



**John Keel, CPA**  
**State Auditor**

A Report on

# **On-site Audits of Residential Child Care Providers**

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# *On-site Audits of Residential Child Care Providers*

## *Overall Conclusion*

Four of five residential child care providers audited appropriately spent federal and state funds to pay direct costs incurred for providing 24-hour residential child care services. These payments are intended to ensure the delivery of goods and services—such as direct care, therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the providers' care. Providers deliver these services through contracts with the Department of Family and Protective Services (Department). The four providers were:

- Azleway, Inc. (see Chapter 1).
- Homes4Good (see Chapter 2).
- The Huguen Center (see Chapter 3).
- Lutheran Social Services of the South (see Chapter 4).

These four providers also spent federal and state funds to pay for administrative costs that were reasonable and appropriate.

The fifth provider audited—On Call Family Services—has serious weaknesses in maintaining financial records, reporting related party transactions, preparing its cost report, and documenting information technology controls (see Chapter 5). Financial weaknesses identified include missing and/or insufficient documentation for financial transactions. Auditors made several attempts to obtain the information necessary to complete audit work associated with the provider's financial transactions and processes, but the provider did not provide all required financial information.

The State Auditor's Office requested that management for each provider submit a representation letter. The purpose of a representation letter is to provide assurances that, to the best of management's knowledge, the information provided to auditors was complete and correct. On Call Family Services did not provide a

### **Background Information**

During fiscal year 2008, the Department of Family and Protective Services (Department) had 393 contracts with 225 providers to provide residential child care on a 24-hour basis.

The Department paid all providers approximately \$344,690,849 for providing services to the 26,517 children in foster care during fiscal year 2008. See Appendix 2 for descriptions of the types of residential child care providers.

Approximately 70 percent of the funding for these services comes from the federal government and approximately 30 percent comes from the State.

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

Source: The Department of Family and Protective Services.

representation letter and, therefore, did not provide those assurances. (See Appendix 9, page 59, for a copy of the State Auditor’s Office’s request for a representation letter.)

The findings and conclusions related to On Call Family Services in this report were based on the information that On Call Family Services provided to auditors and other evidence that auditors obtained. Because On Call Family Services management did not provide assurances that the information provided to auditors was complete and correct, the findings and conclusions are subject to that limitation.

Table 1 summarizes the significant issues identified at the four providers at which auditors determined that federal and state funds were spent appropriately. Auditors also identified less significant issues that were communicated separately in writing to each provider.

Table 1

Summary of Significant Issues Identified at Four of the Five Providers Audited				
Issues Identified at Providers	Providers			
	Azleway, Inc.  (Tyler, TX)  See Chapter 1	Homes4Good  (Conroe, TX)  See Chapter 2	The Hughen Center  (Port Arthur, TX)  See Chapter 3	Lutheran Social Services of the South  (Austin, TX)  See Chapter 4
Provider did not always comply with licensing, training, or education requirements for foster parents, employees, or subcontractors.	✓	✓	✓	
Provider did not always comply with background check requirements on foster parents, employees, or subcontractors.	✓	✓	✓	✓
Provider did not always pay foster parents according to the same number of days of service or service level as it was paid by the Department.		✓	Not applicable <sup>a</sup>	
Provider did not always identify related party transactions on the cost report it submitted to the Health and Human Services Commission.	✓	✓		
Provider did not always maintain adequate documentation related to financial transactions.		✓		
Provider did not consistently ensure that it had documented agreements with all of its foster parents or subcontractors.	✓	✓		
Note: ✓ indicates the issue was identified at this provider.				
<sup>a</sup> This provider is a general residential operation; therefore, it provides residential care directly to children on site and does not contract with foster parents.				

Under their unit rate contracts with the Department, providers are paid an amount per child per day for delivering services. The Department does not control how providers spend the payments, as long as the providers (1) spend these funds legally and (2) account for their expenditures accurately in cost reports they submit to the Health and Human Services Commission for rate-setting purposes. Expenditures reported as unallowable costs are not included in the cost data used to set unit rates. During calendar year 2008, the Department paid the five providers audited approximately \$28.2 million to provide services to 3,357 children.

### ***Summary of Providers' Response***

Four of five residential child care providers audited were in general agreement with the recommendations that were addressed to them. The fifth provider audited—On Call Family Services—did not agree with the issues and recommendations that auditors addressed to that provider. Auditors do not agree with the assertions in On Call Family Services' management responses. In addition, On Call Family Services' management responses do not address the issues and recommendations included in this report. All of the provider's responses are presented in Appendices 4 through 8 beginning on page 46.

### ***Summary of Information Technology Review***

Four of five residential child care providers audited should correct weaknesses in their information system environments to improve the security over automated systems, applications, and data. The weaknesses identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the providers' ability to ensure the integrity of their data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted. To minimize the risks associated with public disclosure, auditors communicated details regarding these issues in writing directly to the providers.

The fifth provider audited—On Call Family Services— did not respond to all of the auditors' requests for information regarding its information technology (IT) resources and controls; therefore, auditors were unable to evaluate the provider's overall IT environment.

### ***Summary of Objective, Scope, and Methodology***

The audit objective was to verify that providers are spending federal and state funds for required services that promote the well-being of foster children placed in their care.

The audit scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between January 2008 and December 2008. In addition, the scope included verifying whether providers ensured that professionally licensed employees and direct care employees met the Department's requirements for qualifications and training.

The audit methodology included judgmentally selecting five providers with active contracts based on risk factors the Department used in its annual statewide monitoring plan. Additionally, the audit methodology included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of tests; and interviewing management and staff at the Department and providers.

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## Detailed Results

### Chapter 1

### Azleway, Inc.

Azleway, Inc. Background Information Calendar Year 2008	
Location	Tyler, TX
Contract services audited	Child Placing Agency
Number of children served	822
Average length of a child's stay in days	286
Total revenue requested from the Department	\$8,251,055
Total revenue for Child Placing Agency services	\$8,441,424
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2008	\$142,266
Approximate number of staff	60
Staff turnover rate (program staff)	32 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

Azleway, Inc. (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay direct and administrative costs incurred for providing 24-hour residential child care services. These costs included (1) payments to foster parents with whom the provider placed children and (2) payments for expenses the provider incurred for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

The provider also maintained adequate supporting documentation for the administrative expenditures tested. For example, all payroll and credit card transactions tested were complete, accurate, and properly recorded. In addition, the provider properly paid its foster parents the required amounts according to children's level of care and days of service. The provider also ensured that all licensed employees and subcontractors maintain current professional licenses.

However, auditors identified the following:

- **Non-compliance with background check requirements for foster parents, employees, and subcontractors.** (See Chapters 1-A and 1-B.) The provider did not consistently conduct background checks in a timely manner as required by the Department.
- **Non-compliance with requirement to disclose related party transactions on the provider's cost report.** (See Chapter 1-C.) The provider did not disclose a related party transaction on its 2008 cost report.
- **Non-compliance with training, certification, and screening requirements for foster parents and employees.** (See Chapters 1-D and 1-E.) The provider did not consistently ensure that its foster parents and employees received the necessary training, certifications, and screenings required by the Department.

- **Non-compliance with foster parent agreement requirements.** (See Chapter 1-F.) The provider did not consistently ensure that it had documented agreements with all of its foster parents.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 1-G.) While the provider has implemented some information technology controls, it should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted.

Chapter 1-A

### **The Provider Should Consistently Conduct Background Checks for Its Foster Parents in a Timely Manner**

The provider did not consistently conduct background checks in a timely manner for its foster parents. Specifically:

- For 2 (7 percent) of 30 foster parents tested, the provider did not conduct an initial background check in a timely manner, as required by the Department. The provider conducted these initial background checks 426 days late for one foster parent, and 911 days late for the other foster parent.
- For 13 (48 percent) of 27 foster parents tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial background check, as required by the Department. The provider conducted these subsequent background checks between 15 and 492 days late.
- For 7 (32 percent) of 22 foster parents tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial background check, as required by the Department. The provider conducted these second subsequent background checks between 30 and 288 days late.

However, at the time of the auditors' site visit in July 2009, all foster parents tested had current background checks on file.

Auditors independently performed criminal background checks for the individuals discussed above (including foster home household members) and determined that there were three reported offenses that may violate the



Department's minimum standards. Auditors forwarded these cases to the Department for further investigation.

### Recommendation

The provider should ensure that it conducts initial and subsequent background checks for all foster parents in accordance with the Department's requirements.

#### Chapter 1-B

### The Provider Should Consistently Conduct Background Checks for Its Employees and Subcontractors in a Timely Manner

The provider did not consistently conduct background checks in a timely manner for its employees and subcontractors. Specifically:

#### Employee Background Checks

- For 12 (40 percent) of 30 employees tested, the provider did not conduct the initial background check prior to or within two days of the employees' hire dates, as required by the Department. The provider conducted these initial background checks between 3 and 739 days late.
- For 9 (43 percent) of 21 employees tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial check, as required by the Department. The provider conducted these subsequent background checks between 3 and 2,381 days late. For one of these employees, the provider did not conduct a subsequent background check, but that employee is no longer employed by the provider.
- For 5 (36 percent) of 14 employees tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial check, as required by the Department. The provider conducted these second subsequent background checks between 66 and 2,407 days late. For one of these employees, the provider had not conducted a second subsequent background check at the time of the auditors' site visit in July 2009. This employee was currently employed by the provider at the time of the auditors' site visit.

#### Subcontractor Background Checks

- For 18 (49 percent) of 37 subcontractors tested, the provider did not conduct the initial background check prior to or within two days of the subcontractors' hire dates, as required by the Department. The provider conducted these initial background checks between 5 and 1,064 days late.

- For 13 (65 percent) of 20 subcontractors tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial check, as required by the Department. The provider conducted these subsequent background checks between 35 and 1,037 days late.
- For 4 (44 percent) of 9 subcontractors tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial check, as required by the Department. The provider conducted these second subsequent background checks between 30 and 251 days late.

However, at the time of the auditors' site visit in July 2009, 17 (94 percent) of 18 employees tested had current background checks on file and 33 (89 percent) of 37 subcontractors tested had current background checks on file.

Auditors independently performed criminal background checks for the employees and subcontractors discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

### Recommendation

The provider should ensure that it conducts initial and subsequent background checks for all its employees and subcontractors in accordance with the Department's requirements.

#### Chapter 1-C

### The Provider Should Ensure that It Properly Discloses All Related Party Transactions on Its Cost Report

#### Cost Reporting Process

Every residential child care provider that directly or indirectly receives payment from the Department for services to children whom the Department has placed with the provider is required by Title 1, Texas Administrative Code, Section 355.7101, to submit a cost report. The reports must be submitted to the Health and Human Services Commission no later than 90 days following the end of the provider's fiscal year.

The provider did not disclose a related party and a related party transaction on its 2008 cost report as required by the Health and Human Services Commission's cost reporting instructions (see text box). Specifically, the provider did not disclose that in 2008 it had paid an immediate family member of the executive director \$27,757 to manage the provider's grocery store.

#### Recommendation

The provider should disclose and report all related parties and related party transactions on its cost report as required.

Chapter 1-D

### **The Provider Should Ensure That All Foster Parents Receive the Required Training, Certifications, and Screenings**

The provider did not ensure that all of its foster parents received the necessary training, certifications, and screenings required by the Department.

#### **Training**

Auditors tested the provider's records for 30 foster parents and determined that:

- For 5 (18 percent) of 28 foster parents who were required to receive annual psychotropic medication training, the provider did not have documentation to substantiate that these foster parents had received this training during calendar year 2008.
- For 1 (4 percent) of 28 foster parents who were required to receive annual behavior intervention training, the provider did not have documentation to substantiate that this foster parent had received the training during calendar year 2008.

It is important to note, however, that all foster parents tested had received pre-service training, as required by the Department.

#### **Certifications and Screenings**

Auditors tested the provider's records for 30 foster parents and determined that:

- For 7 (23 percent) of 30 foster parents, the provider did not maintain documentation to substantiate that these foster parents had the required CPR certification during calendar year 2008.
- For 3 (10 percent) of 30 foster parents, the provider did not maintain documentation to substantiate that these foster parents had the required first aid certification during calendar year 2008.
- For 1 (3 percent) of 30 foster parents, the provider did not maintain documentation to substantiate that this foster parent had received the required tuberculosis screening.

#### **Recommendations**

The provider should:

- Ensure that all of its foster parents receive the annual psychotropic medication and behavior intervention training required by the Department.

- Ensure that all of its foster parents maintain current CPR and first aid certifications.
- Ensure that all of its foster parents receive the required tuberculosis screenings.
- Ensure that it maintains and retains complete and accurate training and screening records in accordance with the Department's requirements.

Chapter 1-E

### **The Provider Should Ensure That All Employees Receive the Required Training and Screenings**

The provider did not ensure that all of its employees received the necessary training and screenings required by the Department.

#### **Training**

Auditors tested the provider's records for 30 employees and determined that:

- For 16 (53 percent) of 30 employees, the provider did not have documentation to substantiate that these employees had received orientation training.
- For 11 (37 percent) of 30 employees, the provider did not have documentation to substantiate that these employees had received pre-service training.
- For 2 (40 percent) of 5 employees who were required to receive annual psychotropic medication training, the provider did not have documentation to substantiate that these employees had received this training in calendar year 2008.
- For 1 (20 percent) of 5 employees who were required to receive annual behavior intervention training, the provider did not have documentation to substantiate that this employee had received this training in calendar year 2008.
- For 4 (80 percent) of 5 employees who were required to meet the annual training requirement, the provider did not have documentation to substantiate that these employees had met the annual training requirement in calendar year 2008.

#### **Screenings**

Auditors tested the provider's records for 30 employees who were required to receive tuberculosis screenings and determined that for 2 (7 percent) of those

employees, the provider did not have documentation to substantiate that these employees had received the screenings.

All employees who were required to have CPR and first aid certifications had those certifications.

### Recommendations

The provider should:

- Ensure that employees receive orientation and pre-service training required by the Department.
- Ensure that employees receive all annual training required by the Department.
- Ensure that all employees receive the tuberculosis screenings required by the Department.
- Ensure that it maintains and retains complete and accurate training and screening records in accordance with the Department's requirements.

Chapter 1-F

### **The Provider Should Ensure That It Complies with Foster Parent Agreement Requirements**

The provider did not always sign and maintain documented agreements with its foster parents as required by Title 40, Texas Administrative Code, Section 749.2487. Specifically, the provider did not have documented agreements with 3 (10 percent) of 30 foster parents tested.

### Recommendation

The provider should ensure that it signs and maintains documented agreements with all of its foster parents.

Chapter 1-G

### **The Provider Should Strengthen Access to and Security of Its Automated Systems, Applications, and Data**

The provider has implemented some controls for its network, including anti-virus and firewall software and Internet content filtering. However, to improve the security over its automated systems, applications, and data the

provider should correct certain weaknesses in its information system environment.

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. It is important to note that auditors did not identify any instances in which data was inappropriately altered or deleted. However, auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures regarding network and application user access.
- System security.
- System and data backup and recovery.
- Passwords.
- Segregation of duties.
- Physical security.
- Disaster recovery and business continuity planning.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.

### Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Homes4Good Background Information Calendar Year 2008	
Location	Conroe, TX
Contract services audited	Child Placing Agency
Number of children served	297
Average length of a child's stay in days	380 days
Total revenue requested from the Department	\$3,079,266
Total revenue for Child Placing Agency services	\$3,385,409
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2008	\$32,528
Approximate number of staff	26
Staff turnover rate (for administrative and program staff)	32 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

Homes4Good (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay direct and administrative costs incurred for providing 24-hour residential child care services. However, the provider has serious weaknesses in its financial and information technology processes, complying with foster care reimbursement payment requirements, reporting related party transactions, and preparing its cost report.

Direct and administrative costs included (1) payments to foster parents with whom the provider placed children and (2) payments for expenses the provider incurred for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

All payroll transactions auditors tested were complete and accurate, and the provider properly recorded revenue it received from the Department in its general ledger. However, auditors identified the following:

- **Weaknesses in financial processes.** (See Chapter 2-A.) The provider appropriately spent federal and state funds; however, it did not consistently record all expenditures in its general ledger, which would also affect the accuracy of the provider's 2008 cost report (see Chapter 2-F for additional details regarding the provider's 2008 cost report). In addition, the provider did not consistently ensure that its expenditures were properly supported or have policies and procedures for key financial processes.
- **Non-compliance with foster parent reimbursement payment requirements.** (See Chapter 2-B.) The provider did not consistently pay its foster parents based on the same service levels and days of service for which it was paid by the Department.
- **Non-compliance with foster parent and employee training and screening requirements.** (See Chapter 2-C.) The provider did not consistently ensure that its employees and foster parents received the necessary training and screenings required by the Department.
- **Non-compliance with background check requirements for foster parents, employees, and subcontractors.** (See Chapters 2-D and 2-E.) The provider did not consistently conduct background checks on its foster

parents, employees, and subcontractors in a timely manner as required by the Department.

- **Non-compliance with cost report and board composition requirements.** (See Chapter 2-F.) The provider did not disclose related party transactions on its 2008 cost report as required, and related parties comprise the majority of the provider's board. In addition, auditors could not verify whether the provider prepared its cost report on an accrual basis as the provider had specified.
- **Non-compliance with contracting and subcontracting requirements.** (See Chapter 2-G.) The provider did not consistently ensure that it had documented agreements with all of its foster parents and subcontractors. It also did not ensure that its subcontract with one subcontractor included a provision regarding the authority of the State Auditor's Office and other oversight agencies to audit funding received indirectly through the subcontract.
- **Non-compliance with professional license requirements for subcontractors.** (See Chapter 2-H.) The provider did not consistently ensure that all licensed subcontractors maintained current professional licenses.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 2-I.) While the provider had information technology policies and procedures and a network firewall, it should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted.

#### Chapter 2-A

### **The Provider Should Properly Record All of Its Expenditures in Its General Ledger, Ensure That Its Expenditures Are Properly Supported, and Develop Policies and Procedures for Key Financial Processes**

The provider's expenditures were reasonable and necessary; however, the provider did not always properly record its expenditures in its general ledger and did not always ensure that its expenditures were properly supported.

Auditors tested 38 of the provider's payments to foster parents totaling \$23,911. The provider is transitioning to a new accounting system and was using spreadsheets to track revenues and expenditures. As a result, it did not



record 8 (21 percent) of the foster parent payments tested totaling \$2,551 (11 percent) in its general ledger. Because the provider uses its general ledger to prepare its cost report, not recording all transactions in the general ledger also could affect the accuracy of the cost report (see Chapter 2-F for additional details regarding the provider's 2008 cost report). Auditors also tested 41 of the provider's bank card transactions totaling \$10,163. The provider did not have adequate support, such as receipts, for 10 (24 percent) of those transactions totaling \$4,400 (43 percent). In addition, the provider did not record two of those transactions in the proper account.

The provider also did not have detailed policies and procedures related to key financial processes. Specifically, the provider did not have detailed policies and procedures for accounting of revenues and expenditures; purchases and procurements, including approvals; and regular reconciliations of payroll and payments it receives from the Department.

It is important to note that the provider engaged an external auditor to audit its 2008 financial statements during the State Auditor's Office audit. The provider's financial statements for the year ended December 31, 2007, were audited by an external auditor.

## Recommendations

The provider should:

- Properly record all of its expenditures in its general ledger and in the correct accounts.
- Consistently maintain supporting documentation for all expenditures.
- Clarify and enhance policies and procedures for key financial processes.

Chapter 2-B

### **The Provider Should Ensure That It Pays Foster Parents for the Same Service Levels and Days of Service for Which It Was Paid by the Department**

For 5 (13 percent) of 38 foster parent maintenance payments tested, the provider paid the foster parents for a lower service level or fewer days of service than the provider was paid by the Department. Specifically:

- For 4 (10 percent) of the 38 payments tested, the provider paid the foster parents for a lower service level than the provider was paid by the Department. This resulted in an underpayment to the foster parents totaling \$1,189.92.

- For 1 (3 percent) of the 38 payments tested, the provider paid the foster parents for two fewer days of service than it was paid by the Department. This resulted in an underpayment of \$43 to the foster parents. According to the provider, the child was transferred to another foster family that received payment for those two days.

The contract between the Department and the provider requires the provider to remit to foster parents a specified minimum portion of the amount the provider receives from the Department.

### Recommendation

The provider should pay foster parents for the same service levels and days of service for which it was paid by the Department.

#### Chapter 2-C

### The Provider Should Ensure That All Foster Parents and Employees Receive the Required Training and Screenings

The provider did not consistently ensure that all of its foster parents and employees received the necessary training and screenings required by the Department.

#### Foster Parent Training, Certifications, and Screenings

Auditors tested the provider's records for 30 foster parents and determined that 4 (13 percent) of 30 foster parents did not have current CPR and first aid certifications.

It is important to note, however, that all 30 foster parents tested met the Department's requirements to receive pre-service training, annual behavior intervention training, annual psychotropic medication training, and tuberculosis screenings.

#### Employee Training

Auditors tested the provider's records for 38 employees and determined that:

- For 1 (3 percent) of 38 employees, the provider did not have documentation to substantiate that this employee had received orientation training.
- For 14 (37 percent) of 38 employees, the provider did not have documentation to substantiate that these employees had received pre-service training.

- For 13 (81 percent) of 16 employees who were required to complete annual behavior intervention training, the provider did not have documentation to substantiate that these employees had received this training during calendar year 2008.
- For 15 (94 percent) of 16 employees who were required to complete annual psychotropic medication training, the provider did not have documentation to substantiate that these employees had received this training during calendar year 2008.
- For 2 (11 percent) of 18 employees who were required to meet a minimum number of hours for annual training, the provider did not have documentation to substantiate that these employees had received this training during calendar year 2008.

#### Employee Certifications and Screenings

Auditors tested the provider's records for 38 employees and determined that for 5 (13 percent) of the 38 employees who were required to receive tuberculosis screenings, the provider did not have documentation to substantiate that these employees had received the screenings.

It is important to note, however, that all 26 employees who were required to have CPR and first aid certifications had those certifications.

#### Recommendations

The provider should:

- Ensure that all of its foster parents receive and maintain current CPR and first aid certifications.
- Ensure that employees receive required orientation, pre-service training, behavior intervention training, psychotropic medication training, annual training, and tuberculosis screenings.

Chapter 2-D

#### **The Provider Should Consistently Conduct Subsequent Background Checks for Its Foster Parents in a Timely Manner**

The provider conducted initial background checks for all 30 foster parents tested. However, the provider did not consistently conduct subsequent background checks in a timely manner for its foster parents. Specifically:

- For 13 (57 percent) of the 23 foster parents tested for whom the provider was required to conduct a subsequent background check, the provider did

not conduct the subsequent background check within 24 months of the initial background check, as required by the Department. The provider conducted these subsequent background checks between 2 and 206 days late. For two of these foster parents, the provider did not conduct a subsequent background check after the initial background check.

- For 5 (42 percent) of the 12 foster parents tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial background check, as required by the Department. The provider conducted these second subsequent background checks between 8 and 118 days late.
- For all 6 foster parents tested for whom the provider was required to conduct a third subsequent background check, the provider conducted the third subsequent background check within 72 months of the initial background check, as required by the Department. In addition, at the time of the auditors' site visit in June 2009, 20 (95 percent) of the 21 foster parents tested had current background checks on file.

Auditors independently performed criminal background checks for all of the foster parents discussed above and determined that there were no reported offenses that would violate the Department's minimum standards. However, auditors determined that there were two foster home household members with reported offenses that may violate the Department's minimum standards. Auditors forwarded these cases to the Department for further investigation.

### Recommendation

The provider should ensure that it conducts subsequent background checks for all foster parents in accordance with the Department's requirements.

#### Chapter 2-E

### **The Provider Should Consistently Conduct Background Checks for Its Employees and Subcontractors in a Timely Manner**

The provider did not consistently conduct background checks in a timely manner for its employees and subcontractors. Auditors tested all employees and subcontractors and determined the following:

#### Employee Background Checks

- For 19 (50 percent) of the 38 employees tested, the provider did not conduct the initial background check prior to or within two days of the employees' hire dates, as required by the Department. The provider conducted these initial background checks between 3 and 450 days late.

- For 12 (46 percent) of the 26 employees tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial check, as required by the Department. The provider conducted these subsequent background checks between 1 and 191 days late.
- For 7 (35 percent) of the 20 employees tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial check. The provider conducted these second subsequent background checks between 1 and 183 days late.

#### Subcontractor Background Checks

- For 20 (80 percent) of the 25 subcontractors tested, the provider did not conduct the initial background check prior to or within two days of the subcontractors' hire dates, as required by the Department. The provider conducted these initial background checks between 4 and 713 days late.
- For 10 (67 percent) of the 15 subcontractors tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial check, as required by the Department. The provider conducted these subsequent background checks between 27 and 805 days late.
- For 4 (67 percent) of the 6 subcontractors tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial check, as required by the Department. The provider conducted these second subsequent background checks between 174 and 227 days late.

At the time of the auditors' site visit in June 2009, all employees tested had current background checks on file, and 23 (92 percent) of 25 subcontractors tested had a current background check on file.

Auditors independently performed criminal background checks for the employees and subcontractors discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

#### Recommendation

The provider should ensure that it conducts initial and subsequent background checks for all its employees and subcontractors in accordance with the Department's requirements.

## Chapter 2-F

**The Provider Should Ensure That It Complies with Cost Report and Board Composition Requirements**

The provider did not disclose the following related party transactions on its 2008 cost report as required by the Health and Human Services Commission (see text box):

**Cost Reporting Process**

Every residential child care provider that directly or indirectly receives payment from the Department for services to children whom the Department has placed with the provider is required by Title 1, Texas Administrative Code, Section 355.7101, to submit a cost report. The reports must be submitted to the Health and Human Services Commission no later than 90 days following the end of the provider's fiscal year.

- According to the provider, it has received loans totaling \$111,000 from the parents of the provider's executive director. It paid the parents \$10,000 in loan repayments in 2008. The parents also serve on the provider's board.
- The father of the provider's executive director obtained a \$7,500 line of credit from a creditor; he then gave the \$7,500 to the provider for its use. The provider subsequently made \$500 in payments directly to the creditor that originally provided the line of credit.
- The provider paid \$1,465 to a business owned by the son of the provider's executive director. The son is also employed by the provider as the information technology director and serves on the provider's board.
- The provider paid \$723,965 to a contractor, and one of the provider's board members benefited financially from the award of that contract. The contractor is a professional employer organization and payments to this contractor include salaries for all employees, payroll taxes, health insurance, and the contractor's fee.

In addition, related parties comprise the majority of the provider's board. This represents non-compliance with Title 40, Texas Administrative Code, Section 749.131, which requires that persons employed by or working at a provider, any family members of the owner or governing body members, paid consultants, or others who benefit financially from the provider (such as subcontractors or vendors) must not comprise the majority of the voting members of the governing body.

In addition, auditors verified that the cost report was supported by the provider's general ledger; however, as discussed in Chapter 2-A, auditors identified transactions that the provider did not record in its general ledger. The provider also specified that its cost report was prepared on an accrual basis as required by Title 1, Texas Administrative Code, Section 355.7101; however, auditors identified transactions in the provider's general ledger that were not recorded on an accrual basis.

## Recommendations

The provider should:

- Properly disclose and report all related parties and related party transactions on its cost report as required.
- Ensure that related parties do not comprise a majority of the voting members of its board.
- Ensure the cost report is prepared on an accrual basis and reconciles to the general ledger.

Chapter 2-G

### The Provider Should Ensure That It Complies with Contracting and Subcontracting Requirements

The provider did not always have documented agreements with all of its foster parents and subcontractors as required by the provider's contract with the Department and Title 40, Texas Administrative Code, Section 749.2487, respectively. Specifically:

- The provider did not have documented agreements with 3 (10 percent) of 30 foster parents tested.
- The provider did not have documented subcontracts with 2 (8 percent) of 25 subcontractors tested.

In addition, the provider's subcontract with a professional employer organization did not include a provision regarding the authority of the State Auditor's Office and other oversight agencies to audit state funds received indirectly through the subcontract, as required by the provider's contract with the Department. This increases the risk that oversight agencies may not have access to information. It is important to note, however, that auditors were able to obtain all requested information from this subcontractor.

## Recommendations

The provider should:

- Ensure that it has documented agreements with all foster parents and subcontractors.
- Include in all subcontracts a provision regarding the authority of the State Auditor's Office and other oversight agencies to audit funds received indirectly through subcontracts.

## Chapter 2-H

**The Provider Should Consistently Ensure that All Licensed Subcontractors Maintain Current Professional Licenses**

The provider did not consistently ensure that licensed subcontractors maintained current professional licenses. Specifically, for 4 (16 percent) of 25 subcontractors tested, the provider did not have documentation to substantiate that the subcontractors had current professional licenses as required by Title 40, Texas Administrative Code, Section 749.553.

**Recommendation**

The provider should ensure that all licensed subcontractors maintain current professional licenses.

## Chapter 2-I

**The Provider Should Strengthen Access to and Security of Its Automated Systems, Applications, and Data**

The provider has information technology policies and procedures and a network firewall. However, the provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data.

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. It is important to note that auditors did not identify any instances in which data was inappropriately altered or deleted. However, auditors identified opportunities for improvement in the following areas:

- Network and application security, including access controls.
- Accounting application input, processing, and output controls.
- Physical security.
- Data back up and recovery.
- Disaster recovery and business continuity planning.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.



**Recommendation**

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

The Hughen Center Background Information Calendar Year 2008	
Location	Port Arthur, TX
Contract services audited	General Residential Operation
Number of children served	31
Average length of a child's stay in days	743
Total revenue requested from the Department	\$727,935
Total revenue for General Residential Operation services	\$811,421
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2008	\$61,140
Approximate number of staff	50
Staff turnover rate (for program staff)	50 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

The Hughen Center (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay for costs incurred for running a general residential operation and providing 24-hour residential child care services. These costs included (1) programmatic expenses and (2) administrative expenses incurred in operating a residential child care center. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

The expenditures the provider reported as program costs on its 2008 cost report were reasonable and necessary. In most cases, those expenditures were complete, accurate, properly supported, and properly recorded in the provider's general ledger. While auditors identified some errors, the errors did not significantly affect the provider's reported costs. In addition, all payroll and credit card transactions tested were complete, accurate, and properly supported and recorded. The provider also conducted background checks for all three of its subcontractors hired in 2008, and all three subcontractors had current background checks on file at the time of the auditors' site visit in June 2009.

However, auditors identified the following:

- **Non-compliance with employee training, screening, and certification requirements.** (See Chapter 3-A.) The provider did not consistently ensure that its employees received orientation and pre-service training required by the Department. The provider also did not consistently ensure that its employees received the tuberculosis screenings and CPR and first aid certifications required by the Department.
- **Non-compliance with background check requirements for employees.** (See Chapter 3-B.) The provider did not consistently conduct background checks on its employees in a timely manner as required by the Department.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 3-C.) While the provider had good controls for certain aspects of its automated systems and applications, it should make improvements to address specific weaknesses in the security over its automated systems, applications, and

data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted.

Chapter 3-A

**The Provider Should Ensure That All Employees Receive Required Orientation, Pre-service Training, Screenings, and Certifications**

The provider did not consistently ensure that its employees received orientation and pre-service training required by the Department. Specifically:

- For 2 (7 percent) of 30 employees tested, the provider did not have documentation indicating that these employees received the required orientation. For one of these employees, the provider did not have this documentation because it no longer had the employee's file.
- For 6 (46 percent) of 13 employees who were required to receive pre-service training, the provider did not have documentation indicating that these employees had received this training.

It is important to note, however, that two employees who were required to meet the minimum annual training requirements of the Department met this requirement.

The provider also did not consistently ensure that all of its employees received the tuberculosis screenings and CPR and first aid certifications required by the Department. Specifically:

- For 6 (20 percent) of the 30 employees who were required to receive a tuberculosis screening, the provider did not have documentation indicating that these employees had received the screening.
- For 1 (7 percent) of the 14 employees who were required to have CPR and first aid certifications, the provider did not have documentation indicating that this employee had the required certifications during calendar year 2008.

**Recommendations**

The provider should:

- Ensure that employees receive orientation and pre-service training as required by the Department.

- Ensure that all of its employees receive the required tuberculosis screenings.
- Ensure that all of its employees who are required to maintain current CPR and first aid certifications maintain these certifications.

Chapter 3-B

**The Provider Should Consistently Conduct Background Checks for Its Employees in a Timely Manner**

The provider did not consistently conduct background checks in a timely manner for its employees. Specifically:

- For 2 (7 percent) of the 30 employees tested, the provider did not conduct the initial background check prior to or within two days of the employees' hire date, as required by the Department. The provider conducted one of these initial background checks 450 days late. For the other employee, the provider did not have the related documentation on file because it no longer had the employee's file (the employee was hired and terminated within one month).
- For 1 (3 percent) of 30 employees tested for whom the provider was required to conduct first and second subsequent background checks, the provider did not conduct the subsequent background checks within 24 and 48 months of the initial check, respectively, as required by the Department. The provider conducted these first and second subsequent background checks 333 and 52 days late, respectively.

However, at the time of the auditors' site visit in June 2009, all employees tested had current background checks on file.

In addition, the provider conducted background checks for all three of its subcontractors hired in 2008, and all three subcontractors had current background checks on file at the time of the auditors' site visit in June 2009. Subsequent background checks for these subcontractors are not due until 2010.

Auditors independently performed criminal background checks for the employees and subcontractors discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

## Recommendation

The provider should ensure that it conducts initial and subsequent background checks for all employees in accordance with the Department's requirements.

Chapter 3-C

## The Provider Should Strengthen Access to and Security of Its Automated Systems, Applications, and Data

The provider has good controls for the use of audit trails in its accounting application, performs data backups, and has Internet content filtering. However, the provider should correct certain weaknesses in its information system environment to improve the security over its automated systems, applications, and data.

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. It is important to note that auditors did not identify any instances in which data was inappropriately altered or deleted. However, auditors identified opportunities for improvement in the following areas:

- Network and application access controls.
- Physical security.
- Disaster recovery and business continuity planning.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues directly to the provider in writing.

## Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

**Lutheran Social Services of the South**

Lutheran Social Services of the South Background Information Calendar Year 2008	
Location	Austin, TX
Contract services audited	Child Placing Agency
Number of children served	2,181
Average length of a child's stay in days	305
Total revenue requested from the Department	\$18,800,966
Total revenue for Child Placing Agency services	\$19,717,474
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2008	\$2,233,970
Approximate number of staff	187
Staff turnover rate (for program staff)	18 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

Lutheran Social Services of the South (provider) appropriately spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay direct and administrative costs incurred for providing 24-hour residential child care services. These costs included (1) payments to foster parents with whom the provider placed children and (2) payments for expenses the provider incurred for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider's care.

The provider also maintained adequate supporting documentation for the administrative expenditures tested. For example, all payroll transactions tested were complete, accurate, and properly recorded. In addition, the provider properly paid its foster parents the required amounts according to the children's level of care and days of service.

In most cases, the provider also provided its foster parents and employees with the necessary training required by the Department. In addition, the provider ensured that all licensed employees and subcontractors maintain current professional licenses.

However, auditors identified the following:

- **Non-compliance with background check requirements for foster parents, employees, and subcontractors.** (See Chapters 4-A and 4-B.) The provider did not consistently conduct background checks in a timely manner as required by the Department.
  
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 4-C.) While the provider had good controls for certain aspects of its automated systems and applications, it should make improvements to address specific weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data. It is important to note, however, that auditors did not identify any instances in which data was inappropriately altered or deleted.

## Chapter 4-A

### **The Provider Should Consistently Conduct Subsequent Background Checks for Its Foster Parents in a Timely Manner**

The provider did not consistently conduct subsequent background checks in a timely manner for its foster parents. While the provider conducted initial background checks for all 30 foster parents tested, it conducted the subsequent background checks for some foster parents late. Specifically:

- For 9 (43 percent) of the 21 foster parents tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial check, as required by the Department. The provider conducted these subsequent background checks between 4 and 1,225 days late.
- For 2 (20 percent) of the 10 foster parents tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial check, as required by the Department. The provider conducted these second subsequent background checks between 137 and 199 days late.
- For 1 (33 percent) of 3 foster parents tested for whom the provider was required to conduct a third subsequent background check, the provider did not conduct the third subsequent background check within 72 months of the initial check, as required by the Department. The provider conducted this third subsequent background check 134 days late.

However, at the time of the auditors' site visit in May 2009, all foster parents tested had current background checks on file.

Auditors independently performed criminal background checks for the individuals discussed above (including a sample of foster home household members) and determined that there were two reported offenses that may violate the Department's minimum standards. Auditors forwarded these cases to the Department for further investigation.

### **Recommendation**

The provider should ensure that it conducts subsequent background checks for all foster parents in accordance with the Department's requirements.

## Chapter 4-B

### **The Provider Should Consistently Conduct Background Checks for Employees and Subcontractors in a Timely Manner**

The provider did not consistently conduct background checks in a timely manner for its employees and subcontractors. Specifically:

#### **Employee Background Checks**

- For 15 (28 percent) of 53 employees tested, the provider did not conduct the initial background check prior to or within two days of the employees' hire dates, as required by the Department. The provider conducted these initial background checks between 3 and 4,907 days late.
- For 8 (29 percent) of 28 employees tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial check, as required by the Department. The provider conducted these subsequent background checks between 18 and 1,125 days late.
- For 2 (29 percent) of 7 employees tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial check, as required by the Department. The provider conducted these second subsequent background checks between 106 and 1,176 days late.

#### **Subcontractor Background Checks**

- For 13 (62 percent) of 21 subcontractors tested, the provider did not conduct an initial background check prior to or within two days of the subcontractor's hire date, as required by the Department. The provider conducted these initial background checks between 7 and 1,507 days late.
- For 10 (56 percent) of 18 subcontractors tested for whom the provider was required to conduct a subsequent background check, the provider did not conduct the subsequent background check within 24 months of the initial background check, as required by the Department. The provider conducted these subsequent background checks between 2 and 905 days late.
- For 4 (50 percent) of 8 subcontractors tested for whom the provider was required to conduct a second subsequent background check, the provider did not conduct the second subsequent background check within 48 months of the initial background check, as required by the Department. The provider conducted these second subsequent background checks between 210 and 932 days late.



However, at the time of the auditors' site visit in May 2009, all employees and all subcontractors tested had current background checks on file.

Auditors independently performed criminal background checks for the employees and subcontractors discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

### Recommendation

The provider should ensure that it conducts initial and subsequent background checks for all employees and subcontractors in accordance with the Department's requirements.

#### Chapter 4-C

### **The Provider Should Strengthen Access to and Security of Its Automated Systems, Applications, and Data**

The provider has good controls for physical and network security, program change management, segregation of duties, and backup operations. However, to further improve the security over its automated systems, applications, and data, the provider should correct certain weaknesses in its information system environment.

The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. It is important to note that auditors did not identify any instances in which data was inappropriately altered or deleted. However, auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures regarding access.
- Administrative access to laptop computers.
- Network and accounting application account set-up.
- Disaster recovery and business continuity planning.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues directly to the provider in writing.

**Recommendation**

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

**On Call Family Services**

On Call Family Services Background Information Calendar Year 2008	
Location	Desoto, TX
Contract services audited	Child Placing Agency
Number of children served	26
Average length of a child's stay in days	155
Total revenue requested from the Department	\$191,967
Total revenue from Child Placing Agency services	Could Not Be Determined
Federal tax filing status	Could Not Be Determined
Ending cash balance on December 31, 2008	(\$385)
Approximate number of staff	8
Staff turnover rate (for administrative and program staff)	60 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office. Because of the weaknesses at this provider, auditors could not obtain accurate information for total revenue from Child Placing Agency services and federal tax filing status.

The State Auditor's Office requested that On Call Family Services submit a representation letter. The purpose of a representation letter is to provide assurances that, to the best of management's knowledge, the information provided to auditors was complete and correct. On Call Family Services did not provide a representation letter and, therefore, did not provide those assurances. (See Appendix 9, page 59, for a copy of the State Auditor's Office's request for a representation letter.)

The findings and conclusions related to On Call Family Services in this report were based on information that On Call Family Services provided to auditors and other evidence that auditors obtained. Because On Call Family Services management did not provide assurances that the information provided to auditors was complete and correct, the findings and conclusions are subject to that limitation.

On Call Family Services (provider) has serious weaknesses in maintaining financial records, reporting related party transactions, preparing its cost report, and documenting information technology controls. Auditors identified the following:

- **Serious weaknesses in financial processes.** (See Chapter 5-A.) Financial weaknesses identified included missing and/or insufficient documentation for financial transactions. Auditors made several attempts to obtain the information necessary to complete audit work associated with the provider's financial transactions and processes, but the provider did not provide all required financial information.
- **Serious weaknesses regarding related party transactions.** (See Chapter 5-B.) The provider did not provide sufficient documentation to explain the purpose of related party transactions, and it did not disclose those transactions on its 2008 cost report; therefore, auditors could not verify whether those transactions were appropriate and reasonable.
- **Serious weaknesses regarding the provider's 2008 cost report.** (See Chapter 5-C.) The provider did not provide documentation to explain the differences between the administrative costs it reported on its 2008 cost report and the financial information it used to prepare its cost report. As a

result, auditors were unable to verify the accuracy of certain information included on the provider's cost report.

- **Failure to provide documentation regarding information technology resources and controls.** (See Chapter 5-D). The provider did not respond to all of the auditors' requests for information regarding its information technology (IT) resources and controls; therefore, auditors were unable to evaluate the provider's overall IT environment. Because the provider's financial information is maintained in an automated accounting application, auditors' inability to evaluate the overall IT environment was considered in auditors' assessment of financial weaknesses.
- **Non-compliance with employee training and screening requirements.** (See Chapter 5-E.) The provider did not consistently ensure that its employees received training and screenings required by the Department.
- **Non-compliance with background check requirements for subcontractors.** (See Chapter 5-F.) The provider did not consistently conduct background checks on its subcontractors as required by the Department.
- **Non-compliance with subcontracting requirements.** (See Chapter 5-G.) The provider did not consistently ensure that it had documented agreements with subcontractors or ensure subcontractors met professional license requirements.

Auditors reconciled revenue the provider received from the Department in the Uniform Statewide Accounting System (USAS) to the provider's financial records and reconciled payments to foster parents to Department provider statements on a test basis. According to financial information auditors received, these payments totaled \$107,715 for calendar year 2008 (56 percent of total revenue requested from the Department).

The provider conducted background checks on all its foster parents and, in most cases, ensured that its foster parents received the training required by the Department. The provider conducted background checks in accordance with the Department's requirements for all but two of its employees. In one instance the background check was 5 days late; in the other instance, auditors were unable to determine whether the provider conducted this background check because the provider did not provide the employee's file to auditors. At the time of the auditors' site visit in June 2009, the one employee who was required to have a current background check had a background check on file.

Auditors independently performed criminal background checks for the foster parents and employees discussed above and determined that there were no reported offenses that would violate the Department's minimum standards. The provider did not provide date of birth information for three employees that auditors needed to independently perform background checks, but

auditors obtained that information from the Department and performed background checks on those three employees. It is important to note, however, that all three employees are no longer employed with the provider.

Chapter 5-A

### **The Provider Should Correct Serious Deficiencies in Its Financial Processes**

Auditors identified serious financial weaknesses at the provider and, as a result, were unable to determine whether the provider appropriately spent federal and state funds. Financial weaknesses identified included missing and/or insufficient documentation for financial transactions. Auditors made several attempts to obtain the information necessary to complete audit work associated with the provider's financial transactions and processes, but the provider did not provide all required financial information. The provider's contract with the Department requires the provider to maintain financial records, programmatic records, supporting documents, statistical records, and other records pertinent to claims or cost reports submitted and/or services delivered.

The provider did not provide auditors with sufficient documentation regarding its payroll expenditures, related party transactions, and differences in administrative costs reported on its cost report and financial information used to prepare its cost report (see Chapters 5-B and 5-C for additional details regarding the provider's 2008 cost report). For example, the provider did not provide auditors with employee timesheets and sufficient documentation to support its employees' pay rates. As a result, auditors were unable to test payroll expenditures to determine whether those expenditures were complete, accurate, and properly recorded.

In addition, it should also be noted that auditors were unable to determine whether the provider's financial statements had been audited because the provider did not provide auditors with external audit reports. According to Department requirements, providers must obtain a professional audit annually and have it available for review. In addition, the provider does not have adequately documented policies and procedures for accounts receivable, accounts payable, and purchasing.

### **Recommendations**

The provider should:

- Consistently maintain sufficient documentation for all financial transactions.

- Ensure that it obtains annual professional audits, as required by the Department.
- Clarify and enhance documented policies and procedures for accounts receivable, accounts payable, and purchasing.

Chapter 5-B

**The Provider Should Maintain Sufficient Documentation for Related Party Transactions and Ensure That it Properly Discloses All Related Party Transactions on Its Cost Report**

**Title 40, Texas Administrative Code, Section 749.131**

Persons employed by or working at a provider, any family members of the owner or governing body members, paid consultants, or others who benefit financially from the provider (such as subcontractors or vendors) must not comprise the majority of the voting members of the governing body.

According to the provider, it made payments to and received payments from at least two related parties. However, the provider did not disclose those transactions on its 2008 cost report. According to financial information auditors received, during calendar year 2008, the provider:

- Received \$8,835 from the husband of its executive director.
- Paid \$10,529 to the husband of its executive director.
- Paid \$1,385 to the son of the executive director.

The provider did not provide auditors with documentation that explained the purpose of these transactions; therefore, auditors could not verify whether these transactions were appropriate and reasonable. According to Title 1, Texas Administrative Code, Section 355.102, if a provider fails to provide adequate documentation to substantiate the cost to a related person or organization, then the reported cost is unallowable. In addition, the provider's contract with the Department requires the provider to maintain financial records, programmatic records, supporting documents, statistical records, and other records pertinent to claims or cost reports submitted and/or services delivered.

Related parties also comprised the majority of the provider's board. This represents noncompliance with Title 40, Texas Administrative Code, Section 749.131 (see text box). As of the auditors' site visit in June 2009, the provider's board consisted of four members, all of whom were related parties. According to the provider, two of these related parties are no longer on its board.

**Recommendations**

The provider should:

- Maintain complete and accurate documentation for related party transactions.

- Properly disclose and report all related parties and related party transactions on its cost report as required.
- Ensure related parties do not comprise a voting majority of its governing board.

Chapter 5-C

### The Provider Should Ensure That It Maintains Supporting Documentation for Its Cost Report

The provider reported \$208,803 in expenses on its 2008 cost report, \$32,370 of which was reported as administration costs; however, auditors identified differences between administrative costs included on the provider's 2008 cost report and the financial records the provider used to prepare its cost report. The provider did not provide documentation explaining these differences; therefore, auditors were unable to verify the accuracy of certain information included on the provider's cost report (see text box for information on the cost reporting process). Specifically:

#### Cost Reporting Process

Every residential child care provider that directly or indirectly receives payment from the Department for services to children whom the Department has placed with the provider is required by Title 1, Texas Administrative Code, Section 355.7101, to submit a cost report. The reports must be submitted to the Health and Human Services Commission no later than 90 days following the end of the provider's fiscal year.

- The cost report included \$3,367 for office supplies/other administrative expenses; however, the provider recorded that amount as an uncategorized expenditure in its financial records. In addition, the uncategorized expense account in the provider's financial records was adjusted by \$795 after the provider submitted its cost report to the Commission (see Table 2 on the next page). Additionally, in the provider's financial records the vendor was listed as "unknown vendor" for \$2,652 (79 percent) of this amount. The provider did not provide auditors with documentation indicating whether these transactions were allowable and properly reported in its cost report. According to the provider, transactions are recorded from bank statements and are assumed to be allowable if they are on the bank statement.
- Auditors identified \$5,911 in expenditures that the provider recorded in its financial records but did not report on its cost report. According to the provider, it could not find a corresponding classification on the cost report for some of these transactions and the cost reporting guidelines are complex. These expenditures included contracted services, which the provider adjusted by \$1,630 after the provider submitted its cost report to the Commission (see Table 2 on the next page).
- According to the provider, differences totaling \$376 were due to data entry errors and subsequent transactions that it recorded in its financial records after the provider submitted its cost report.

In addition, the provider did not provide auditors with sufficient documentation to explain adjustments it made to its financial records for the year ended December 31, 2008, after it submitted its 2008 cost report to the Health and Human Services Commission (Commission). The provider submitted its 2008 cost report to the Commission on April 1, 2009. On at least two occasions, the provider adjusted general ledger accounts for the year ended December 31, 2008, after it submitted its cost report. Adjusted accounts included trade accounts payable, cash, and payroll expenses (see Table 2). In addition, auditors received subsequent financial information that indicated the provider made additional adjustments to its financial information in July 2009.

Table 2

Differences within the Provider's Financial Information			
Account	Amount Specified in Financial Records the Provider Used to Prepare Its 2008 Cost Report	Amount Specified in the Provider's Financial Records Adjusted as of June 29, 2009	Increase or (Decrease)
Trade Accounts Payable	\$ 35,331.57	\$ 6,412.35	\$ (28,919.22)
Cash	\$ 18,284.69	\$ -384.68	\$ (18,669.37)
Payroll Expenses	\$ 38,022.28	\$ 28,140.78	\$ (9,881.50)
Loans from Officers/Directors	\$ 11,450.01	\$ 14,756.28	\$ 3,306.27
Payroll Liabilities	\$ 5,993.41	\$ 3,702.91	\$ (2,290.50)
Contracted Services	\$ 3,075.00	\$ 4,705.00	\$ 1,630.00
Uncategorized Expense	\$ 3,366.64	\$ 2,571.64	\$ (795.00)
Other	\$ 76,057.66	\$ 76,245.24	\$ 187.58

Source: Unaudited information from the provider.

**Recommendation**

The provider should maintain complete and accurate documentation to support all expenditures and costs reported in its cost report as required.

Chapter 5-D

**The Provider Did Not Respond to Auditors' Requests for Information Regarding Its Overall IT Environment**

The provider did not respond to all of the auditors' requests for IT information; therefore, auditors were unable to evaluate the provider's overall IT environment. Because the provider's financial information is maintained in an automated accounting application, auditors' inability to evaluate the



overall IT environment was considered in auditors' assessment of financial weaknesses.

The provider has some IT controls for financial information, including (1) current anti-virus software, (2) current backups, and (3) audit trails. According to the provider, input, processing, and output controls exist for the provider's accounting application; however, auditors were unable to verify the existence of these controls.

### Recommendation

The provider should ensure that it maintains IT policies and procedures and has related information available for review.

Chapter 5-E

### The Provider Should Ensure That All Employees Receive the Required Training and Screenings

The provider did not consistently ensure that all employees received training and screenings required by the Department. Auditors tested the provider's records for six employees and determined that:

- For two employees who were required to receive pre-service training, the provider did not have documentation to substantiate that these employees received this training.
- For 2 (33 percent) of 6 employees who were required to complete orientation, the provider did not have documentation to substantiate that these employees had received this training.
- For one employee who was required to meet a minimum number of hours for annual training, the provider did not have documentation to substantiate that this employee had received this training.
- For 1 (17 percent) of 6 employees, the provider did not have documentation to substantiate that this employee had received the required tuberculosis screening.

The two employees who were required to complete psychotropic medication training completed the training.

### Recommendation

The provider should ensure that employees receive required pre-service training, orientation training, annual training, and tuberculosis screenings.

## Chapter 5-F

### **The Provider Should Consistently Conduct Background Checks for Its Subcontractors**

The provider did not consistently conduct background checks for its subcontractors. Auditors tested all subcontractors and determined the following:

- For 9 (75 percent) of the 12 subcontractors tested, the provider did not conduct an initial background check prior to or within two days of the subcontractors' hire date as required by the Department. The provider conducted 3 of these 9 checks between 4 and 19 days late; however, in the other 6 instances, the provider did not conduct an initial check. The provider did not have documentation that it conducted subsequent background checks for the six subcontractors for which a subsequent background check was required.
- For 7 (70 percent) of the 10 subcontractors tested for which the provider should have had a current background check, the provider did not have a current background check on file as of the auditors' site visit in June 2009.

Auditors independently performed criminal background checks for the subcontractors discussed above and determined that there were no reported offenses that would violate the Department's minimum standards. Although the provider did not provide all the necessary identifying information (Social Security number, date of birth, race, and gender) for three subcontractors, auditors obtained the necessary information from the Department for two of these subcontractors. For the third subcontractor, auditors performed a background check on this subcontractor using only the subcontractor's name so auditors cannot ensure the criminal history results reviewed belong to this individual.

#### **Recommendation**

The provider should ensure that it conducts initial and subsequent background checks for all subcontractors in accordance with the Department's requirements.

## Chapter 5-G

### **The Provider Should Ensure That It Complies with Subcontracting Requirements**

The provider did not consistently ensure that it had documented agreements with all subcontractors as required by the provider's contract with the

Department. Specifically, the provider did not have documented subcontracts with 6 (50 percent) of its 12 subcontractors.

In addition, the provider did not consistently ensure that subcontractors met professional license requirements. Specifically, for 6 (60 percent) of 10 subcontractors tested, the provider did not have documentation to substantiate that the subcontractors had current professional licenses as required by Title 40, Texas Administrative Code, Section 749.553.

### Recommendations

The provider should:

- Ensure that it has documented agreements with all subcontractors.
- Ensure that subcontractors meet professional license requirements.

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to verify that providers are spending federal and state funds for required services that promote the well-being of foster children placed in their care.

### **Scope**

The audit scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between January 2008 and December 2008. In addition, the scope included verifying whether providers ensured that professionally licensed employees and direct care employees met the Department of Family and Protective Services' (Department) requirements for qualifications and training.

The State Auditor's Office requested that management for each provider submit a representation letter. The purpose of a representation letter is to provide assurances that, to the best of management's knowledge, the information provided to auditors was complete and correct. On Call Family Services did not provide a representation letter and, therefore, did not provide these assurances. (See Appendix 9, page 59, for a copy of the State Auditor's Office's request for a representation letter.)

The findings and conclusions related to On Call Family Services in this report were based on the information that On Call Family Services provided to auditors and other evidence that auditors obtained. Because On Call Family Services management did not provide assurances that the information provided to auditors was complete and correct, the findings and conclusions are subject to that limitation.

### **Methodology**

The audit methodology included judgmentally selecting five providers with active contracts based on risk factors the Department used in its annual statewide monitoring plan. Additionally, the audit methodology included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of tests; and interviewing management and staff at the Department and providers.

Information collected and reviewed included the following:

- Information from interviews with the Department's foster care program management and staff.
- Contracts between the Department and providers.
- Providers' costs reports.
- Providers' financial records.
- Providers' independent audit reports.
- Providers' personnel files for direct care employees, professionally licensed employees, and subcontracted therapists.
- Providers' payment records for foster parents.
- Department program monitoring reports.
- Providers' policies and procedures.
- Providers' subcontracts.

Procedures and tests conducted included the following:

- Review of criminal background checks performed on direct care and administrative employees, subcontractors, and foster parents.
- Test of internal controls.
- Test of food, shelter, and clothing costs related to the services provided to children.
- Test of related party costs and contracts.
- Test of payroll records.
- Test of personnel files.
- Test of payments made to foster parents.
- Comparisons of each provider's state foster care revenue with Department records.
- Comparisons of each provider's general ledger to each provider's cost report.

Criteria used included the following:

- U.S. Office of Management and Budget circulars.

- Texas statutes and the Texas Administrative Code.
- Contracts between the Department and providers.
- The Department's Minimum Standards for General Residential Operations and Residential Treatment Centers and Minimum Standards for Child-Placing Agencies.
- The Health and Human Services Commission's Specific Instructions for the Completion of the 2008 Texas 24-Hour Residential Child Care Cost Report.

### Project Information

Audit fieldwork was conducted from May 2009 through July 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Juan R. Sanchez, MPA, CIA, CGAP (Project Manager)
- Lauren Godfrey, CGAP (Assistant Project Manager)
- Debra Dobson
- Melissa Dozier
- Carl Ela
- George Eure
- Lindsay Johnson
- Ann Karnes, CPA
- Jennifer Lehman, MBA, CGAP
- Jennifer Logston, MBA
- Thomas Andrew Mahoney
- Jeannette Quiñonez, CPA
- Fabienne Robin, MBA

- Cesar Saldivar, CGAP
- Sherry Sewell, CGAP
- Willie J. Showels
- Brian York
- Kenneth Manke (Information Systems Audit Team)
- Rachelle Wood, CISA, MBA (Information Systems Audit Team)
- Leslie Ashton, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Assistant State Auditor)

## ***Types of Residential Child Care Providers***

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The Department of Family and Protective Services (Department) contracts with the following types of 24-hour residential child care providers (the following information is from the Department's *Applicants Guide to Listed, Registered, and Licensed Child Care – August 2007*):

- **Foster Family Home (Independent):** A single independent home that is the primary residence of the foster parents and licensed to provide care for six or fewer children up to the age of 18 years.
- **Foster Group Homes (Independent):** A single independent home that is the primary residence of the foster parents and licensed to provide care for seven to 12 children up to the age of 18 years.
- **General Residential Operation:** An operation that is licensed to provide child care for 13 or more children up to the age of 18 years. The care may include treatment and other programmatic services.
- **Residential Treatment Center:** An operation that is licensed to exclusively provide care and treatment services for emotional disorders for 13 or more children up to the age of 18 years.
- **Maternity Homes:** An operation that is licensed to provide care for four or more minor and/or adult women and her children during pregnancy and/or during the six-week postpartum period, within a period of 12 months.
- **Child Placing Agency (CPA):** A person, agency, or organization, other than the child's parents, who is licensed to place or plan for the placement of the child in an adoptive home or other residential care setting.
- **CPA Foster Family Home:** A home under the regulation of a child placing agency that is the primary residence of the foster parent(s) and provides care for six or fewer children up to the age of 18 years. This home is not licensed or issued a residential permit by the Department but is issued a verification by the child placing agency.
- **CPA Foster Group Home:** An operation under the regulation of a child placing agency that is the primary residence of the foster parent(s) and provides care for seven to 12 children up to the age of 18 years. This home is not licensed or issued a residential permit by the Department but is issued a verification by the child placing agency.



## ***Criminal Convictions and Other Findings That May Prohibit an Individual from Being Present at a Residential Care Provider***

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Title 40, Texas Administrative Code, Section 745.613, requires that background checks be completed to determine whether a person has any criminal or abuse and neglect history and whether the person's presence is a risk to the health or safety of children in the person's care.

Title 40, Texas Administrative Code, Section 745.611, defines background checks as searches of different databases. There are four types of background checks:

- Criminal history checks conducted by the Department of Public Safety for crimes committed in the state of Texas.
- Criminal history checks conducted by the Federal Bureau of Investigation for crimes committed anywhere in the United States.
- Central registry checks conducted by the Department of Family and Protective Services. The central registry is a database of people who have been found by the Department's Child Protective Services unit, Adult Protective Services unit, or Licensing unit to have abused or neglected a child.
- An out-of-state central registry check conducted by the Department of Family and Protective Services of another state's database of persons who have been found to have abused or neglected a child.

Title 40, Texas Administrative Code, Section 745.651, specifies that the following types of criminal convictions may preclude an individual from being present at a residential care provider:

(a) A misdemeanor or felony under Texas Penal Code:

- Title 5 (Offenses Against the Person). Examples of these offenses include criminal homicide, kidnapping and unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (Offenses Against the Family). Examples of these offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order or magistrate's order, and sale or purchase of a child.
- Title 7, Chapter 29 (Robbery).
- Title 9, Chapter 43 (Public Indecency), or Title 9, Section 42.072 (Stalking).

- Title 4, Section 15.031 (Criminal Solicitation of a Minor).
- Title 8, Section 38.17 (Failure to Stop or Report Aggravated Sexual Assault of a Child).
- Any like offense under the law of another state or federal law.

(b) A misdemeanor or felony under the Texas Controlled Substances Act, §39.04 (Violations of the Civil Rights of Person in Custody; Improper Sexual Activity with Person in Custody), §42.08 (Abuse of Corpse), §42.09 (Cruelty to Animals), §42.091 (Attack on Assistance Animal), §42.092 (Cruelty to Nonlivestock Animals), §42.10 (Dog Fighting), §46.13 (Making a Firearm Accessible to a Child), Chapter 49 (Intoxication and Alcoholic Beverage Offenses) of Title 10 of the Texas Penal Code, §106.06 of the Texas Alcoholic Beverage Code (Purchase of Alcohol for a Minor; Furnishing Alcohol to a Minor), or any like offense under the law of another state or federal law that the person committed within the past ten years.

(c) Any other felony under the Texas Penal Code or any like offense under the law of another state or federal law that the person committed within the past 10 years.

(d) Deferred adjudications covering an offense listed in subsections (a)-(c) of this section, if the person has not completed the probation successfully.

Title 40, Texas Administrative Code, Section 745.655, specifies that the following types of central registry findings may preclude an individual from being present at a residential care provider:

- Any sustained finding of child abuse or neglect, including sexual abuse, physical abuse, emotional abuse, physical neglect, neglectful supervision, or medical neglect.
- Any central registry finding of child abuse or neglect (whether sustained or not), where the Department of Family and Protective Services has determined the presence of the person in a child-care operation poses an immediate threat or danger to the health and safety of children.

Title 40, Texas Administrative Code, Section 745.657, specifies that there are three possible consequences of having either a conviction listed in section 745.651 of the Texas Administrative Code, Title 40, or a central registry finding in section 745.655 of the Texas Administrative Code, Title 40:

- A person is permanently barred and must not be present at an operation while children are in care.

- A person is temporarily barred and may not be present at an operation while children are in care pending the outcome of the administrative review and due process hearing.
- A person must not be present at a child-care operation while children are in care, unless a risk evaluation is approved.

The Department of Family and Protective Services determines which of the three actions listed above it will take in individual cases. It then notifies the provider regarding the particular actions it will take for specific individuals.

Responses from Azleway, Inc.



**AZLEWAY  
INCORPORATED**

HOME OF  
AZLEWAY BOYS' RANCH &  
AZLEWAY CHILDREN'S  
SERVICES

CORPORATE OFFICES &  
AZLEWAY BOYS RANCH  
15892 COUNTY ROAD 26  
TYLER, TX 75707  
903.566.8444

AZLEWAY CHILDREN'S  
SERVICES LOCATIONS

EAST TEXAS DIVISION  
15892 COUNTY ROAD 26  
TYLER, TX 75707  
903.566.8444

BIG SANDY RANCH  
1085 PRIVATE ROAD 3481  
BIG SANDY, TX 75755  
903.636.4262

CORSICANA DIVISION  
800 NORTH MAIN, SUITE G  
CORSICANA, TX 75110  
903.874.5500

HOUSTON DIVISION  
19333 HIGHWAY 59 N, STE 120  
HUMBLE, TX 77339  
281.446.8038

LUFKIN DIVISION  
2704 SOUTH MEDFORD DRIVE  
LUFKIN, TX 75901  
936.639.4387

METROPLEX DIVISION  
1201 W.N. CARRIER PARKWAY  
STE 101  
GRAND PRAIRIE, TX 75050  
972.206.2885

PINE MOUNTAIN RANCH  
600 PR 8404  
PALESTINE, TX 75803  
903.549.3194

SUBSTANCE ABUSE PROGRAM  
1085 PRIVATE ROAD 3481  
BIG SANDY, TX 75755  
903.636.9800

PAL SMART PROGRAM  
15892 COUNTY ROAD 26  
TYLER, TX 75707  
903.834.3228

THERAPEUTIC WILDERNESS CAMP  
600 PR 8404  
PALESTINE, TX 75803  
903.549.3194

September 23, 2009

State Auditor's Office  
Attention Juan R. Sanchez  
Robert E. Johnson Building  
P.O. Box 12067  
Austin, TX 78711-2067

Re: Management Responses to *On-Site Audits of Residential Child Care Providers*

Dear Mr. Sanchez,

Below, you will find the Azleway, Inc. responses to the **Report on On-Site Audits of Residential Child Care Providers** which was issued in September, 2009. The portion of your report that our responses relate to are found in Chapter 1 – Azleway, Inc.

**Chapter 1-A: The provider should consistently conduct background checks for its foster parents in a timely manner.**

**Response:** Azleway, Inc agrees with this finding. Chester Amidon or his designee are implementing procedures to ensure this is done in a more timely manner. The Monthly Foster Home Monitoring report has been amended to include the date of last background check to ensure timely bi-annual background checks.

**Chapter 1-B: The provider should consistently conduct background checks for its employees and subcontractors in a timely manner.**

**Response:** While Azleway, Inc does not agree with states percentages, Azleway, Inc DOES agree with this finding. Chester Amidon will work with James Surber (HR Director) to ensure this is done in a more timely manner. Also, subcontractor start dates will be more adequately documented so this is not an issue in the future.

*"Providing Today's Children With A Brighter Tomorrow"*

**Chapter 1-C: The provider should ensure that it properly discloses all related party transactions on its cost report.**

**Response:** **Azleway, Inc does not agree with this finding based on data provided by HHSC.** *SPECIFIC INSTRUCTIONS for the completion of the 2008 TEXAS 24-HOUR RESIDENTIAL CHILD CARE COST REPORT* is very specific about who meets the definition of a related party. *Schedule C: Related-Party Compensation of Owner-Employees and Other Related-Party Employees* instructions state, "For cost-reporting purposes, an employee who meets the definition of a related party or owner who is a sole-proprietor, a partner owning 5% or more of the partnership, or a corporate stockholder owning 5% or more of the outstanding stock of the contracted provider must report their compensation on a Schedule C." [Page 87, 2008 Texas 24-Hour RCC Cost Report Instructions]

The Executive Director of Azleway, Inc is NOT a 'sole-proprietor, a partner owning 5% or more of the partnership, or a corporate stockholder owning 5% or more of the outstanding stock' since Azleway, Inc is a 501(c)3 non-profit agency. Although the instructions above do not explicitly dictate that the Executive Director's family member should have been reported on Schedule C, Azleway, Inc will ensure that persons related to the Executive Director are reported on Schedule C of the 24 Hour RCC Cost Report. Steven Booker, Chief Financial Officer, will be responsible for this oversight and correction.

**Chapter 1-D: The provider should ensure that all foster parents receive the required training, certifications and screenings.**

**Response:** **Azleway, Inc agrees with this finding.** Chester Amidon and the Azleway, Inc Regional Directors are working to ensure appropriate training/certifications/etc is received by all foster parents. The Monthly Foster Home Monitoring report has been amended to include a listing of current training hours and year to date total.

**Chapter 1-E: The provider should ensure that all employees receive the required trainings and screenings.**

**Response:** **Azleway, Inc agrees with this finding.** Chester Amidon and the Azleway, Inc Regional Directors are working to ensure appropriate training/certifications/etc is received by all employees parents.

**Chapter 1-F: The provider should ensure that it complies with foster parent agreement requirements.**

**Response:** **Azleway, Inc agrees with this finding.** Chester Amidon has already implemented a new procedure to ensure foster parent agreements are signed by both parties.

**Chapter 1-G: The provider should strengthen access to and security of its automated systems, applications and data.**

**Response:** **Azleway, Inc agrees with this finding.** During 2008, Azleway, Inc did not employ a Director of Technology. During the Summer of 2009, Azleway, Inc hired Adam Reed as the Director of Technology. During Mr. Reed's short employment with the agency, he has already made improvements in the following areas:

- Policies and Procedures regarding user access
- System security
- System and data backup and recovery
- Passwords
- Segregation of Duties
- Physical Security

Furthermore, Mr. Reed along with the assistance of the Associate Director (Gary Duke) and the Chief Financial Officer (Steven Booker) will continue to enhance planning in the area of disaster recovery and business continuity planning.

Azleway, Inc greatly appreciates the professionalism by which your staff conducted this on-site audit. If we can be of any assistance in the future, please feel free to contact us by calling 903.566.8444.

Regards,



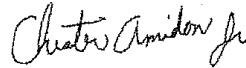
Bill Partridge  
Executive Director



Steven Booker  
Chief Financial Officer



Gary Duke  
Associate Director



Chester Amidon  
CPA Director

## Responses from Homes4Good

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### Addendum

Please note that Homes4Good identified many of these issues in 2008 and has implemented new policy and procedures, as well as technology for strengthening these issues.

#### Chapter 2 - A

**The Provider Should Properly Record All of Its Expenditures in Its General Ledger, Ensure That Its Expenditures ARE Properly Supported, and Develop Policies and Procedures for Key Financial Process**

Management agrees is the findings. Please note that the financial operations had been previously outsourced. When this proved to be problematic, the agency brought this back in house in early 2009. We continue to work on strengthening policies and procedures.

#### Chapter 2 - B

**The Provider Should Ensure That It Pays Foster Parents Based For the Same Service Levels and Days of Service for Which It Was Paid by the Department**

**The policy at Homes4Good is that we pay at Basic Level until an YFT documentation is received. Too often, State will pay at one Level one month then a couple of months or so later the State will take it back on another Provider Statement. It is easier to go back and back pay the families than it is to go back and get money back from the families, especially if the child has left the home or the family left H4G.**

**We had two kids placed with H4G on 11-25-08 in a foster home without an YFT to show the correct LOC. We paid the Foster home for both kids at Basic Level, 6 days for November and 31 days for December. We finally received an YFT on 1-5-09 and did not receive payment for one of the children until January 2009 on Warrant # 1744790 Date 1-13-09 for both months and nothing for the other child. We did receive payment for second child in February 2009 for both months on Provider Statement Warrant #2260509 Date 2-10-09. Once we received the YFT dicumentation, we paid the family correctly in the months of January and February for the months of November and December.**

**On the underpayment to a home for two days: this family transferred to another agency and we paid for the nights that the children were in the home while they are with H4G. When we see that the State pays for those days, w then we paid the parent for those days.**

#### Chapter 2 - C

## **The Provider Should Ensure That All Foster Parents and Employees Receive the Required Training and Screenings**

Management agrees with the findings and the Homes4Good Regional Director is responsible for the implementation of the corrective action plan listed below.

### **Foster Parent Training, Certifications, and Screenings**

- To ensure that all foster parents receive and maintain current CPR and first aid certifications, a Due Date spreadsheet will be implemented to track the foster home requirements to include CPR and first aid training. The Homes4Good Client Information Specialist will track and update the due dates for the requirements each month and will email the spreadsheet to the Family Specialists by the 10<sup>th</sup> of each month ensure foster/adoptive parents current on the on-going requirements for the foster home. The effective date of implementation is 10-1-09.

### **Employee Training**

- To ensure that employees receive required orientation and pre-service training, all new hires will attend orientation training the first 30 days of employment with Homes4Good. The trainer and new employee will sign sign-in sheets for each class. At the conclusion of the orientation training a certificate of completion will be placed in the employee personnel file and a copy given to the new employee. The effective date for implementation is 9-25-09.
- To ensure that all employees receive annual behavioral intervention training and psychotropic medication training, behavioral intervention training was held on 7-14-09 and psychotropic medication was held on 7-29-09. The staff and trainer signed a sign-in sheet and certificates of completion rendered. A copy of the training certificate was placed in the employees personnel file and the original was the employees. The employees that have not completed the training for 2009 will complete both trainings by 12-31-09.
- To ensure that all employees receive the required number of annual training hours, the Homes4Good Regional Director will review the training hours of each program staff member on a quarterly basis. After review of the annual training hours, the number of employee annual training hours will be shared in staff meeting to ensure staff



are aware of status of their training and to schedule to attend future training to meet the required number for the calendar year. The effective date for implementation is 10-1-09.

- To ensure that all employees receive tuberculosis screenings, new employees will be required to get a tuberculosis screenings the first week of employee and all current employees will be required to get a tuberculosis screenings every three years per Homes4Good policy and procedure. The due dates for the updated tuberculosis screenings will be tracked by the Homes4Good Regional Director on a quarterly basis. The effective date of implementation is 10-1-09.

#### **Chapter 2 – D**

##### **The Provider Should Consistently Conduct Subsequent Background Checks for Foster Parents in a Timely Manner**

Management agrees with the findings and the Homes4Good Regional Director is responsible for the implementation of the corrective action plan listed below.

- To ensure Homes4Good conducts subsequent background checks for all the foster parents in accordance with the Department's requirements, a Due Date spreadsheet will be implemented to track the foster home requirements to include criminal background checks. The Homes4Good Foster Home Developer will track and update the due dates for the requirements each month and ensure the Homes4Good Information Specialist performs the subsequent criminal background checks within 24 month from the previous criminal background check. The effective date of implementation is 10-1-09.

#### **Chapter 2 – E**

##### **The Provider Should Consistently Conduct Background Checks for Its Employees and Subcontractors in a Timely Manner**

Management agrees with the findings and the Homes4Good Regional Director is responsible for the implementation of the corrective action plan listed below.

- To ensure that Homes4Good conducts initial and subsequent background checks for all the employees and subcontractors in accordance with the Department's requirements, Homes4Good Executive Administrative Assistance will track all employee and

subcontractor background check due dates via the Homes4Good data perform employee and subcontractor's initial background check and the subsequent background checks within the 24 months of the initial criminal background checks. The effective date of implementation is 10-15-09.

**Chapter 2 – F  
The Provider Should Ensure That It Complies with Cost Report and Board Composition Requirements.**

Management agrees with the findings with one exception. It is inaccurate that H4G paid \$723,965 to a contractor, and one of the agency's board members benefitted financially from the award of that contract. We did not begin contracting with AltSource until April of 2008. The amount should be about \$680,000, not \$723, 965. We believe this figure includes monies paid to Legacy, Inc. and Norman Rosenblatt that are NOT associated with the Board of Directors.

We are currently working on expanding the board of directors.

As previously mentioned, regarding the cost report, this function was outsourced to Legacy, Inc. and Norman Rosenblatt until 2008 - 2009. When this proved problematic, we brought this in house and are currently using an accrual basis and reconciles on the general ledger.

**Chapter 2 – G  
The Provider Should Ensure That It Complies with Contracting and Subcontracting Requirements**

Management agrees with the findings and the Homes4Good Regional Director is responsible for the implementation of the corrective action plan listed below.

- To ensure that Homes4Good has documented agreements with all foster parents and subcontractors, all foster parents and subcontractors will receive documented agreements upon approval of foster parent verification for the foster home by a Child Placement Management Staff and approval of the contractual agreement between the subcontractor and Homes4Good by Clinical Director and Regional Director. The foster parents and subcontractors will receive a signed copy of the agreements for their record and the original will be placed in the foster parent file and the subcontractor's file in the Homes4Good office. The effective date of implementation is 10-1-09.

**Chapter 2 – H**  
**The Provider Should Consistently Ensure that All Licensed Subcontractors Maintain Current Professional Licenses**

Management agrees with the findings and the Homes4Good Regional Director is responsible for the implementation of the corrective action plan listed below.

- To ensure that all licensed subcontractors maintain current professional licenses, Homes4Good Executive Administrative Assistance will track all subcontractor licensure requirements via running a report for the computer database and contacting and obtaining all the necessary updated licenses from the subcontractors. The effective date of implementation is 10-1-09.

**Chapter 2 – I**  
**The Provider Should Strengthen Access to and Security of Its Automated Systems, Applications, and Data.**

Homes4Good has specific systems in place for specific functions. It appears that there may have been a misunderstanding in relation to the backup system and the ability of people to delete data on the server or CTK.

To address information on the server first it is a typical server based file system that allows for people in specific groups to manage, update and yes, delete the information assigned to that specific group. For example, the Accounting folder on the server is assigned only to the Accounting group. Only members of the Accounting group have access to the contents of the Accounting folder. Because of this only members in the Accounting group are able to create, modify or delete information in the Accounting folder on the server.

Additionally, because of the way the backup system is configured it would be very difficult, if not impossible to permanently delete data from the server. This is because the server is backed up every hour to an external drive. This backup is incremental in the sense that any document created or modified in the last hour is backed up. These backups are done at the system level and need to use interaction. If a document or folder happened to be deleted on the server, it could be recovered and reverted to the previous backup, which at least would be the previous hour. At most would be the hour following the documents last modification date. This means that at most the document would be 1 hour out of sync with it's current contents.

The contents of the server are then backed up again every night at midnight to an offsite location in California. This is an exact duplicate of the contents of the Groups folder where all shared information is stored. This backup can then be restored as a whole, or on an individual file basis. Homes4Good Administration and IT Staff feel this is more than anyone could ask for in regards to a backup solution.

In regards to CTK (the web based information system) the only users who are allowed to delete any data are Administrative users. Currently there are two users with Administrative access to CTK. J. Hall and Beau Alexander. Any item to be deleted from CTK must be submitted to the help desk email system so a ticket can be created and a log of the request be made so as to back track to the user who requested the information to be removed. Even after information has been deleted it may still exist on the CTK backups and would be able to be retrieved by submitting a request to restore the information.

## Responses from the Hughen Center



### The Hughen Center, Inc.

*"Where Hope Provides A Helping Hand"*

*Serving physically disabled children since 1936*

September 23, 2009

Mr. Juan Sanchez, MPA, CIA, CGAP, Project Manager  
State Auditor's Office  
P.O. Box 12067  
Austin, TX 78711-2067

Dear Mr. Sanchez,

As requested, I am providing our formal response to the State Auditor's report. Hughen Center agrees with the findings. The non-compliances described have been corrected. The training, screening, certification and background check issues (chapter 3a, 3b) were addressed in 2008 in response to a DFPS review of the same information. The human resource manager has been tasked with the continued compliance. Periodic reviews of personnel records by senior management on a regular basis will be conducted to provide consistency in compliance.

The recommendations concerning identified weaknesses in our automated systems (chapter 3c) will be given full consideration. I will meet with the contracted IT personnel to discuss the recommendations by year's end. Some recommendations have already been implemented.

I appreciate the feedback provided from this review.

For the children,

A handwritten signature in black ink that reads "Monte Osburn". The signature is fluid and cursive.

Monte Osburn  
Executive Director

Bob Hope School            Hebert Adult Center  
2849 Ninth Avenue • Port Arthur, Texas 77642 • Phone: (409) 983-6659 • Fax: (409) 983-6408

*The Hughen Center, Inc. is designated a 501 (c) (3) non profit and donations are tax-deductible.*

## Responses from Lutheran Social Services of the South



September 17, 2009

State Auditor's Office  
ATTN: Juan R. Sanchez  
P.O. Box 12067  
Austin, Texas 78711-2067

Subject: Representation Letter for On-site Audits of Selected Residential Foster Care Contractors – Agency Response

During the auditing visit two deficiencies were noted. Below you will find the Lutheran Social Services of the South's response to both findings to include agreement with the findings, the title of the person responsible for implementing corrective action and a time line for implementation.

**Finding 1:** Non-compliance with background check requirements for foster parents, employees, and subcontractors

**Agency Response:** LSS agrees with the finding. In late summer 2008 LSS implemented a state-wide background check process that encompasses checks for foster parents, employees and subcontractors. This systematic process has been effective as evidenced by the auditors note at the time of the visit all foster parents and employees tested had current background checks on file and all subcontractors tested had current background checks on file. This will be monitored by the Regional Directors for foster care.

**Finding 2:** Weakness in access to and the security environment surrounding automated systems, applications, and data

**Agency Response:** LSS agrees with the finding. The specific weakness identified by the auditors was access control into the LSSS accounting system. Previously, user access was controlled exclusively by the Corporate Controller as the Security Administrator. To correct this weakness "Pass through Authentication" was implemented. This requires IT assigning network credentials to employees prior to accounting assigning accounting credentials. This solution provides the required "checks and balances" since the network and accounting credentials are assigned independent of each other and both are required for access into the accounting system. This modification was implemented on August 7, 2009 and will be monitored by the IT Systems Support Specialist.

Thank you for your time, energy and patience during this process and we appreciate your commitment to providing positive support for those programs who serve children and families. Please let us know if you have any questions or concerns.

Respectfully submitted,

Kurt Senske,  
Chief Executive Officer  
Lutheran Social Services of the South

Mailing: P.O. Box 140767 † Austin, TX 78714-0767 † Shipping: 8305 Cross Park Dr. † Austin, TX 78754  
512-459-1000 † FAX 512-452-6855 † [www.lsss.org](http://www.lsss.org)

**Responses from On Call Family Services**

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**September 23, 2009**

**Mr. Jaun R. Sanchez  
Project Manager  
State Auditor's Office  
P.O. Box 12067  
Austin, Texas 78711-2067**

**Subject: Response to On Called Family Services report.**

- 1. In response to the serious weaknesses in financial processes. On Called Family Services disagree with this statement. State auditors staff was aware of the situation, that On Called Family Services was going through several investigations conducted by the Department of Family and Protective Services. Also at that time, On Called Family Services had a civil rights complaint filed against The Department of Family and Protective Services. Therefore we did not have sufficient time to prepare for this audit especially with the limited staff that On Called Family Services had.**
- 2. In Response to the claim that the auditors reconciled revenue the provider received from the department in the uniform statewide accounting system to the provider's financial records and reconciled payments to foster parents to department provider statements on a test basis. In Response to that statement. No request was made by provider (A Total Lie!) No funds were requested from state!**
- 3. In response to the background check that was performed on foster parent and employees. Which employees did Auditors check for background?**

- 4. On Called Family Services do not have to keep records on any employee that has left the company over year. According to the Minimum Standards.**
- 5. No significant related party transactions were omitted from the cost report.**
- 6. IT Environment, Not applicable, all input/output handled by one person.**

**On Called Family Services does not have any recommendations because we have no contract there fore we are closed. It is a shame that we had to succumb to this retaliation by the Department of Family and Protective Services. To be audited by the state auditors when the company has never had over 20 kids in there care for the period of three years. It is wrong when your IT department wants a small company to have such great big technology when the Department does not. On Called Family Services has been without a contract since August 31, 2009 and we are still receiving confidentially information about kids in the system. There system is broken.**

**Sincerely,  
Tammy Britton**



## ***The State Auditor's Office's Request for a Representation Letter from the Management of On Call Family Services***

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Below is a copy of the State Auditor's Office's request for a representation letter from the management of On Call Family Services. On Call Family Services did not provide a representation letter.



September 9, 2009

Ms. Tammy Britton, Executive Director  
On Call Family Services, Inc.  
500 North Hampton Road, Suite A4  
Desoto, TX 75115

Subject: Representation Letter for On-site Audits of Selected Residential Foster Care Contractors

Dear Ms. Britton:

We request that the attached representation letter be completed and returned to the State Auditor's Office. The representation letter should be dated September 23, 2009. Please address the letter as follows:

State Auditor's Office  
ATTN: Juan R. Sanchez  
P.O. Box 12067  
Austin, TX 78711-2067

In the representation letter, your organization's management acknowledges that it has primary responsibility for program results; efficient use and protection of resources; identification of, and compliance with, applicable state and federal laws and regulations; collection, maintenance, reporting, and use of reliable and timely information; and the internal controls associated with these responsibilities.

The representation letter is also an acknowledgment that, to the best of management's knowledge, the information provided to the audit team is complete and correct. The representations do not constitute a guarantee by management that the information given is correct but rather that the information is, in good faith, management's best knowledge and belief. A representation letter does not relieve us of any of our responsibility or alter the fundamental responsibilities of organization management. It simply clarifies the traditional roles that management and the auditor perform. It prevents misunderstandings, provides a checklist for important matters that affect the audit objectives, and complements other performed audit procedures.

Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

P.O. Box 12067  
Austin, Texas 78711-2067

Phone:  
(512) 936-9500

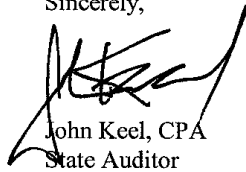
Fax:  
(512) 936-9400

Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)

Ms. Tammy Britton, Executive Director  
On Call Family Services, Inc.  
September 9, 2009  
Page 2

Thank you for helping us complete the audit of your organization. If you have any questions, please contact Juan R. Sanchez, project manager, or me at (512) 936-9500.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Keel", is written over the typed name and title.

John Keel, CPA  
State Auditor

Attachment

cc: Mr. Best Heneden, Board President

**REPRESENTATION LETTER**  
(Organization Letterhead)

(Date)

State Auditor's Office  
ATTN: Juan R. Sanchez  
P.O. Box 12067  
Austin, Texas 78711-2067

Subject: Representation Letter for On-site Audits of Selected Residential Foster Care Contractors

The following representations are presented in connection with your examination of On Call Family Services, Inc. as of September 23, 2009. We understand that the objectives of your audit are to perform on-site financial audits of selected residential foster care contractors to verify whether contractors are spending federal and state funds for required services that promote the well-being of foster children in their care for calendar year 2008. These representations are made in good faith and to the best of our knowledge and belief. We confirm, via our signatures, the following specific representations made to you relating to your audit:

1. We have made available to you all information relevant to your objectives, including:
  - Financial and program records, related data, and reports.
  - Minutes from the board meetings.
  - Policies and procedures.
  - Pertinent personnel.
  - Information concerning related parties.
  - Significant contracts.
2. We are responsible for program results.
3. We are responsible for the efficient use and protection of resources.
4. We have identified and disclosed to you all laws, regulations, rules, contracts, grants, and other agreements that have a significant effect on the determination of the audit objectives.
5. We are responsible for compliance with these laws, regulations, rules, contracts, grants, and other agreements.
6. We are in compliance with these laws, regulations, rules, contracts, grants, and other agreements. We have identified and disclosed to you all known noncompliance with these requirements, except as follows on the attached addendum.
7. We are responsible for the accuracy, completeness, and timeliness of the information disseminated both verbally and in writing.

8. We are responsible for the fair presentation of financial position and program results in our reports.
9. We are responsible for establishing and maintaining effective internal controls to help ensure that appropriate goals and objectives are met; that resources are used efficiently, economically and effectively and are safeguarded; that laws and regulations are followed; and that reliable data are obtained, maintained, and fairly disclosed.
10. We have identified and disclosed to you any known significant deficiencies in internal controls affecting the audit objectives.
11. There have been no instances of fraud, violations, or abuse (either known or currently under investigation) involving management or employees, except as follows on the attached addendum. (Note: Cases involving individuals with significant roles in the internal control structure will be identified separately.)
12. We have disclosed all plans, intentions, and actions that may significantly affect the audit results, except as follows on the attached addendum.
13. All material transactions have been properly recorded in the accounting records, except as follows on the attached addendum.
14. We have disclosed to you any significant changes (whether oral or written) to our contracts with the Department of Family and Protective Services that were audited.

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Signature of Tammy Britton, Executive Director

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Date

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair  
The Honorable Joe Straus III, Speaker of the House, Joint Chair  
The Honorable Steve Ogden, Senate Finance Committee  
The Honorable Thomas “Tommy” Williams, Member, Texas Senate  
The Honorable Jim Pitts, House Appropriations Committee  
The Honorable Rene Oliveira, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Health and Human Services Commission**

Mr. Thomas Suehs, Executive Commissioner

### **Department of Family and Protective Services**

Ms. Anne Heiligenstein, Commissioner

### **Board Members and Executive Directors of the Following Providers Audited**

Azleway, Inc.  
Homes4Good  
The Hughen Center  
Lutheran Social Services of the South  
On Call Family Services



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