 1998.

8 Ohio Admin. Code Section 5101:2-47-11(G). Prior to 5/1/98, these requirements were generally contained in Ohio Admin. Code Section 5101:2-47-65(E).

9 Form ODHS 2910 Purchased Family Foster Care Cost Report is applicable to PCPAs and PNAs. Annual filing requirement is found at Ohio Admin. Code Section 5101:2-47-24(D). Prior to 5/1/98, the annual filing requirement was contained in Ohio Admin. Code Section 5101:2-47-20(C)(1).

10 Ohio Admin. Code Section 5101:2-5-08(A)(5). Effective 7/1/00, after the audit period, ODJFS amended this rule to provide that for PCPAs and PNAs with an annual gross income of less than $300,000, it would be sufficient to prepare a written annual financial statement of the PCPA or PNA finances in accordance with generally accepted accounting principles. In addition to having the governing board authorize and review the required financial statements and audits, the amended rule requires agencies to submit them to ODJFS.

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

V. BEACON, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

Cost Principles

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

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

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

Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, establishes an audit requirement for federal funds (including Title IV-E funds) administered by state and local governments and non-profit entities, and authorizes auditors to question unallowed costs which appear to have resulted from a violation of law, regulation or other agreement governing the use of such funds, costs which are not supported by adequate documentation, or appear unreasonable.[15]

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

Ohio Admin. Code Section 5101:2-47-11(C), states: "Allowable and unallowable cost guidelines for use in completing the ODHS 2909 and ODHS 2910 are contained in rules 5101:2-47-25 and 5101:2-47-26 of the Administrative Code and the Office of Management and Budget (OMB) Circulars A-87 and A-122."[16] Specifically, ODJFS considers certain costs to be unallowable for purposes of calculating the rate at which foster care maintenance costs can be reimbursed with federal Title IV-E funds including, but not limited to, contributions, donations, or any outlay of cash with no prospective benefit to the facility or program; entertainment costs for amusements, social activities, and related costs for staff only; and costs of activities

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12 42 U.S.C. Section 675(4)(A).

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

14 26 U.S.C. Section 501(c)(3).

15 Pursuant to the rulemaking authority under the Single Audit Act, 31 U.S.C. Section 7505, the Secretary of the Department of Health and Human Services has promulgated a regulation which provides that state and local governments, as well as recipients and subrecipients that are non-profit organizations, are subject to the audit requirements contained in the Single Audit Act, 31 U.S.C. Sections 7501 et seq., and OMB Circular A-133. See 45 C.F.R. Section 74.26(b) and (a) (2001), respectively.

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

prohibited under section 501(c)(3) of the Internal Revenue Code.[17] Ohio Admin. Code Section 5101:2-5-08(G) states, “A PCPA or PNA shall not permit public funds to be paid or committed to be paid to any corporation, firm, association or business in which any of the members of the governing body of the agency, the executive personnel or their immediate families have any direct or indirect financial interest, or in which any of these persons serve as an officer or employee, unless the services or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA. The PCPA or PNA shall make written disclosure, in the minutes of the board, of any financial transaction of the PCPA or PNA in which a member of the board or his/her immediate family is involved.”

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

Reimbursement Process

The reimbursement process begins early each fiscal year when ODJFS disburses funds to the counties under its state plan for foster care approved by the Secretary of the U.S. Department of Health and Human Services. ODJFS submits quarterly reports to the U.S. Department of Health and Human Services (HHS) for reimbursement of federal financial participation (FFP) in foster care payments[18] made to the PCPAs or PNAs.

In 1998, the FFP was 58% for maintenance payments[19] made and 50% for administrative costs[20] incurred under the Title IV-E program.

Each PCSA negotiates a foster care per diem rate (which includes maintenance and administrative costs) for each foster child placed with a PCPA or PNA. Maximum allowable federal reimbursement under Title IV-E for maintenance payments and administrative costs are set by ODJFS. The PCPA/PNA may contract with foster parents at a different foster care per diem rate for each foster child.

Allowable Costs

In addition to the Ohio Administrative Code and the Office of Management and Budget Circular A-122 *Cost Principles for Non-Profit Organizations*, which govern allowable costs, V. Beacon, Inc. is bound by the terms of a purchase of service agreement it entered with CCDCFS to provide specialized foster care, independent living services and group home/custodial group home care (hereinafter referred to as The Agreement, or Purchase of Service Agreement). These services are set forth in Section 4 of the Agreement.”

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

[18] Ohio Admin. Code Section 5101:2-47-11 recites the foregoing reporting and reimbursement requirements. Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-20 and 5101:2-47-65.

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

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

The Agreement provides that CCDCFS will reimburse V. Beacon, Inc. at the stipulated per diem rate for the services delineated in Section 4 and described in Exhibit 1 of the Agreement. The Agreement also provides that V. Beacon, Inc. will provide foster care maintenance, administrative case management, case planning activities and related administrative activities as set forth in Exhibit 3 of the Agreement.

Exhibit 3 of the Agreement is a complete copy of Ohio Admin. Code Section 5101:2-33-18, which is titled "Purchase of service agreements for foster care and placement services." That Ohio Admin. Code section describes foster care maintenance activities' as, "direct care and indirect management activities associated with room and board, daily supervision and care, and health-related services provided to children who are under the care and responsibility of a children services agency."[21]

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

In its contract with CCDCFS, V. Beacon, Inc. agreed "The Provider certifies to the Department that for each service specified in Sections 4(A) and (B) at least [specified amount of the billed amount] constitutes a daily payment to foster parent(s) in whose care the Department has placed children covered under this Agreement."[23]

Also, Section 5 of the contract with CCDCFS states, "The Provider agrees to comply with all federal and state mandates necessary in establishing IV-E reimbursability for all applicable service/programs. The Provider agrees to comply with reporting time deadlines established by the Ohio Department of Human Services (ODHS) and understands that a failure to do so may result in recoupment of those funds actually lost to the Department as a result of a failure to comply with reporting deadlines."[24]

Furthermore, if a IV-E audit results in an adverse finding against the Department due to Provider error, procedures can be implemented including but limited to the possibility that the Provider may be required to reimburse the Department.[25]

In addition to setting forth the services which are deemed allowable costs for foster care providers, the Purchase of Services Agreement establishes inspection and retention requirements for financial records:

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[21] Ohio Admin. Code Section 5101:2-33-18(B). Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8/1/02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12/1/01.

[22] Ohio Admin. Code Section 5101:2-33-18(C). Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8/1/02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12/1/01.

[23] Section 4, Cost and Delivery of Purchased Services, Paragraph C, Foster Parent Payment, Purchase of Service Agreement, dated 4/9/98 p. 4.

[24] Section 5 (A), Title IV-E Reimbursable Services, Purchase of Service Agreement, dated 4/9/98, pg. 10.

[25] Section 5 (C), Title IV-E Reimbursable Services, Purchase of Service Agreement, dated 4/9/98, pg. 11.

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In Section 15 of the Agreement, V. Beacon, Inc. agreed that it would "maintain and preserve all records related to this Agreement in its possession and/or will assure the maintenance of such in the possession of any Third Party performing work related to this Agreement as specified by the Department and for a period of not less than three (3) years."[26]

RESOLUTION OF QUESTIONED COSTS

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

OMB Circular A-133 defines questioned costs[27] as follows:

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

(1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds;

(2) Where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances."

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

We recommend that as part of the resolution of our audit findings ODJFS and the PCSAs contracting with V. Beacon, Inc. join together to ensure that V. Beacon, Inc. develops and implements a corrective action plan that will result in fiscal accountability [28] and legal compliance in an expeditious manner. Based on the findings we recommend the following:

(1) PCSAs contracting with V. Beacon, Inc. should determine whether the findings set forth in this report constitutes a breach of their contract, and if so seek an appropriate remedy.

(2) ODJFS should assist the contracting PCSAs in seeking recovery of misspent funds by providing administrative and technical support as needed.

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26 Section 15, Availability and Retention of Records, Purchase of Service Agreement, dated 4/9/98, pg. 23.

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

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

(3) PCSAs should consider no additional placement of children with V. Beacon, Inc. until fiscal accountability and legal compliance is achieved through the corrective action plan.

(4) Based on the relevant findings in our report ODJFS should assess whether V. Beacon, Inc. should be allowed a Title IV-E reimbursement rate.

(5) Based on the relevant findings in our report ODJFS should perform an independent assessment of V. Beacon, Inc. to determine if it is suitable to be certified by ODJFS to perform foster care functions as set forth in Ohio Admin. Code Section 5101:2-5-03.

AGENCY INFORMATION

V. Beacon, Inc. is a private noncustodial agency (PNA) originally incorporated on March 26, 1980 as a nonprofit organization which is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). V. Beacon, Inc. is licensed by ODJFS to recommend families to become foster families, place children in foster homes, and recommend children for adoption. When a county children services agency needs a home for a foster child, it can contact agencies such as V. Beacon, Inc. to place the child. The group of family foster homes (private foster network) utilized by V. Beacon, Inc. has been in place since 1980. V. Beacon, Inc. places foster children primarily for CCDCFS. V. Beacon, Inc. has also provided services to Lucas and Franklin County children services agencies during the Period.

The following table shows statistical information about the agency for 1998 taken from the ODHS 2910 Purchased Family Foster Care Cost Report and other documentation provided by the Placement Agency:

Table I
V. Beacon, Inc.
Foster Care Statistics

Characteristic	Statistic
Daily Average Number of Children in Placement	150
Number of Active Licensed Foster Homes	169
Average Per Diem Rate	$21
Number of PCSAs from Which Agency Receives Children	3
Required Training for Foster Caregiver Orientation	12 hours
Required Annual Training for Foster Caregiver	12 Hours
Expenditures Reported per the Title IV-E Purchased Family Foster Care Cost Report	$2,980,345
Characteristics of Children Placed by Agency	Traditional to Intensive levels of care

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During the Period, V. Beacon, Inc.'s staff consisted of 28 employees, that provided foster care services, including an executive director, regional coordinators, an office manager, and social workers to provide the needed counseling and case management services to the foster children and foster parents.

Over two thirds of V. Beacon, Inc.'s revenues were comprised primarily of funds from CCDCFS. The total revenue received by V. Beacon, Inc. from Cuyahoga County Department of Children and Family Services Board for foster care services during the period of January 1, 1998 to December 31, 1998 was $2,169,359.

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

Table II
V. Beacon, Inc.
Revenue by Source

	1998	**Percent of Total Revenue**
Cuyahoga County	$ 2,169,359	72.0
Franklin County	549,077	18.3
Lucas County	281,065	9.3
Interest Income	10,363	0.3
Other Income	3,631	0.1
Total Revenue by Source	$3,013,495	100

Relevant Individuals

Vince Beacon

Vince Beacon, is the founder and original and current statutory agent of V. Beacon, Inc. Vince Beacon served as the Board President of V. Beacon, Inc. almost continuously from its inception in 1982 to present.

Kathy Marvin

Kathy Marvin was the Executive Director of V. Beacon, Inc. She served as Executive Director from June of 1996 to October of 2000. She left V. Beacon, Inc.'s employment in October of 2000, during the course of the audit.

Yvonne Naserdin

Yvonne Naserdin was the office manager of V. Beacon, Inc. She had held this position since June of 1987 and also assumed the responsibility for Cash Receipts, Cash Disbursements, and Payroll during 1998. She left V. Beacon, Inc.'s employment in August of 2000, during the course of the audit.

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

Objective:

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

Procedures Performed:

1. We obtained all canceled checks for non-payroll disbursements made by V. Beacon, Inc. for each month during the Period (See Issue 5 for the reconciliation of payroll disbursements).

2. We inspected the details of every canceled check returned by the bank during the Period including vendor, amount, authorizing signature and endorsement for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.

3. For selected disbursements which did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; checks payable to the staff or foster parents or payments that appeared to be contrary to policy, we requested supporting documentation, such as invoices.

4. We inspected the supporting documentation to determine compliance with program requirements for expenditures and for potential self-dealing transactions prohibited by Ohio Admin. Code section 5101:2-5-08(G).

5. We discussed with agency management all expenditures (check disbursements) that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined in applicable rules, regulations and/or contract provisions.

6. We obtained all credit card statements paid by V. Beacon, Inc. for the Period and inspected details of each charge including vendor, amount, and authorization for compliance with the terms and conditions of its contractual agreements, provisions of applicable laws and regulations, and proper business purposes.

7. For selected credit card expenditures which did not appear reasonable considering: the nature of business or the vendor; high dollar amounts; charges related to the staff or foster parents or expenditures that appeared to be contrary to policy, we requested supporting documentation, such as invoices.

8. We discussed with agency management all credit card expenditures that we found lacked adequate supporting documentation, were unallowable or unreasonable as defined by applicable rule regulations and/or contract provisions.

9. We read lease agreements and other documentation supporting all building lease or mortgage payments to determine property ownership, previous ownership and relationship between current and previous owners and V. Beacon, Inc.

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

Results:

Office of Management and Budget (OMB) Circular A-122 “Cost Principles of Non-Profit Organizations,” requires that for a cost to be allowable, it must, among other factors be reasonable and adequately documented.[29]

The Circular further provides: “...The question of reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions which receive the preponderance of their support from awards. In determining the reasonableness of a given cost, consideration shall be given to: a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award, b) the restraints or requirements imposed by such factors are generally accepted sound business practices, arms length bargaining . . . c) whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large . . . ” [30]

The Purchase of Services Agreement establishes inspection and retention requirements for financial records, it states, “The Provider shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives.[31] The agreement further states that “the Provider shall maintain and preserve all records related to this Agreement in its possession...for a period of not less than three (3) years.”[32]

In addition, under Section 1 of the Agreement, V. Beacon, Inc. was to provide those services delineated in Section 4 of the Agreement.[33]

We inspected one hundred fifteen (115) credit card expenditures totaling $24,932 in charges. We requested invoices and/or receipts for these expenditures, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. V. Beacon, Inc. was unable to provide us with invoices and/or receipts as requested for credit card transactions for 87 transactions totaling $13,351 as required by the CCDCFS contract and were in direct violation of OMB Circular A-122, Attachment A(2)(a) and (g).

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

30 OMB Circular A-122, Attachment A, Paragraph (A)(3)(a) through (c).

31 Section 14, Financial Records, Purchase of Services Agreement, dated 4/9/98, pg. 23.

32 Section 15, Availability and Retention of Records, Purchase of Services Agreement dated 4/9/98, pg. 23.

33 See detailed discussion of these agreed-upon services in the “Allowable Costs” Section of this report.

We inspected three hundred fifty-six (356) check disbursements totaling $461,215 in charges. We requested invoices and/or receipts for these expenditures, authorization by the board or responsible party, and an explanation of how the expenditure provided a benefit to the program or was necessary to the operation of the foster care program. V. Beacon, Inc. was unable to provide us with invoices and/or receipts as requested for 39 transactions totaling $22,499 as required by the CCDCFS contract and were in direct violation of OMB Circular A-122, Attachment A(2)(a) and (g). Undocumented expenditures totaled $35,850.

Table III
V. Beacon, Inc.
Questioned Costs

Undocumented Expenditures	
Undocumented Credit Card Expenditures	
Office expenditures	$2,067
Gas expenses	336
Radio Shack	16
Best Buy	730
American Airlines	724
Meals	608
Life Publishing	543
Ed Schmidt Pontiac	1,525
Lodging	1,006
Investment expenditures	449
Life Enhancement	514
Independent Computer Solution	1,001
Credit balance refund check	888
Steinmart Apparel	172
Annual membership fee	300
Flowers	317
Other expenditures	2,155
Total Undocumented Credit Card Expenditures	13,351
Undocumented Check Disbursements	
Petty cash expenditures-Alva Hall	4,210
Petty cash expenditures-Daniel Matheny	515
Petty cash expenditures-Kathy Marvin	3,052
Robert Barker-consultant fee	2,500
Expense checks to Vince Beacon	7,329

Table III
V. Beacon, Inc.
Questioned Costs

Checks to employees - non-payroll	2,147
Meals	1,151
Colleen O'Boyle-advertising	400
Cox Ohio Publishing	683
Anthony Shirley-board member travel expenses	250
Michele Schwenkner-employee travel reimbursement	147
Employee surgery	115
Total Undocumented Check Disbursements	22,499
Total Questioned Costs	$35,850

Additionally, 33 credit card expenditures totaling $5,459 and 28 check disbursements totaling $2,515 were not allowable foster care maintenance, administrative case management, case planning activities and related administrative activities under the CCDCFS contract or OMB Circular A-122. These improper expenditures consisted of a home security system, expenses related to plastic surgery, home internet charges, other home security expenditures, home cable TV expenditures, extra medical expenses for employees, a health club membership, and finance charges and late fees on the credit card statements.
Unallowable expenditures totaled $7,974. They were as follows:

1. Twenty four (24) check disbursements totaling $858 and nineteen (19) credit card transactions totaling $4,777 for the benefit of Vince Beacon included the following: a home security system, expenses related to plastic surgery, home internet charges, other home security expenditures, home cable TV expenditures, and a health club membership were in violation of OMB Circular A-122, Attachment B, Paragraph 18 which states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." The agency's reporting of these expenditures on its ODHS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7), which disallows the reporting of "Entertainment costs for amusements, social activities, and related costs for staff only."[34] Unallowed costs for personal use totaled $5,635.

2. Four (4) check disbursements totaling $1,657 for medical expenses for selected employees outside the agency's normal coverage plans were in violation of OMB Circular A-122, Attachment B, Paragraph 7f(2) which states, "Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see subparagraph h), and the like are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities."

[34] Prior to 5/1/98, this rule was stated in Ohio Admin. Code Section 5101:2-47-64(G).

3. Twenty two (22) credit card transactions totaling $682 for finance charges and late fees and were in violation of OMB Circular A-122, Attachment B, Paragraph 23(a)(1), which states in pertinent part: “Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable...” The agency’s reporting of these expenditures on its ODHS 2910 Purchased Family Foster Care Cost Report was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(9), which generally disallows the reporting of “costs incurred for interest on borrowed capital....”[35]

Table IV
V. Beacon, Inc.
Questioned Costs

Unallowed Expenditures	
Unallowed Costs for Personal Use	
Credit Card Expenditures	
AOL Internet Charges - at Vince Beacon’s Home Office	$305
Bally’s Health Club- Vince Beacon	1,103
Plastic, Laser & Hand surgery- Vince Beacon	1,939
Discreet Security System-at Vince Beacon’s Home Office	1,430
Total Unallowed Costs for Personal Use-Credit Card Expenditures	4,777
Check Disbursements	
ADT Security Services, Inc.-at Vince Beacon’s Home Office	292
Buckeye Cablevision, Inc.-at Vince Beacon’s Home Office	566
Total Unallowed Costs for Personal Use-Check Disbursements	858
Total Unallowed Costs for Personal Use	5,635
Unallowed Costs for Fringe Benefits	
Uninsured medical expenses for selected employees	1,657
Unallowed Costs for Interest	
Finance Charges and Late Fees	682
Total Unallowed Expenditures	$7,974
Total Questioned Costs	**$43,824**

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

Federal Questioned Costs: $43,824

Due to unallowed and inadequately documented expenditures reported on the ODHS 2910 Purchased Family Foster Care Cost Report(s) and/or charged against the foster care program, V. Beacon, Inc. was in violation of Sections 14 and 15 of its contract with CCDCFS and OMB Circular A-122[36] in the amount of $35,850. V. Beacon, Inc. was also in violation of Ohio Admin. Code Section 5101:2-47-26(A)(7) and OMB Circular A-122 Attachment B, Paragraphs 7(f), 18, and 23(a)(1) with respect to the unallowed expenditures in the amount of $7,974 as described above in numbered Paragraphs 1-3. The amount of the federal questioned cost totaled $43,824.

Management Comment:

V. Beacon, Inc. did not adhere to the CCDCFS contract regarding documentation of allowable direct and administrative costs requirements and financial record retention in the amount of $43,824. Cuyahoga County Department of Children and Family Services should require the agencies, with which it contracts for placement services, to obtain and submit to CCDCFS an annual financial audit performed in accordance with government auditing standards. In addition, to the independent auditor's report on the financial statements, professional standards would require the auditor to report on the Placement Agency's compliance with laws and regulations and on internal controls. CCDCFS should review these reports and follow up on any exceptions reported. CCDCFS did not have such requirements and as a result, annual audited financial statements and a report on internal controls were not submitted to CCDCFS during the Period.

ISSUE 1-2	PURCHASE OF MERCEDES-BENZ USED EXCLUSIVELY BY VINCE BEACON

Results:

Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 18 states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

Further, OMB Circular A-122 "Cost Principles for Non-Profit Organizations, Attachment A, Paragraph A (3)(a)-(c) states "...The question of reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions which receive the preponderance of their support from awards. In determining the reasonableness of a given cost, consideration shall be given to: a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. b) the restraints or requirements imposed by such factors are generally accepted sound business practices, arms length bargaining.... c) whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees], and clients, the public at large .."

Sections 501(a) and 501(c)(3) of the Internal Revenue code provide an exemption from federal income tax for an organization devoted to educational or charitable purposes if (1) the organization is organized and operated exclusively for education or charitable purposes or in conjunction with other exempt purposes; (2) no part of its net earnings inure to the benefit of any private shareholder or individual; and it does not devote a substantial part of its activities to political or lobbying activity.[37]

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

[37] 26 U.S.C. Section 501(a) and 501(c)(3).

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In defining inurement of benefit for tax-exempt purposes, 26 C.F.R. §1.501(c)(3)-1(d)(1)(ii)(2001) provides that an organization is not organized and operated for a tax-exempt purpose unless it can establish that it is "not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests."

During our review of the fixed assets ledger for 1998, the 1998 audited financial statements, an auto registration, and a signed statement by Mr. Beacon, we noted the Placement Agency paid $69,986 for a 1987 Mercedes 560 SL, 2 door, Roadster on November 5, 1987.

The Mercedes was titled to Vince Beacon, although it was listed as an asset on the fixed asset ledger and financial statements of the Placement Agency. Mr. Beacon stated that the car dealership made a mistake and put the car in his name, Vince Beacon, instead of V. Beacon, Inc. Per a signed statement by Mr. Beacon he only uses the vehicle for business purposes on average about four days a month and that the car was kept in storage the remainder of the time. Moreover, V. Beacon, Inc. paid for the insurance ($790) and registration ($51) on the vehicle in 1998. Mr. Beacon also stated during the course of the audit that the car was purchased as an investment for the agency.

Upon further investigation we determined the retail value to be approximately $19,850. This amount is based on an average of two values. One value is the Kelly Blue Book price (retail value) obtained from WWW.kbb.com at an amount of $19,400. We additionally obtained a Nada value (retail value) from WWW2.nadaguides.com at an amount of $20,300.

Per subsequent discussion with Vince Beacon and review of documentation he transferred title to the Mercedes to the Beacon Agency, Inc. on August 17, 2001.

Federal Questioned Cost: $70,827

V. Beacon, Inc. did not clearly demonstrate that the payment for the Mercedes and the related payments for insurance and registration on the Mercedes provided a benefit to the program or were necessary to the operation of the foster care program. Therefore, these expenditures are unreasonable costs and were in violation of OMB Circular A-122 Attachment A, Paragraph A(3)(a)-(c) and Attachment B, Paragraph 18 and are considered a questioned cost.

Management Comment:

Vince Beacon, founder and director of V. Beacon, Inc. may have benefitted personally from the purchase of the Mercedes. Accordingly, the purchase could raise issues of private inurement as defined in 26 C.F.R. §1.501(c)(3)-1(d)(1)(ii)(2001), which could be relevant in any consideration of continued tax exempt status by the Internal Revenue Service.

For the reasons stated previously, this expenditure could be construed as a distribution by V. Beacon, Inc. of net earnings to private individuals, and raises issues with respect to its status as a nonprofit corporation, as defined in Ohio Rev. Code Section 1702.01(C) and its compliance with Article 3, Section 4 of its Articles of Incorporation.

We recommend an independent Board of Directors establish a policy which prohibits any benefit of private interests to designated individuals such as, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interest. We further recommend the Board establish policies and procedures to ensure that all assets, purchased with agency funds, are in the name of the Placement Agency, and all benefits received by employees are properly recorded and taxed in accordance with IRS rules on wage reporting.

In April of 2002, the Placement Agency established an automobile policy which designated the Finance Committee to review the usage of agency vehicles and direct questions of legality or propriety of automobile usage to the agency's legal counsel and/or independent auditors.

ISSUE 1-3	UNALLOWED USE OF NET-EARNINGS

Results:

Section 675(4)(A) of the Social Security Act states, in pertinent part, that: "foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable travel to the child's home for visitation."[38]

Ohio Admin. Code Section 5101:2-33-18(A) states,

> (A) Whenever a public children services agency purchases foster care and placement services from another public or private provider of such services, the agency shall enter into a purchase of service agreement with the provider. The purchase of service agreement shall specify that foster care maintenance, administrative case planning activities as defined in this rule and related administrative activities are being purchased.

In accordance with Ohio Admin. Code Section 5101:2-33-18(A), CCDCFS set forth the scope of services it intended to purchase from V. Beacon, Inc.[39] In a letter to our office dated April 9, 2002, Brenda W. Frazier, Deputy Director of Administrative Services of CCDCFS, stated that the county intended its agreement with V. Beacon, Inc. to be a cost reimbursement arrangement.

The scope of services to be provided by V. Beacon, Inc. and paid for by Cuyahoga County Department of Family and Children Services was set forth in the contract between the two parties. Exhibit 3 of the contract between CCDCFS and V. Beacon, Inc. effective January 1, 1998 through December 31, 1998 (Purchase of Service Agreement) describes the foster care maintenance, administrative case management, case planning activities and related administrative activities for which CCDCFS intended to reimburse V. Beacon, Inc.

Exhibit 3 of the Agreement is a complete copy of Ohio Admin. Code Section 5101:2-33-18, which is titled "Purchase of Service Agreements for Foster Care and Placement Services." That Ohio Admin. Code section describes foster care maintenance activities' as, "direct care and indirect management activities associated with room and board, daily supervision and care, and health-related services provided to children who are under the care and responsibility of a children services agency."[40]

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[38] 42 U.S.C 675 (4)(A).

[39] Section 1, Purchase of Services, Purchase of Service Agreement, dated 4/9/98, pg. 1.

[40] Ohio Admin. Code Section 5101:2-33-18(B). Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8/1/02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12/1/01.

Further, Ohio Admin. Code Section 5101:2-33-18(C), provides that, "Administrative case management and case planning activities" are, among other things, assistance from the providers of services, to the placement worker, under the purchase of services agreement, in activities such as: preparation for and participation in the judicial determination and review process, arranging for discharge and after-care services, development of case plans and coordinating the provider's role in carrying out those plans.[41]

OMB Circular A-122, Attachment B, Paragraph 23a(1) states, "Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable." Furthermore, Ohio Admin. Code Section 5101:2-47-26(A)(9) disallows, "Costs incurred for interest on borrowed capital..."

During 1998 CCDCFS provided $2,169,359 (72%) of the $3,013,495 total revenue reported on the audited financial statements for the year ended December 31, 1998. The $2,999,501 in funding it received from county agencies in Ohio, for reimbursement of foster care related services provided, represented over 99% of the $3,013,495 total revenue it reported for the year ended December 31, 1998.

We reviewed the audited financial statements for the years ended December 1991-2000 and investment statements for the years ended December 31, 1993-2000 and noted that the Placement Agency bought stocks on the margin paying a rate of 5.8% to 9% in margin loan interest. Using this information we compiled the table below which shows the following: net earnings withdrawn from agency bank accounts and deposited into agency Investment accounts, net investment losses, and withdrawals from agency investment accounts.

Year of Audited Financial Statement Reviewed	**Net Earnings withdrawn from Agency bank accounts and deposited into Investment Accounts**	**Investment (Losses) or Gains Net of (Margin Loan interest) and Investment Earnings and Other Income**	**Withdrawals from Agency Investment Accounts**
1991	N/A*	($46,313)	N/A*
1992	N/A*	(205,182)	N/A*
1993	230,100	(359,771)	99,000
1994	100,000	(50,169)	44,000
1995	248,500	71,715	0
1996	253,816	16,454	52,000
1997	40,000	(29,022)	48,000
1998	0	(100,381)	0
1999	125,968	(36,538)	50,000
2000	30,000	68,798	150,000
Total	$1,028,384	($670,409)	$443,000

* = Investment statements for these years were not provided by V Beacon, Inc.

41 Ohio Admin. Code Section 5101:2-33-18(C). Ohio Admin. Code Section 5101:2-33-18 was rescinded effective 8/1/02. Contract requirements are now stated in Ohio Admin. Code Section 5101:2-47-23.1, which went into effect 12/1/01.

V. BEACON, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

1. During the period from 1993-2000 we noted $1,028,384 in cash deposits and $443,000 in cash withdrawals in the investment accounts. Furthermore, we noted $670,409 in net realized losses for the period 1991-2000 on all investments made by the Placement Agency.

2. The investments are in the name of the V. Beacon, Inc. Per discussion with Mr. Beacon and review of the investment statements Mr. Beacon made all investment decisions for the agency. V. Beacon, Inc. did not have a written investment policy, nor did the Board of Directors review the Placement Agencies' financial reports.

3. We requested, but did not receive documentation to verify that all $443,000 in agency withdrawals were deposited back into V. Beacon, Inc.'s bank accounts. Additionally, we did not receive investment statements for the years 1991-1992 to show the amounts withdrawn from the agency operating accounts and deposited into the investment accounts nor any monies subsequently withdrawn.

Based on our review it appeared, that although V Beacon, Inc. had a cost reimbursement contract with CCDCFS, to provide foster care related services, and was able to generate substantial net earnings in excess of costs ("profits") from January 1, 1991 through December 31, 2000 and make cash deposits in investment accounts totaling $1,028,384. This substantial excess should have been spent for the benefit of the foster care program or returned to CCDCFS and not deposited into investment accounts.

To determine whether the expenditures, from net earnings in excess of cost ("profits") accumulated by V. Beacon, Inc. were unallowable, we read the federal regulations that CCDCFS would have to comply with when seeking federal reimbursement for foster care costs.

We specifically noted that 45 C.F.R. Section 74.81 states, in pertinent part, "...no HHS funds may be paid as profit to any recipient even if the recipient is a commercial organization. Profit is any amount in excess of allowable direct and indirect costs."

Furthermore, even if CCDCFS had intended to allow the agency to keep the excess revenues for investment it would not have had the authority to waive the federal requirements governing the foster care funds. Section 675(4)(A) of the Social Security Act states, in part, that: "foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable with respect to a child's home for visitation..." This definition clearly does not include the diversion and loss of monies due to imprudent investment strategies.

In addition, $96,698 of the $1,028,384 cash deposits made into investment accounts was spent for margin loan interest on monies borrowed from investment groups. The agency's reporting of these expenditures on its ODHS 2910 Purchased Family Foster Care Cost Report was also in violation of OMB Circular A-122, Attachment B, Paragraph 23a(1) and Ohio Admin. Code Section 5101:2-47-26(A)(9).

Due to the lack of review of the Placement Agency's audited financial statements by ODJFS and CCDCFS V. Beacon, Inc. was able to make questionable investments resulting in a loss of excess foster care revenues which could have been used for the care of foster children.

Federal Questioned Costs: $1,028,384

The Placement Agency's diversion of excess revenues totaling $1,028,384 for investments without the knowledge or approval of CCDCFS was contrary to the intent of the contracts with CCDCFS and unallowable under Ohio Admin. Code Sections 5101:2-33-18(A), 5101:2-33-18(C), 5101:2-47-26(A)(9), Section 675(4)(A) of the Social Security Act, and 45 C.F.R. Section 74.81. In addition, $96,698 of these expenditures are also unallowable under OMB Circular A-122, Attachment B, Paragraph 23a(1).

Management Comment:

CCDCFS and the other PCSAs contracting with V. Beacon, Inc. should determine whether the findings in this report constitutes a breach of its contract, and if so seek appropriate remedy. In addition, ODJFS should, by rule, establish an administrative cost cap that while allowing a reasonable amount of administrative funds for ordinary, reasonable and necessary operation of the foster care networks, would prevent the accumulation of substantial net excess earnings (profits) that might be used for unintended purposes in violation of applicable contracts and laws and result in questioned costs. In addition, ODJFS should ensure that personnel reviewing the audited financial statements of agencies are trained to identify and report on potential issues that may result in unallowable expenditures or violations of state and federal compliance requirements.

In April of 2002, the Placement Agency established an investment policy which gave the Finance Committee the responsibility to "...invest funds from sources where such investments are legally permissible and exclusive of state or federal funding sources for which investment is not an appropriate usage."

ISSUE 1-4	EMPLOYEE ADVANCES

Results:

Office of Management and Budget (OMB) Circular A-122, Attachment B, Paragraph 18 states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

Further, OMB Circular A-122 "Cost Principles of Non-Profit Organizations", Attachment A, Paragraph A (3)(a)-(c) states "...The question of reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions which receive the preponderance of their support from awards. In determining the reasonableness of a given cost, consideration shall be given to: a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. b) the restraints or requirements imposed by such factors are generally accepted sound business practices, arms length bargaining.... c) whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees], and clients, the public at large .."

Section 2, page 4 of the Employee Handbook of V. Beacon, Inc., dated March of 1993, states, "Pay advances will not be granted to employees."

No loans were made during the audit period; however, we noted that Alva Hall, Cleveland regional director, had delinquent loans that originated prior to 1998 in the amount of $1,370. These loans were interest-free and were still outstanding at December 31, 1998.

Federal Questioned Cost: $1,370

V. Beacon, Inc. did not clearly demonstrate that interest free loans to the staff provided a benefit to the program or were necessary to the operation of the foster care program. Therefore, these expenditures are unreasonable costs and were in violation of OMB Circular A-122 Attachment A, Paragraph A(3)(a)-(c), and Attachment B, Paragraph 18 and is considered a questioned cost.

Management Comment

The Board of Directors should take adequate measures to ensure that all current outstanding employee loans are collected in full. In addition, the Board should establish a policy which prohibits the diversion of funds intended for programs by extending loans or other personal use by employees. This policy will better ensure that funds received from public agencies are only spent for program purposes.

The Board of Directors should not extend loans to its employees unless it uses unrestricted funds from private donations. V. Beacon, Inc. should develop a detailed written policy governing employee loans. The policy should include, but not be limited to, proper authorization, documentation, and the allowable source of funds for lending.

ISSUE 1-5	EXPENDITURES FOR SERVICES PROHIBITED BY THE CCDCFS CONTRACT

Results:

Section 675(4)(A)[42] of the Social Security Act states, in part, that: "foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable with respect to a child's home for visitation. . ."

It is stated at 45 C.F.R. 1356.60(C)(3)(2001) that: "allowable administrative costs do not include the costs of social services provided to the child, the child's family or foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions." In a letter to our office dated April 9, 2002, Brenda Frazier, Deputy Director of Administrative Services of CCDCFS, indicated that health-related services were not intended to include a partial hospitalization program.

Ohio Admin. Code Section 5101:2-33-18(A) states,

> (A) Whenever a public children services agency purchases foster care and placement services from another public or private provider of such services, the agency shall enter into a purchase of service agreement with the provider. The purchase of service agreement shall specify that foster care maintenance, administrative case planning activities as defined in this rule and related administrative activities are being purchased.

In accordance with Ohio Admin. Code Section 5101:2-33-18(A), CCDCFS set forth the scope of services it intended to purchase from V. Beacon, Inc. in its cost reimbursement contracts.[43]

The scope of services to be provided by V. Beacon, Inc. and paid for by Cuyahoga County Department of Family and Children Services was set forth in the contract between the two parties. Exhibit 3 of the contract between CCDCFS and V. Beacon, Inc. effective January 1, 1998 through December 31, 1998 (Purchase of Service Agreement) describes the foster care maintenance, administrative case management, case planning activities and related administrative activities for which CCDCFS intended to reimburse V. Beacon, Inc.

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42 42 U.S.C Section 675 (4)(A).

43 Section 1, Purchase of Services, Purchase of Service Agreement, dated 4/9/98, pg. 1.

During 1998 CCDCFS provided $2,169,359 (72%) of the $3,013,495 total revenue reported on the audited financial statements for the year ended December 31, 1998. The $2,999,501 in funding it received from county agencies in Ohio, for reimbursement of foster care related services provided, represented over 99% of the $3,013,495 total revenue it reported for the year ended December 31, 1998.

During testing of disbursements, review of the 1998 cost report, and per discussion with Vince Beacon, Board President we noted the following:

The Placement Agency initiated a pilot partial hospitalization program for foster children, with mental health problems, in it's Columbus and Cleveland Regional offices at the end of 1997. This program used Licensed Social Workers, Licensed Independent Social Workers, and other staff with "at least two years experience working with children in a therapeutic environment,"[44] to create activities to "...assist in the identification and amelioration of dysfunctional patterns of behavior."

We noted six transactions in the total amount of $5,660 which were used to start-up and fund the pilot partial hospitalization program. Additionally, per discussion with Mr. Beacon six employees performed services under this program during the Period and a portion of their salaries could have been allocated to the program if funded. Based on the percentages received from Mr. Beacon and the W-2s we calculated the amount of salaries that would have been allocated to this program would have been $18,286. Total pilot partial hospitalization expenditures that would have been allocated to the pilot partial hospitalization program, if funded, would have been $23,946.

The start-up costs, operational costs, and related wages noted above were reported as direct costs in 1998 on the foster care cost report and/or charged against the foster care program; however, they relate to and are reimbursable under Medicaid. V. Beacon, Inc. was not eligible under the Ohio Department of Mental Health to get reimbursed through the Medicaid program during the Period.

Based on our review it appeared, that although it had a cost reimbursement contract with CCDCFS, to provide foster care related services, V. Beacon, Inc. was able to generate substantial net earnings in excess of costs ("profits") in the amount of $23,946 for the Period. This substantial excess was spent for a pilot partial hospitalization program and should have been spent for the benefit of the foster care program or returned to the agency.

To determine whether the expenditures, from net earnings in excess of cost ("profits") accumulated by V. Beacon, Inc. were unallowable, we read the federal regulations that CCDCFS would have to comply with when seeking federal reimbursement for foster care costs.

Furthermore, even if CCDCFS had intended to allow such expenditures it would not have had the authority to waive the federal requirements governing the foster care funds. Section 675(4)(A) of the Social Security Act states, in part, that: "foster care maintenance payments means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable with respect to a child's home for visitation..."

Finally, the agency reported $18,286 of the $23,946 in expenditures on its ODHS 2910 Purchased Family Foster Care Cost Report in violation of OMB Circular A-122, Attachment A, Paragraph 2(f) which disallows a cost if the cost is "...included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or prior period," and Ohio Admin. Code Section 5101:2-47-26(A)(10) which disallows, "Any costs specifically subsidized by other federal monies with the exception of federal funds authorized by federal law to be used to match other federal funds."

[44] Description of partial hospitalization program provided by Vince Beacon on 6-25-01.

By using funds intended for foster care related services to make expenditures related to a pilot partial hospitalization program, V. Beacon, Inc. caused CCDCFS to subsidize this program without CCDCFS' knowledge or approval.

Federal Questioned Costs: $23,946

The Placement Agency's diversion of excess revenues totaling $23,946 unallowable pilot hospitalization expenditures without the knowledge or approval of CCDCFS was contrary to the intent of the contracts with CCDCFS and unallowable under Ohio Admin. Code Sections 5101:2-33-18(A), 5101:2-47-26(A)(10), Section 675(4)(A) of the Social Security Act, OMB Circular A-122 Attachment A, Paragraph 2(f), and 45 C.F.R. 1356.60(C)(3).

Management Comment:

CCDCFS should determine whether the findings in this report constitutes a breach of its contract, and if so seek appropriate remedy. In addition, ODJFS should, by rule, establish an administrative cost cap that while allowing a reasonable amount of administrative funds for ordinary, reasonable and necessary operation of the foster care networks, would prevent the accumulation of substantial net excess earnings (profits) that might be used for unintended purposes in violation of applicable contracts and laws and result in questioned costs. In addition, ODJFS should ensure that personnel reviewing the audited financial statements of agencies are trained to identify and report on potential issues that may result in unallowable expenditures or violations of state and federal compliance requirements.

ISSUE 1-6	CHECKS DEPOSITED INTO OFFICE MANAGER'S PERSONAL ACCOUNT

Results:

Office of Management and Budget (OMB) Circular A-122 "Cost Principles of Non-Profit Organizations", requires that for a cost to be allowable, it must, among other factors, be reasonable and adequately documented. [45] All expenditures should be supported by sufficient documentation to demonstrate the proper authorization, approval and purpose of the expenditure.

In addition, Section 14 of the CCDCFS contract provides, in pertinent part, that the Placement Agency "shall maintain financial records which sufficiently and properly reflect all direct and indirect costs expended in the performance of this Agreement. Such records shall be available at all reasonable times for inspection, review or audit by duly authorized Department personnel or representatives."[46]

During testing of the petty cash account for the Columbus regional office we noted that two checks totaling $129 were made payable to V. Beacon, Inc. to reimburse the Placement Agency for monies the Columbus region did not use. Both checks were endorsed by Yvonne Naserdin, Office Manager, and deposited into her personal bank account. Per discussion with Yvonne Naserdin the money was deposited back into the V. Beacon, Inc. checking account; however, no such supporting documentation was provided.

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

46 Section 14, Purchase of Service Agreement, dated 4/9/98, p.23

Federal Questioned Costs: $129

Reviewing this transaction to the previously-quoted standards set forth in OMB Circular A-122, Attachment A, Paragraph A(2)(a) and (g) and Section 14 of V. Beacon, Inc. Inc.'s contract with CCDCFS, we conclude the checks deposited into Yvonne Naserdin's personal bank account constitute federal questioned costs in the amount of $129.

Management Comments:

We recommend that the regional director reconcile the regional bank statements and have them reviewed by financial personnel independent of the petty cash cycle.

ISSUE 2	TEST OF FUNDING RECEIVED FROM PUBLIC SOURCES

Objective:

To determine whether all receipts and deposits from the applicable public children services agencies to V. Beacon, Inc. for the Period were properly deposited and recorded in the accounting records of the Placement Agency.

Procedures Performed:

1. We determined the types of revenue that V. Beacon, Inc. received during the Period, by scanning the audited financial statements and the supporting general ledger.

2. We identified the sources of receipts received from bank statements and other related records.

3. We obtained documentation from the Cuyahoga County Auditor to determine the completeness of receipts received and deposited for fees for services.

4. We tested a sample of 10% of the monthly billings by the Placement Agency to CCDCFS for foster care placements to determine whether the amounts billed were received, and the receipts were deposited and recorded in the Placement Agency's financial records.
5. We scanned all revenue remittances and the general ledger to determine whether revenue had been recorded in the accounting records of the Placement Agency.

Results:

We documented the types of revenue that V. Beacon, Inc. received as program services fees from various counties, interest income, and donations. V. Beacon, Inc. did not receive medicaid payments during the Period. We obtained documentation from the County Auditor to determine the completeness of the receipts from CCDCFS.

Furthermore, we determined that all CCDCFS disbursements to the V. Beacon, Inc. were receipted, deposited, and recorded in its accounting records.

ISSUE 3	TEST OF PAYMENTS TO FOSTER PARENTS

Objectives:

1. To determine whether Title IV-E maintenance funds received by V. Beacon, Inc. were used in accordance with the Social Security Act.

2. To determine whether V. Beacon, Inc.'s per diem payments to the foster parents were in accordance with the authorized schedule of per diem rates.

3. To determine the ratio of the per diem payments used for administration and maintenance.

4. To determine if per diem payments were made to foster children who transferred from the Shoemaker foster agency on February 29 were paid for March, April, and May of 2000 in accordance with the authorized schedule of per diem rates.

Procedures Performed:

1. We obtained from Cuyahoga County Department of Children and Family Services the ODJFS Title IV-E Disbursement Journals detailing the federal reimbursement to Cuyahoga County Department of Children and Family Services for the months of January 1998 to June 1999 for foster care services. We also obtained from the Cuyahoga County Auditor a vendor payment history report for V. Beacon, Inc. for the same period and traced these payments to the invoices submitted by V. Beacon, Inc.

2. We selected a representative sample of children identified by CCDCFS as Title IV-E eligible children being serviced by V. Beacon, Inc. Federal maintenance payments to these children totaled $111,479 or 40% of the sample.

3. We found the child's name on the appropriate month's ODHS Title IV-E Disbursement Journal. We documented the amount of federal maintenance reimbursement that would have been paid for each child.

4. We compared payments received by V. Beacon, Inc. from CCDCFS to the corresponding V. Beacon, Inc. billing in the month selected for each child in the sample.

5. We determined whether the total amount of the federal reimbursement for maintenance (58%) was used for the care of the foster child.

6. We determined whether the total amount of the county's required match to the federal reimbursement for maintenance (42%) was used for the care of the foster child.

7. We obtained the contracts or per diem agreements between V. Beacon, Inc. and the foster parent for each child in the sample.

8. We obtained and compared the authorized schedule of per diem rates to rates paid per the agreements between V. Beacon, Inc. and CCDCFS and between V. Beacon, Inc. and foster caregivers.

9. We compared V. Beacon, Inc.'s per diem paid to the foster parents with the corresponding per diem it received from CCDCFS to determine the ratio of payments for administration and maintenance.

10. We also selected all foster children transferred to V. Beacon, Inc. from Shoemaker's Childrens Homes in March, April, and May of 2000 using billings sent into and reviewed by Montgomery County Children services for these months.

11. We then reviewed billing information from MCCS to see whether V. Beacon, Inc. or Shoemaker Christian's Homes received payment for each foster child transferred for the month of March, April, and May of 2000.

12. We determined the number of days the Shoemaker foster children were at V. Beacon, Inc. in these months using individual placement agreements (agreements between Montgomery County Children's Services and the V. Beacon, Inc. stating what day the child would be transferred to V. Beacon, Inc. and the rate the Placement Agency and foster parent should be paid).

13. We reviewed foster parent checks and detailed payment statements (signed by the foster parents) showing how much they were paid for each foster child that was transferred.

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

Results:

Payments for foster care maintenance are intended to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.[47]

ODJFS submits quarterly reports to the U.S. Department of Health and Human Services (HHS) for reimbursement of federal financial participation (FFP) in foster care payments[48] made to the PCPAs and PNAs. In 1998, the FFP was 58% for maintenance payments[49] made and 50% for administrative costs[50] incurred under the Title IV-E program.

We selected a sample of 64 children eligible for Title IV-E federal maintenance reimbursements. We found that PNA billed and CCDCFS submitted $280,592 to ODJFS for reimbursement. ODJFS did not require the Placement Agency to specifically identify the amounts for maintenance and administration. ODJFS then requested FFP for foster care maintenance costs of $192,205 and received $111,479 at the 58% FFP reimbursement rate, however the Placement Agency only made maintenance payments to foster parents totaling $120,357. The remaining $71,848 was retained by V. Beacon, Inc. and used for administrative costs or other purposes.

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

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47 42 U.S.C. Section 675(4)(A)

48 Ohio Admin. Code Section 5101:2-47-11 recites the foregoing reporting and reimbursement requirements. Prior to 5/1/98, these provisions were recited in Ohio Admin. Code Sections 5101:2-47-20 and 5101:2-47-65.

49 45 C.F.R. Section 1356.60(a)(2) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

50 45 C.F.R. Section 1356.60(c) (1999); ODHS Administrative Procedure Letter No. 245, dated 9/22/97; ODHS Family, Children & Adult Services Procedure Letter No. 61, dated 9/9/98.

Table IV
Overpayment of Title IV-E Maintenance Reimbursement

Amount Paid to PCSA for Reimbursement of Maintenance Costs (Federal Financial Participation)	$111,479
Required PCSA Match for Federal Financial Participation	80,726
Total Title IV-E Maintenance Claimed by ODJFS	192,205
Amount Paid by PNA to Foster Parents for Maintenance	(120,357)
Overpayment of Maintenance Claim	$71,848

Projected Questioned Costs:

We specifically identified $71,848 of maintenance overclaimed in our sample. In order to evaluate the potential effect caused by these systemic problems in ODJFS' cost reporting, rate setting and cost reimbursement processes, we estimated the total likely questioned costs. We used the ratio approach, as illustrated below:

Dollar Amount of Error : Dollar Amount of Sample	$71,848/$192,205	37.38%
Dollar Amount of Population		X $1,377,747
Projected Overstatement of Maintenance Claim		$515,002
Actual Maintenance Reimbursement Claim (58% reimbursement rate X $515,002)		$298,701
Allowable Administrative Reimbursement Claim (50% reimbursement rate X $515,002)		$257,501
Overpayment of Maintenance Claim		$41,200

Federal Questioned Cost: $41,200

The Social Security Act requires that maintenance payments be used to meet the expenses as defined in section 675 of the Social Security Act.[51] In our sample, we found that the maintenance costs claimed for federal reimbursement were not received by the foster parents and were overstated by $71,848, and when extended to the population using the ratio approach resulted in questioned costs of $41,200.

ODJFS should take the Federal Questioned cost over reported to the County and re-compute the Title IV-E per diem reimbursement rate that should have been paid to the Placement Agency during the Period and reimburse HHS, ODJFS or the PCSA for the overstated costs.[52]

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51 42 U.S.C. Section 675(4)(A).

52 Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, the substance of this section was found at Ohio Admin. Code Section 5101:2-47-03(H).

Management Comment:

These questioned costs are a result of systemic problems in the ODJFS cost reporting, rate setting, and cost reimbursement processes. We recommend ODJFS redesign those processes to ensure costs are properly classified and reimbursements accurately claimed.[53] We further recommend that an adjustment to correct the overpayment of the Title IV-E maintenance reimbursement be made with the U.S. Department of Health and Human Services.

ISSUE 3-2	RATIO OF PAYMENT FOR ADMINISTRATION AND MAINTENANCE

Results:

We tested the payments from Cuyahoga County Department of Children and Family Services Agency (CCDCFS) to V. Beacon, Inc. for a sample of 308 foster children. The payments to the Placement Agency for this sample totaled $330,113. We noted that the Placement Agency received the correct per diem rates noted in the CCDCFS contract.

The foster parents in the sample received $139,070, we noted that these foster parents received the correct per diem rates per the CCDCFS contract. Of the $330,113 received from CCDCFS by the Placement Agency the foster parents received $139,070 or 42% of the total funds paid to the Placement Agency by CCDCFS. The remaining $191,043 or 58% was retained by V. Beacon, Inc. and used for administrative costs, other direct services to children or other purposes.

The contract between CCDCFS and V. Beacon, Inc. sets forth the amounts to be paid as the daily per diem rate for the services specified in the contract. In addition, the contract sets the minimum amount to be paid to foster parents from the daily per diem rate paid to V. Beacon, Inc. by CCDCFS.[54] The amount paid to foster parents ranged from 38% to 44% of the stated daily per diem rate, depending on the level of care.

Management Comment:

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

ISSUE 3-3	UPDATING OF FOSTER PARENT PER DIEM RATES

The Placement Agency should ensure the proper authorization and timely updating of rate changes and other changes in the per diem agreement between the Placement Agency and the foster caregiver.

Per diem agreements between a Placement Agency and foster parents should represent the agreement of both parties to the terms of the foster care relationship. The Placement Agency should update their per diem agreements with the foster parents when changes occur (increases or decreases in the assessed level of care rate which effects the amount paid to foster parents).

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

[54] Section 4, Cost and Delivery of Purchased Services, Purchase of Service Agreement, dated 4/9/98, pg. 3-4.

During our review of the family foster files, we noted that when a child entered the Placement Agency, they were placed at the traditional level or specialized level of care. Approximately three months after initial placement, CCDCFS issues their assessed level of care and the Placement Agency may need to update the per diem rate. Instead of changing the rate in their system when they received the notice, the Placement Agency sometimes waited to the next billing period to update the rate. Changes were updated on a monthly basis and were sometimes not made prior to the time the per diem checks were sent to foster parents.

Management Comment:

We recommend that amendments or new per diem agreements with foster parents should be completed for each subsequent rate change in a timely manner. This would provide assurance, to both the Placement Agency and the foster parents that the properly authorized and documented rate would be paid.

ISSUE 3-4	PAYMENTS FOR SHOEMAKER FOSTER CHILDREN IN MARCH, APRIL, AND MAY OF 2000

Results:

Prudent managerial practice requires that when a foster parent is transferred from one placement agency to another the new agency the later should receive the foster parent per diem payment from the county children services agency on the effective date of the transfer.

Per discussion with Vince Beacon, Board President, V. Beacon, Inc. had an oral agreement with Shoemaker Christian Homes (Shoemaker) to accept sixteen (16) family foster homes (34 foster children) from Shoemaker effective April 1, 2000. Per Chris Tesi, ODJFS, the effective date of these transfers was February 29, 2000. However, ODJFS and/or the placement agencies failed to notify the proper individuals at Montgomery County Children's Services Agency (MCCSA) that family foster homes had transferred from Shoemaker Christian Homes to V. Beacon, Inc. Therefore, MCCSA continued to make payments to Shoemaker in March and April 2000 rather than to V. Beacon, Inc. even though MCCSA had individual placement agreements with V. Beacon, Inc. for each foster child that was transferred.

Per discussion with Chris Tesi, ODJFS, there were allegations that foster parents had not been fully paid while the transfer was in process from March-May of 2000. We tested the payments to all 16 foster parents who transferred from Shoemaker's Christian Homes to V. Beacon, Inc. from March-May of 2000, and noted all the foster parents were paid in accordance with their per diem agreements.

If there is not a clear understanding of each organization's responsibilities when foster children are transferred from one Placement Agency to another there is a significant risk that foster parents could be improperly over (or under) paid for services provided. Also, during such a transition period there could be a real (or perceived) lack of over-site by the foster care agency which could result in unsuitable care for the foster children.

Management Comment:

We recommend that when a family foster home is transferred to another foster care agency that ODJFS coordinate its efforts with county agencies and placement agencies and inform each organization of its role in ensuring that the correct placement agency is paid in a timely manner for each newly transferred foster parent.

ISSUE 4	TEST OF INTERNAL CONTROLS

Objectives:

1. To identify internal control weaknesses in the policies and procedures in place at the Placement Agency.

2. To recommend improvements in the internal control system in efforts to eliminate noncompliance, and increase fiscal accountability.

Procedures Performed:

1. We read the Board of Directors' minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in noncompliance with Ohio Admin. Code Section 5101:2-5-08.

2. We completed a review of internal controls and identified weaknesses that existed in the accounting cycle.

3. We documented information, obtained through inquiry and observation, on the Placement Agency's internal control policies and procedures relating to: 1) cash disbursements and expenses; 2) revenues; 3) personnel and payroll; 4) accounts receivable; 5) inventories; and 6) fixed assets.

ISSUE 4-1	AUDIT COMMITTEE

Results:

The Audit Committee is essential to enhancing the credibility of the Placement Agency's financial reporting by ensuring the reliability of the audit.

Generally accepted auditing standards require that auditors communicate the following information to an audit committee:

- The auditors' professional responsibility under generally accepted auditing standards;
- Selections of accounting standards;
- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Difficulties encountered in performing the audit.

V. Beacon, Inc. did not have an audit committee. A well functioning audit committee would better ensure the independence and objectivity of the independent public accountant in addition to making sure the Board of Directors are aware of deficiencies in internal controls and noncompliance with laws and regulations.

Management Comment:

We recommend that V. Beacon, Inc. establish an audit committee. An audit committee could strengthen board oversight by performing the following functions:

- Periodically review the process used to prepare interim financial information submitted to the Board of Directors;
- Review and evaluate audit results;
- Assure that audit recommendations are appropriately addressed;
- Assure auditors' independence from management; and
- Serve as liaison between management and independent auditors.

The audit committee should include persons knowledgeable of the Placement Agency's operations and in finance and management. The audit committee should meet regularly (perhaps quarterly) to monitor the Placement Agency's financial reporting and internal control activities, and should meet with its independent auditors before and after each audit.

As of December 18, 2001 the Board of Directors approved the creation of an audit committee "...to review, recommend compliance with all financial standards of the state and contracting agencies."

ISSUE 4-2	SEGREGATION OF DUTIES

Results:

An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; to safeguard the entity's assets against loss; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether operations are achieving management's objectives.

An effective internal control structure requires segregation between the authorization, recording, monitoring, and custody of assets. It is management's responsibility to implement procedures and devise control activities that effectively segregate employees' job functions and promote the reliability of data through the performance of internal controls and strict adherence to deposit and investment policies. For example, if controls are not placed in operation for a segregation of cash disbursing and receipting activities, theft of cash may occur and not be detected by management. If checks received are not restrictively endorsed and posted daily, the money could be lost or misappropriated. In addition, money may not be available to cover expenditures in a timely manner.

During our review of V. Beacon, Inc.'s transactions we found,

- Yvonne Naserdin, Office Manager, had access to cash receipts, posted cash receipts transactions to the accounting software, and forwarded reports and copies of remittance advices to their bookkeeper, Blankenship & Co.
- A cash receipts log was not maintained by the receptionist to show the receipt of cash into the Placement Agency.
- Vince Beacon, Board President, signed checks during the Period by using a rubber stamp, had access to blank checks, and was the sole individual who monitored the income statements, balance sheets, and bank reconciliation produced by Blankenship & Co. Vince Beacon also approved checks for payment to credit card companies in which he was the sole user of the credit card.
- Dual signatures were not used on checks during the Period.

If controls are not placed in operation that provide for a segregation of duties over the disbursement and cash receipts cycles there is a possibility for the misappropriation of assets, which could go undetected.

A measure was approved by the Board of Directors on November 21, 1998 to require dual signatures on checks greater than $5,000; however, dual signatures were not used on checks during the Period.

Management Comment:

We recommend that V. Beacon, Inc. segregate cash handling and accounting activities in order to eliminate conflicting duties being performed by one person. This will improve the effectiveness of the internal controls.

As of August 2001, V. Beacon, Inc. established written policies which aided in the segregation of duties over the Cash receipt and Cash Disbursement cycles.

ISSUE 4-3	FIXED ASSET POLICY

Results:

A comprehensive written fixed asset policy would increase the Placement Agency's ability to properly account for its fixed assets, and ensure they are adequately safeguarded from loss, theft or unauthorized use.

Based on inquiry and observation the Placement Agency did not have a written fixed asset policy or procedures for the treatment of capital expenditures and repairs. The Placement Agency relied upon its external auditors to calculate the fixed asset balances and related depreciation expense and accumulated depreciation reported in the financial statements.

The lack of a written fixed asset policy could lead to the unauthorized acquisition, use or disposition of fixed assets and material financial statement misstatements.

The Placement Agency was not aware of the benefits of having a fixed asset policy.

Management Comment:

We recommend that V. Beacon, Inc. develop and implement a fixed asset policy that, at a minimum, provides guidance on the following:

1. The types of fixed asset records to maintain, such as a detailed listing of plant, property and equipment or a current professional appraisal of assets. The list should include beginning balances, additions, deletions (including gains or losses on sales), transfers, ending balances and depreciation expense and accumulated depreciation (where applicable).

2. Categories of fixed assets include land, land improvements, buildings and structures, machinery, equipment, furniture, tools, donated assets and leasehold and leasehold improvements.

3. Basis for valuing assets at either the cost or estimated historical cost and capitalization thresholds which establishes the criteria for when expenditures should be capitalized excluding repairs and maintenance.

4. Depreciation and amortization method, such as straight line over the useful lives of the assets and salvage values, procedures for the depreciation of additions and retirements, and the accounting for fully depreciated assets.

5. Annual fixed asset inventory by visually comparing the asset and the information on the detailed fixed asset listing.

6. Authorized use of its assets, such as a log noting date, person, purpose and location for the use of the asset.

This would promote the consistent treatment of similar assets, safeguard them from theft or misuse and improper and accurate reporting of the fixed assets and related depreciation on the financial statements.

As of August of 2001, the Placement Agency established a property control policy which established the basis for valuing assets and procedures for management of the equipment inventory, but did not cover all of the items suggested in 1-6 above.

ISSUE 4-4	ACCOUNTING POLICIES AND PROCEDURES

Results:

Adequately designed accounting policies and procedures enhances the reliability of the agency's financial reporting and better ensures compliance with applicable laws, regulations, and contracts.

During our audit, V. Beacon, Inc. was not able to provide us with a written policy in place with respect to the availability and retention of records or the usage of company credit cards. Further, there were cash receipt procedures used during the Period; however, they were not documented or approved by the Board of Directors.

The lack of written policies and procedures is an internal control weakness that if corrected would strengthen financial accountability and legal compliance.

Management Comment:

We recommend V. Beacon, Inc. develop and implement written accounting policies and procedures that incorporate the applicable federal, state, and county compliance requirements.

As of August 2001, the Placement Agency established the following written policies: Accounts Payable, Cash Disbursements, Accounts Receivable, Cash Receipts, and a policy on the availability and retention of records.

ISSUE 4-5	BOARD INDEPENDENCE

Results:

Ohio Admin. Code Section 5101:2-5-08(G) states, "A PCPA or PNA shall not permit public funds to be paid or committed to be paid to any corporation, firm, association or business in which any of the members of the governing body of the agency, the executive personnel or their immediate families have any direct or indirect financial interest, or in which any of these persons serve as an officer or employee, unless the services or goods involved are provided at a competitive cost or under terms favorable to the PCPA or PNA. The PCPA or PNA shall make written disclosure, in the minutes of the board, of any financial transaction of the PCPA or PNA in which a member of the board or his/her immediate family is involved."

In addition, Ohio Admin. Code Section 5101:2-5-08(H) states that "A person who is employed by a PCPA or PNA certified under this chapter or any person who is a member of the governing body shall not be eligible to vote on or participate in the decision making process with respect to any matter or issue in which he/she could benefit financially or materially."

In evaluating the makeup of V. Beacon, Inc.'s Board of Directors, we identified:

1. Mr. Beacon was the Founder of V. Beacon, Inc. and President of the Board of Directors. In addition, Mr. Beacon also made management decisions of an administrative nature for V. Beacon, Inc. as well as performing some fiscal functions (such as: check-signing, making deposits, approving bank reconciliations, reviewing monthly financial reports, etc.).

2. According to the 1998 and 1997 comparative audited financial statements Mr. Beacon made cash advances to V. Beacon, Inc. in the amount of $21,765 which could have impaired his objectivity.

3. Mr. Beacon had used $69,986 in agency funds for the purchase of a 1987 Mercedes 560 SL, 2 door, Roadster on November 5, 1987. The title of the Mercedes Roadster was in the name of Vince Beacon up until August 17, 2001 when it was transferred to the name of the Placement Agency (see Issue 1-2).

4. Furthermore, on November 11, 1998, a V. Beacon, Inc. board meeting was held which approved the payment of a security system (ADT Security and Discreet Security Systems) for company equipment located at Mr. Beacon's home. Per subsequent discussion with Mr. Beacon we noted that he worked at his home as well as at the office. Additionally, his home was protected by the security system also (see Issue 1-1). Mr. Beacon voted in favor of this issue.

5. Other expenditures were also made to pay for cable and home internet access in Mr. Beacon's home and were used to make investment decisions for the agency (see Issue 1-3). Additionally, personal expenditures for Mr. Beacon consisted of plastic surgery and health club membership fees (see Issue 1-1).

6. We also noted during the audit that Mr. Beacon received a monthly expenditure allowance of $492 from January 1998 thru September 1998 and $632 starting in October 1998.

Mr. Beacon had a direct or indirect financial interest or business or personal relationship which could impair his objectivity as a board member.

Thus all related party transactions could be questionable due to Ohio Admin. Code Section 5101:2-5-08(G) and (H) as well as raise issues of private inurement as defined in 26 C.F.R. §1.501(c)(3)-1(d)(1)(ii)(2001), which could be relevant in any consideration of continued tax exempt status by the Internal Revenue Service.

In order to effectively execute oversight of Placement Agency management, members of the Board of Directors should be independent of the management team it appoints. To be independent, board members should not be involved in the day to day management of the entity, have a direct or indirect financial interest in the entity, nor have a business or personal relationship which could impair the member's objectivity when making decisions.

Management Comment:

We recommend V. Beacon, Inc. increase the organizational independence of its Board of Directors. The Board of Directors could include professionals knowledgeable in the area of foster care and a cross section of business professionals in the community that do not have a direct or indirect financial interest in the Placement Agency. Furthermore, ODJFS should revise its administrative rules by including policies and procedures that would result in a higher level of board independence and financial accountability.

ISSUE 4-6	BOARD OF DIRECTORS OVERSIGHT RESPONSIBILITIES

Results:

The Board of Directors should provide effective oversight over all significant financial and operational transactions as part of their duties as the governing board of the entity. This practice will better ensure that the Placement Agency adheres to acceptable financial and business practices in compliance with program requirements.

Ohio Admin. Code Section 5101:2-5-08(A)(2) states, in pertinent part, "A PCPA or PNA shall have an identifiable governing body responsible for establishing policies and assuring the effectiveness and efficiency of the PCPA or PNA in achieving its purposes. The duties of the governing body shall include, but are not limited to...annually evaluating the performance of the agency's administrator in writing."

In our testing, we found that the Board of Directors did not note the following in their board minutes:

1. Review and approve significant monthly financial reports on a periodic basis.

2. Approval of the Executive Director's evaluation (Vince Beacon solely approved this as Board President).

3. Approval of the CCDCFS contract, foster child billing and foster parent payment rates, bonuses to employees, and the audited financial statements.

4. Approve policies and procedures (such as cash receipts, cash disbursements, fixed assets, petty cash, or credit card policies).

5. The lack of oversight by an independent board could result in questionable business practices and expenditures that provide no prospective benefit to the Placement Agency or program.

Management Comment:

We recommend that the Board of Directors provides guidance to management on the types of financial, administrative and policy decisions which require board approval, at a minimum this guidance should include all activities for which the Ohio Administrative Code requires board approval.

ISSUE 4-7	PETTY CASH POLICY

Results:

Written, imprest petty cash procedures provide guidance to employees in the proper use of the of petty cash and ensures that petty cash is adequately safeguarded from loss, theft, or unauthorized use. Under the imprest petty cash system the petty cash custodian is responsible at all times for the amount of the fund on hand, either as cash or in the form of signed receipts (cash + receipts = the established amount for the fund).

During our review of the Placement Agency's three petty cash accounts in Toledo, Cleveland, and Columbus we found that:

- No policies or procedures existed establishing petty cash accounts, their size, individuals authorized to draw from the accounts, or the manner in which the accounts are to be replenished;
- The Placement Agency's current petty cash system does not reconcile due to a lack of supporting documentation noted in Issue 1-1, and;
- The Cleveland and Columbus offices made incidental expenditures from bank accounts other than the petty cash accounts.

Without clear, specific procedures to account for petty cash funds there is a significantly increased risk that cash assets maybe lost, stolen, or improperly used.

Management Comment:

We recommend that the Board of Directors develop and implement an imprest petty cash policy that at a minimum:

- Specifies the maximum amount of money placed in each petty cash account and the types of expenditures that may be made from the accounts;
- Designates the regional petty cash custodians, and regional employees who may draw moneys from the account;
- Specifies the requirements and procedures for replenishing the accounts, including sufficient documentation to substantiate expenditures made from the accounts;
- Requires a lockbox or other measures be used to safeguard the funds. The custodian should be issued a company check to replenish the fund.
- Limits payment of incidental expenditures from only authorized petty cash accounts.

As of August 2001, V. Beacon, Inc. established a written imprest petty cash policy.

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

Objectives:

1. To identify the administrative compliance requirements of the foster care program.

2. To identify significant administrative noncompliance with the provisions of the foster care program.

2. To determine if the Family Foster Home Records, completed and maintained by the PCPA/PNA, were in compliance with applicable sections of the Ohio Administrative Code.

3. To determine whether Title IV-E maintenance funds received by V. Beacon, Inc. were used in accordance with the Social Security Act.

5. To determine whether the ODHS 2910 Purchased Family Foster Care Cost Report(s) submitted to ODJFS by V. Beacon, Inc. was accurate and completed in accordance with ODJFS regulations.

Procedures Performed:

1. We read the Board of Directors' minutes, personnel records, and organizational chart to identify potential conflicts of interest and self dealing transactions that could result in non-compliance with Ohio Admin. Code Section 5101:2-5-08.

2. We determined whether the family foster home files were maintained in compliance with the applicable rules prescribed in Ohio Admin. Code Chapter 5101:2.

3. We determined whether the PCPA/PNA established a policy on: respite care; alternative care arrangement; residency; training and verification of income and prior childcare experience and if a policy was authorized and documented.
4. We compared wages paid as identified on the ODHS 2910 Purchased Family Foster Care Cost Report(s) to wages paid as identified on the Placement Agency's quarterly 941s or W-3 report.

5. We traced potential questioned costs to the cost report.

ISSUE 5-1	MONITORING OF THE BUDGET

Results:

Budgeting is an essential element of the financial planning, control, and evaluation process of the agency. The failure to monitor the budget could impair the governing body's ability to properly allocate resources as needed and manage costs to ensure services are provided in an efficient and effective manner.

Ohio Admin. Code Section 5101:2-5-08(A), states in pertinent part, "A PCPA or PNA shall have an identifiable governing body responsible for establishing policies and assuring the effectiveness and efficiency of the PCPA or PNA in achieving its purposes. The duties of the governing body shall include, but are not limited to the following: ..(4) Reviewing, approving and monitoring a written annual budget for the PCPA or PNA Such budget shall ensure funding to provide services relevant to all certified functions and detail anticipated income and expenditures." The Board of Directors should monitor the budget and compare budget to actual results throughout the year. Monitoring the budget throughout the year provides the governing board a basis for measuring whether operations are achieving management's objectives and goals.

V. Beacon, Inc.'s Board of Directors neither approved an annual budget, nor provided evidence to indicate they monitored the budget at any time during the year.

By not monitoring the actual revenue and expenditures against the budget, the Board of Directors may not be able to make effective governing decisions based on the current financial status of the Placement Agency.

Management Comment:

We recommend that the Board of Directors review, monitor and compare the budget with the actual revenue and expenditures on a regular basis throughout the year to be in compliance with Ohio Admin. Code Section 5101:2-5-08. This will help ensure the governing body has a basis for measuring whether operations are achieving management's objectives and goals. We further recommend the review and monitoring of the budget be noted in the minutes of the Board.

ISSUE 5-2	INITIAL RECOMMENDATION FOR FOSTER PARENT CERTIFICATION PRIOR TO DOCUMENTATION OF REFERENCES IN HOMESTUDY

Results:

Ohio Admin. Code Section 5101:2-5-20(H) provides, "Prior to making an initial recommendation for certification of a family foster home, an agency shall contact all references given by the applicant, including any other agency or organization with which the applicant has been previously certified as a foster caregiver, or has provided care and supervision of children. All contacts with references shall be documented in the narrative section of the ODHS 1349 (family foster home homestudy)."

One of the ten foster parents tested had an initial recommendation for certification dated (10/9/92) five days prior to the signature date (10/14/92) on the narrative section of the ODHS 1349 (which included documentation of the contacting of references).

Failure to contact references prior to making an initial recommendation for certification of a family foster home increases the likelihood that unqualified applicants could perform services for foster children.

Management Comment:

V. Beacon, Inc. should comply with ODJFS rules intended to ensure a thorough 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.

ISSUE 5-3	FOSTER PARENT PLACEMENT NOT MADE IN ACCORDANCE WITH HOMESTUDY

Results:

Ohio Admin. Code Section 5101:2-7-13(C) states that "The determination of the specific number, age, and sex of children to be placed in a particular family foster home is a joint responsibility of the foster caregiver and the recommending agency based on the agency's assessment of the foster caregiver's capability and physical facilities as required by this chapter."

One out of ten foster parent files tested indicated that the placement determination consisted of up to three males from birth to age nine. Per review of the placement log a ten year old male was in placement in 1998 for 30 days, in violation of the placement determination.

Failure to comply with Ohio Administrative Code regulations that govern foster parent placements could potentially result in a child being placed in an unsuitable environment, thereby, putting the child at risk.

Management Comment:

We recommend the agency ensure all placements are in accordance with the agreement between the agency and foster home. We further recommend that the ODJFS licensing specialists follow up on this issue and take steps to ensure continuous compliance.

ISSUE 5-4	COMPLETE AND ACCURATE INFORMATION ON APPLICATIONS

Results:

Ohio Admin. Code Section 5101:2-5-20(C)(1) provides, "An agency shall not accept an application for a family foster home certificate and approval for adoptive placement which does not contain complete and accurate information." The Placement Agency must take steps to assure the completeness and accuracy of information on the application.

Moreover, Ohio Admin. Code Section 5101:2-5-20-(C)(3) states that, "an agency shall not accept more than one application per household."

Our review found that for one out of ten family foster parent files tested there were two applications to board foster children (ODHS form 1328), there were discrepancies between two applications such as the applicants, address, date of birth, and household income.

In addition, we found that V. Beacon, Inc. did not have supporting documentation for income in ten out of ten foster parent files tested. Furthermore, V. Beacon, Inc. did not have supporting documentation for employment in six out of ten foster parent files tested.

Failure to verify the completeness and accuracy of information on the Family Foster Home Application increases the risk that unsuitable applicants may be recommended and approved. In addition, ODJFS had not established guidelines and standards for Placement Agencies to document their compliance with this requirement.

Management Comment:

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

ISSUE 5-5	PROOF OF RESIDENCY REQUIREMENT

Results:

Ohio Admin. Code Section 5101:2-5-091(I) provides the following: "The agency shall request that BCI [Bureau of Criminal Identification and Investigation] obtain information from the FBI [Federal Bureau of Investigation] as a part of the criminal records check for the person if: (1) The person does not present proof of residency in Ohio for the five-year period immediately prior to the date upon which the criminal records check is requested; or (2) The person [seeking certification as a foster caregiver does not provide evidence that within that five-year period, BCII has requested information about the person from the FBI in a criminal records check."

Three of the ten family foster home files tested did not contain documentation or evidence that the Placement Agency determined whether the foster parents recommended for licensing had resided in Ohio for the five-year period immediately prior to the date of the application to become a foster parent.

We determined that V. Beacon, Inc. did not perform and document procedures to ensure documentation proof of residency or previous criminal records check were on file, and did not obtain an FBI check when such documentation was not provided.

By not ensuring that criminal record checks are performed for persons seeking certification as foster caregivers or other adult members of the caregiver's household increases the risk that individuals with criminal histories could be certified and have children placed in their homes.

Management Comment:

We recommend that V. Beacon, Inc., Inc request and examine documentation of proof of residency in the State of Ohio to determine whether FBI checks are required. We also recommend that ODJFS establish guidelines and standards for Placement Agencies to document their compliance with the administrative rules governing criminal records checks.

ISSUE 5-6	APPROVAL OF FOSTER PARENT PRIOR TO RECEIVING A BCII CHECK

Results:

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

In one out of ten foster parent files tested the Placement Agency recommended the foster parent for certification (8/16/93) prior to receiving the BCII records check (11/2/93).

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

Management Comment:

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

ISSUE 5-7	MINUTES OF THE BOARD OF DIRECTORS

Results:

Ohio Admin. Code Section 5101:2-5-08(E), states "The minutes of all governing body meetings shall be maintained at the PCPA or PNA in an organized, permanent and current manner and shall include, at a minimum: (1) Dates of meetings, (2) Names of those governing body members present, and (3) Issues discussed and actions taken."

We were not provided a record of the issues discussed or actions taken by the Board of Directors in 1999 through the present date.

The minute records serve to document the actions and intent of an organization's governing body. Governing bodies speak through their minutes. Without a permanent minute record of board meetings there is an increased risk that management or Placement Agency employees may deviate from board intentions.

Management Comment:

We recommend that V. Beacon, Inc. ensure that the minutes of the Board of Directors are recorded and maintained up to date. Further, we recommend that the approval of the minutes of the previous meeting be indicated by having the Board members present during that meeting sign off on a copy of those minutes. We also suggest that the current minutes indicate the approval of the minutes of the previous meeting.

ISSUE 5-8	LACK OF WRITTEN JOB DESCRIPTION FOR EXECUTIVE DIRECTOR AND BREAKDOWN OF ADMINISTRATIVE DUTIES OF THE AGENCY

Results:

Ohio Admin. Code Section 5101:2-5-09(A) states, "An agency shall have written descriptions specific for each position or group of positions within the agency's certified function for all foster caregivers, college interns, volunteers, and employees."

Kathy Marvin, Executive Director, did not have a written job description for FY 1998.

A lack of written job descriptions for employees increases the probability that management or staff may be unaware of job responsibilities which could lead to inadequate performance of critical duties.

Management Comment:

We recommend that V. Beacon, Inc. complete a job description for the Executive Director or any other administrative positions which do not currently have job descriptions.

Per review of documentation provided by Vince Beacon, the Placement Agency drafted a job description for Joanie Daugneaux, Executive Director in May of 2001.

ISSUE 5-9	TITLE IV-E PURCHASED FAMILY FOSTER CARE COST REPORT

Results:

Two hundred thirty-six thousand nine hundred ninety-five dollars ($236,995) classified as federal questioned costs in Issue 1-1, 1-2, 1-3, 1-5, and 1-6 of this report, was charged against the foster care program, and/or reported as allowable costs on the 1998 ODHS 2910 Purchased Family Foster Care Cost Report.

ODJFS must determine the amount of over reporting by V. Beacon, Inc. and re-compute the Title IV-E per diem reimbursement rate that should have been paid to V. Beacon, Inc. during the Period and reimburse HHS, ODJFS, or the PCSA for any over reimbursement resulting from overstated costs.[55] Failure to properly classify program costs could result in questioned costs and have an adverse effect on the Title IV-E rate setting process.

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

Management Comment

Based on prior reports ODJFS has taken corrective action to implement comprehensive desk reviews[56] of all cost reports.[57] Controls could be further enhanced by conducting field audits selected on a sample basis using a risked-based approach.

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55 Pursuant to Ohio Admin. Code Section 5101:2-47-01(L). Prior to 5/1/98, the substance of this section was found at Ohio Admin. Code Section 5101:2-47-03(H).

56 In July 2000 ODJFS implemented a Comprehensive Desk Review process which examines costs reported on the cost report to determine whether the costs are: (1) allowable and presented fairly in accordance with department rules, (2) reasonable, (3) related to foster care and, (4) appropriately classified.

57 In June 2000 ODJFS conducted cost report training for providers and implemented Comprehensive Cost Reporting Requirements which requires the provider to submit new information with the cost report, such as related party schedules, Internal Revenue Service (IRS) Form 990, W-2s for reported salaries, foster parent payment listing, and census logs.

V. BEACON, INC.
SUPPLEMENT TO REPORT ON AGREED-UPON PROCEDURES

SUMMARY OF FEDERAL QUESTIONED COSTS

JANUARY 1, 1998 - DECEMBER 31, 1998

QUESTIONED COSTS	ISSUE NUMBER	PAGE NUMBER	AMOUNT
Undocumented and Unallowed Expenditures	1-1	12	$43,824
Purchase of Mercedes-Benz	1-2	16	70,827
Unallowed Use of Net Earnings	1-3	18	1,028,384
Employee Advances	1-4	21	1,370
Improper Partial Hospitalization charges	1-5	22	23,946
Checks deposited into Office Manager's Personal Account	1-6	24	129
ODJFS Systemic Overpayment of Title IV-E Maintenance[58]	3-1	27	41,200
TOTAL FEDERAL QUESTIONED COSTS			**$1,209,680**

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

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OFFICE OF THE AUDITOR

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V. BEACON, INC.

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 23, 2002