



# **COUNTY OF SACRAMENTO**

**DEPARTMENT OF FINANCE**

**AUDITOR - CONTROLLER**

## **COUNTY OF SACRAMENTO**

**Department of Health and Human Services/Probation Department  
Residentially Based Services Program Agreed-Upon Procedures  
Quality Group Homes, Inc.**

**For the Period from January 1, 2011 to December 31, 2011**

**COUNTY OF SACRAMENTO**

Department of Health and Human Services/Probation Department  
Residentially Based Services Program Agreed-Upon Procedures  
Quality Group Homes, Inc.

For the Period from January 1, 2011 to December 31, 2011

Audit Staff:

Hong Lun (Andy) Yu, C.P.A.  
Tae-Young Weiler

Audit Manager  
Senior Auditor

County of Sacramento  
Department of Health and Human Services/Probation Department  
Residentially Based Services Program Agreed-Upon Procedures  
Quality Group Homes, Inc.  
For the Period from January 1, 2011 to December 31, 2011

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Department of Finance

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June 27, 2012

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the California Department of Social Services (CDSS), the County of Sacramento Department of Health and Human Services (DHHS) and Probation Department, solely to assist DHHS and Probation Department in evaluating Quality Group Homes, Inc. (QGH)'s compliance as outlined in its perspective contract with County of Sacramento, as mandated by Title 2 Code of Federal Regulations (2 CFR) Part 230, *Cost Principles for Non-Profit Organizations* (formerly known as Office of Management and Budgets Circular A-122), CDSS guidelines, California Corporations Code (CCC) Section 6320 (a) (1) and 5231, and California Health and Safety Code Section 1520.1 (f) related to Residentially Based Services (RBS) program for the period from January 1, 2011 to December 31, 2011. DHHS and Probation Department's managements are responsible for ensuring QGH's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibilities of DHHS and Probation Department's managements. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the program referred above and is not intended to pertain to any other programs of the QGH.

The procedures we performed and our findings are as following:

- 1) Review of Operation – We obtained an understanding of the QGH's operation by making inquiries to the QGH's staff and management and reviewing QGH's organizational chart. We also obtained and reviewed the list of programs operated by the QGH, each

program's primary activities and services, funding sources, and methodology for recording receipts of funds.

Finding: We did not note any concerns or issues that required attention as a result of our procedures.

- 2) Review of Internal Control – We obtained, reviewed, and tested on a sample basis QGH's internal control policies and procedures including purchasing, vendor payments, payroll, cost allocation, petty cash, financial reporting/general ledger, and bank reconciliation to verify whether QGH's policies and procedures are appropriate for QGH to keep adequate and correct books and records of account in accordance with CCC Section 6320 (a) (1).

Finding: It appeared that QGH's internal control policies and procedures are appropriate for QGH to keep adequate and correct books and records of account in accordance with CCC Section 6320 (a) (1).

- 3) Review of Board of Directors – We obtained and reviewed QGH's Articles of Incorporation and By-Laws. We obtained and reviewed a list of current board members and board minutes from January 1, 2011 to the most recent board minutes as of June 27, 2012. We interviewed one of the QGH's board members. We verified that the publication issued by CDSS entitled "*Facts You Need to Know, Group Home Board of Directors*" was provided to all board members. We also verified that the Board of Director Statement on the publication was signed by all board members certifying that they read and understood the information contained in the publication.

Finding: We did not note any concerns or issues that required attention as a result of our procedures.

- 4) Review of Audited Financial Statements – We obtained and reviewed the QGH's most recent audited financial statements to identify any financial irregularity or other concerns.

Finding: We did not note any concerns or issues that required attention as a result of our procedures.

- 5) Review of General Ledger and RBS Program Costs – We obtained and reviewed QGH's RBS program draft cost report and general ledger to verify that QGH maintained RBS expenditure separately from other program expenditures and that the RBS program draft cost report data are properly traced to the accounting record.

Finding: QGH maintained RBS expenditures separately from other program expenditures. However, we noted some concerns from our review of QGH's general ledger and RBS program costs. See Finding #1 on *Findings and Recommendations* section.

- 6) Review of Expenditures – We obtained general ledger detail for RBS program, scanned the transaction detail, and selected accounts to be tested considering the significance of transactions and dollar amounts. We also obtained RBS program payroll allocation worksheet from QGH. We then selected 80 transactions (40 non-payroll transactions and

40 payroll transactions) from the selected accounts such as food, clothing, supervised activities, salaries and benefits, etc. and traced them to the supporting documentation such as vendor invoices, receipts, journal entries, bank statements, contracts, payroll registers, and timesheets, etc. We also inspected these transactions' compliance with 2 CFR Part 230, CDSS guidelines, and the contract with the County of Sacramento.

Finding: We noted some concerns from our review of QGH's non-payroll expenditure. See Finding #2 on *Findings and Recommendations* section.

- 7) Review of Cost Allocation – We obtained and reviewed the QGH's written costs allocation policies and procedures to verify whether QGH's cost allocation policies and procedures were properly documented, the allocation methodology appeared reasonable and was consistent with CDSS guideline.

Finding: It appeared that QGH's cost allocation policies and procedures were properly documented, and the allocation methodology was reasonable and consistent with CDSS guideline.


We were not engaged in, and did not perform an examination, the objectives of which would be the expression of opinions on compliance for RBS program or Schedule of Program Costs, or the effectiveness of internal control over compliance. Accordingly, we do not express such opinions or provide any assurance. The accompanying Schedule of Program Costs is compiled by abstracting data from QGH's general ledger. As described above, we do not issue any opinions or provide any assurance for this schedule. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The supplementary information listed in the table of contents is requested by CDSS. We have applied certain limited procedures to the supplementary information, which only consisted of inquiries of QGH's management, comparing the information for consistency with management's responses to our inquiries, and other knowledge we obtained during performing our procedure item number 1 to 7 as described above. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

This report is intended solely for the information and use of CDSS, County of Sacramento, Federal Awarding Agencies, pass-through entities, and QGH's management and is not intended to be and should not be used by anyone other than those specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Sincerely,

JULIE VALVERDE  
DIRECTOR OF FINANCE

By:   
Hong Lun (Andy) Yu, C.P.A.  
Audit Manager

County of Sacramento  
 Department of Health and Human Services/Probation Department  
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 Schedule of Program Costs  
 For the period from January 1, 2011 to December 31, 2011

<b>Cost Groups</b>	<b>Reported RBS AFDC-FC Costs</b>	<b>Unsupported/ Questioned Costs</b>	<b>Disallowed Costs</b>	<b>Total Costs</b>
RBS Residential Program	\$ 550,334			550,334
RBS Community Care	59,973			59,973
<b>Total Costs</b>	<b>\$ 610,307</b>			<b>610,307</b>

See Agreed-Upon Procedures Report

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Supplementary Information  
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NOTE 1 – ORGANIZATION

Quality Group Homes, Inc. (QGH) was incorporated as a nonprofit public benefit corporation on May 15, 1984. QGH provides foster care services, residential and outpatient treatment for youth, adolescents and their families in Fresno and Sacramento Counties.

NOTE 2 – PROGRAM DESCRIPTIONS

The purpose of Residentially Based Services (RBS) program is to improve outcomes for children and youth with complex emotional and behavioral needs who receive services through California's child welfare, juvenile justice and mental health systems by transforming the current system of group home care to a system of residentially based services. The physical location of RBS program is Sparks home located in Sacramento, California. The Sparks facility is all male residence with 6 beds. During the periods from January 1, 2011 to December 31, 2011, total 10 children received the services from the RBS program.

NOTE 3 – RBS PROGRAM COSTS

QGH maintains separate accounts in the general ledger to track RBS program costs. Accordingly, the RBS program costs presented in the accompanying Schedule of Program Costs are abstracted from QGH's general ledger.

RBS program costs are supplemented by Early and Periodic Screening, Diagnosis and Treatment (EPSDT), Mental Health Services Act (MHSA), and Medi-Cal revenues in addition to the Aid to Families with Dependent Children-Foster Care (AFDC-FC) program funding.

In addition to this agreed-upon procedures engagement, QGH is required to submit Financial Audit Report (FAR) to the California State Department of Social Services. The FAR will separately identify all revenues and expenditures attributable to the RBS program. In addition, the FAR will include the applicable audited "*RBS Cost Data Report*" certified by QGH's independent auditor. The due date of the *RBS Cost Data Report* submission for the period from January 1, 2011 to December 31, 2011 is September 30, 2012. QGH's FAR for the fiscal year ended December 31, 2012 has not been completed as of June 27, 2012. As such, the RBS costs shown on the Schedule of Program Costs are unaudited costs.

NOTE 4 – RBS PROGRAM AGREED-UPON PROCEDURES

We started our agreed-upon procedures for QGH's RBS program on March 6, 2012 by sending a letter to QGH to notify it about our engagement and our objectives and to provide information for QGH to prepare for the engagement. We visited the QGH's Sacramento Office located at 3990 Branch Center Road, Sacramento, CA 95827 from May 22, 2012 through May 24, 2012 to perform our testing.



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**1. Mental Health Costs**

According to the California State Department of Social Services Manual of Policies and Procedures (MPP) 11-402.825, the cost incurred for "Psychiatric and psychological consultations associated with Title IV-E activities" are not allowable costs.

During our review of Quality Group Homes, Inc. (QGH)'s Aid to Families with Dependent Children – Foster Care (AFDC-FC) costs of Residentially Based Services (RBS) program, we noted that QGH included mental health costs that are not allowable for AFDC-FC program in the amount of \$68,462 as RBS AFDC-FC program costs.

It appeared that management and staff of QGH were not familiar with RBS program cost requirements about mental health costs. RBS is a pilot program and this is QGH's first year preparing for RBS program cost report.

QGH reduced its RBS program AFDC-FC funded cost by \$68,462 during our review field work. The \$68,462 of mental health costs are supplemented by Mental Health Services Act (MHSA) and Medi-Cal funding. QGH made a journal entry to charge the appropriate funding source for the \$68,462 from AFDC-FC to mental health. As such, no questioned or disallowed mental health costs are included in the accompanying Schedule of Program Costs.

Recommendation

We recommend QGH obtain sufficient knowledge for RBS program cost reporting requirements by attending training and/or contacting appropriate granting agencies to properly report the RBS program costs.

**2. Unsupported bank service fee, bank overdraft fees and penalty**

Program expenditures should be supported by adequate documentation. In addition, according to Title 2 Code of Federal Regulations (2 CFR) Part 230, Appendix B, section 16, fines and penalties are unallowable costs.

During our testing of RBS AFDC-FC administration costs, we noted that there was no supporting documentation for a bank service charge in the amount of \$86. We expanded our sample, conducted further testing for the same account transactions and noted another unallowable bank overdraft fees in the amount of \$50 was included as RBS administration costs. In addition, we noted that Civil Penalty in the amount of \$550 was also included as RBS administration costs. The Civil Penalty was for the violation of Title 22 California Code of Regulation Section 80087(a) and the violation has been resolved.

QGH reduced its RBS AFDC-FC funded cost by \$686 (\$86 + \$50 + \$550) during our review field work. The \$686 of unsupported costs are absorbed by QGH's general unrestricted fund.

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As such, no questioned or disallowed bank fees or penalty costs are included in the accompanying Schedule of Program Costs.

Recommendation

QGH should maintain adequate supporting documentation for all RBS program costs. QGH should not include the costs related to fines and penalties as RBS program costs in the future RBS cost reporting to comply with federal program cost principles.