County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

PHILIP L. BROWNING
Director

Board of Supervisors
HILDA L. SOLIS
First District
MARK RIDLEY-THOMAS
Second District
SHEILA KUEHL
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

February 10, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Philip L. Browning
Director

CHANGING THE HEALTH OF ADOLESCENTS IMPACTING THE NATION REACTION TRANSITIONAL HOUSING PROGRAM PLUS FISCAL COMPLIANCE ASSESSMENT

The Department of Children and Family Services (DCFS) Contracts Administration Division (CAD) Contract Fiscal Compliance conducted a review of Changing the Health of Adolescents Impacting the Nation Reaction (the Contractor) in October 2014. The Contractor is a non-profit organization that is contracted with DCFS and the Probation Department to provide Transitional Housing Program Plus (THP-Plus) housing services to young adults, ages 18 to 24, who have exited from foster care.

SUMMARY

CAD conducted a Fiscal Compliance Assessment, which included an agency-wide review of the Contractor's financial records such as financial statements, bank statements, check register, and personnel files to determine the Contractor's compliance with the terms, conditions, and requirements of the Transitional Housing Program-Plus (THP-Plus) contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The Contractor was in full compliance with 1 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments.

CAD identified deficiencies in the areas of Financial Overview, related to a net asset deficit of $27,228 and $29,589 in a loss from operations for the fiscal year ending December 31, 2012, semi-annual expenditure reports that were submitted late for the period that ended on June 30, 2014, an unfiled payroll tax return for the quarter that ended March 31, 2014, and delinquent payroll taxes for the quarters that ended June 30, 2014 and September 30, 2014, totaling $1,766.80; Board of Directors and Business Influence, related to a less-than-arms-length (related party transaction) auto lease; Cash/Expenditures, related to inadequate internal control over disbursement procedures, outstanding items on the bank reconciliation report not resolved timely and incomplete inventory list

of fixed assets; and Payroll and Personnel, related to personnel files that did not include a job description.

Attached are the details of our review.

REVIEW OF REPORT

On December 12, 2014, Yvonne Kang, DCFS CAD Fiscal held an Exit Conference with the Contractor representative Jessica Saint-Paul, Executive Director. The representative agreed with the review findings and recommendations; was receptive to implementing changes to improve compliance with regulatory standards and to resolve the noted deficiencies in a Fiscal Corrective Action Plan (FCAP).

The Contractor provided the attached approved FCAP addressing the recommendations noted in this fiscal compliance report.

A copy of this report has been sent to the A-C, Community Care Licensing, and to the California Department of Social Services Foster Care Rates Bureau.

If you have any questions, your staff may contact Aldo Marin, Board Relations Manager, at (213) 351-5530.

PLB:EM:LTI:yk

Attachment

c: Sachi A. Hamai, Chief Executive Officer
Calvin Remington, Interim Chief Probation Officer
John Naimo, Auditor-Controller
Jessica St. Paul, Executive Director, CHAIN Reaction
Public Information Office
Leonora Scott, Regional Manager, Community Care Licensing Division
Lajuannah Hills, Regional Manager, Community Care Licensing Division
DSS Foster Care Rates Bureau

CHANGING THE HEALTH OF ADOLESCENTS IMPACTING THE NATION REACTION
FISCAL COMPLIANCE ASSESSMENT REVIEW
FISCAL YEAR 2014 – 2015

SCOPE OF REVIEW

The Fiscal Compliance Assessment included a review of Changing the Health of Adolescents Impacting the Nation Reaction's (the Contractor) financial records for the period of January 1, 2012 through August 31, 2014. CAD reviewed the financial statements, bank statements, check register, and personnel files to determine the Contractor's compliance with the terms, conditions, and requirements of the Transitional Housing Program Plus for Emancipated Foster Probation Youth (THP-Plus) contract with the Department of Children and Family Services (DCFS), the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The Fiscal Compliance Assessment review focused on five key areas of internal controls:

- Financial Overview,
- Loans, Advances and Investments,
- Board of Directors and Business Influence,
- Cash/Expenditures, and
- Payroll and Personnel.

The Contractor was in full compliance with 1 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments.

FISCAL COMPLIANCE

CAD found the following areas out of compliance:

Financial Overview

- Audited Financial Statement for the period that ended December 31, 2012 indicated a net asset deficit in the amount of $27,228 and loss from operations in the amount of $29,589.

The Chief Executive Officer (CEO) will review the contract's annual budget on a quarterly basis to ensure their contract expenses are allocated appropriately and funds are available. The Contractor will operate based on the minimum of amount of program participants to ensure the expenses can be paid in the event revenue is less than expected. The CEO will work with its Accounting staff to review expenses and decrease its spending within 30 days of discovery. The line-item budget will be adjusted accordingly by the CEO and reviewed by the Board of Directors for approval.

- The semi-annual expenditure report for the period ended June 30, 2014 was submitted late. The report was due on September 1, 2014 and was not submitted until October 22, 2014.

The CEO will ensure the semi-annual expenditure report will be submitted on or before the due date.

- Unfiled tax return for the quarter that ended March 31, 2014, and delinquent payroll tax liabilities for quarters that ended June 30, 2014 and September 30, 2014, totaled $1,766.80.

The Contractor applied for a penalty abatement based on compliance with the required tax forms. The Internal Revenue Service (IRS) representative will review the payments to ensure all payments for the Contractor have been paid in full. CAD-Fiscal will follow up to obtain the results of this request.

Effective March 1, 2015, the Contractor accountant stated that it will pay the payroll taxes directly during the payroll periods to ensure paying tax liabilities as they become due.

Recommendations:

The Contractor's management shall ensure that:

1. It develops and implements a plan to eliminate the net assets deficit and loss from operations and prevent future net asset deficit and loss from operations.
2. Semi-annual expenditure reports are submitted timely.
3. A plan is developed and submitted to DCFS demonstrating how the Contractor will repay its past due liabilities to the IRS and payroll tax returns are filed and paid when due.

Board of Directors and Business Influence

- A less-than-arms-length (related party transaction) auto lease.

In 2011, the Contractor entered into an auto lease agreement from the CEO for a 2001 vehicle at $200 per month plus repair and maintenance costs. CAD was unable to determine if this related party transaction is at the lesser of an actual cost or if this was within a reasonable cost for the Contractor.

After CAD raised these concerns, the Contractor decided to discontinue the vehicle lease effective January 1, 2015. The Contractor is not in a financial position to purchase a vehicle. The Contractor will pay its employees mileage reimbursement based on the current standard mileage rates as per IRS.

Recommendation:

The Contractor's management shall ensure that:

4. All related party transactions are at the lesser of an actual cost or are within a reasonable cost.

Cash/Expenditures

- Checks are payable to the check signer for payroll, auto lease expense and reimbursements. All cancelled checks bear only the CEO's signature.

When the payee is also the check signer, the disbursement shall be reviewed and approved by a Board Member, who shall also sign the check. Effective November 20, 2014, a member of the Board of Directors was appointed as the additional check signer for checks written to the CEO.

- The Contractor did not follow-up on outstanding items on the bank reconciliation report. One check on the bank reconciliation report remains outstanding for longer than six months.

The CEO will review the bank reconciliation for accuracy with its accounting staff. The CEO will research outstanding items within 30 days of conducting bank reconciliations.

- 1 of 7 credit card expenditures reviewed did not have any supporting documentation.

Effective March 1, 2015, the Contractor will submit all receipts within one business day to the CEO. The CEO will log the receipt in the electronic database or expense form within five business days and place the original receipt or invoice in the designated file folder.

- The inventory list of fixed assets did not include item serial number(s) (if applicable), date(s) of purchase, and acquisition cost(s).

As a result of this Fiscal Compliance Assessment, the Contractor has been reviewing the current fixed assets in the office and in its apartments. Effective March 1, 2015, the CEO will work with their Property Management to research the appropriate information for purchases made prior to December 31, 2014.

A new protocol will be established requiring that all new purchases have a sticker affixed with an assigned number, which will be documented on the revised fixed assets list. In addition, the purchase date, acquisition cost and funding sources will be included on the fixed inventory asset list.

Recommendations:

The Contractor's management shall ensure that:

5. A second signature is required on checks payable to the check signer.
6. The reconciliation of items on bank reconciliation reports is resolved timely.
7. Sufficient documentation is maintained for all expenditures.
8. The inventory list of fixed assets includes the item description, serial number, date of purchase, acquisition cost and funding source.

Payroll and Personnel

- Personnel files reviewed did not include job description.

Effective February 1, 2015, all employee job descriptions that are included on the approved Plan of Operation will be copied and placed into the employee's personnel records.

Recommendation:

The Contractor's management shall ensure that:

9. Personnel files include the employee job description.

MOST RECENT FISCAL REVIEW CONDUCTED BY THE AUDITOR-CONTROLLER

A fiscal review of the Contractor has not been conducted by the Auditor-Controller.

NEXT FISCAL COMPLIANCE ASSESSMENT

The next Fiscal Compliance Assessment of the Contractor will be conducted in County Fiscal Year 2015-2016.

Changing the Health of Adolescents Impacting the Nation Reaction, Inc.
Improving Health Care and Reducing Health Risk Behaviors in Foster Care Youth, Adolescents and Communities

Sent Via Email Monday, January 19, 2015 attention
Yvonne Kang, DFCS YKang@dcfs.lacounty.gov
Cc: spoonc@dcfs.lcounty.gov

Fiscal Corrective Action Plan

Financial Compliance Assessment (FCAT)
Section I- Financial Overview

FCAT Question No. 3 and 4 10/22/2014 – 10/30/2014
Finding: The audited financial statement for the period ending December 31, 2012 indicated loss from operations in the amount of $29, 589 and negative assets in the amount of $27, 228.

Fiscal Corrective Action Plan
C.H.A.I.N. Reaction, Inc. Chief Executive Officer has loaned the THP-Plus Program funds for program operations since initial contract in 2009 to assist with upfront cost to operate the program. Due to a significant decrease in program participants, the loan from the CEO has not been repaid in full. The loan is at no interest and no pre-payment penalty.

Moving forward, the CEO will review the contract's annual budget no less than a quarterly basis to review the expenses per contract to ensure C.H.A.I.N. Reaction, Inc. contract expenses are allocated appropriately and funds are available. The corporation will operate based on the minimum of amount of program participants to ensure the expenses can be paid in the event revenue (less program participants) is less than expected. The CEO will work with Accounting to review expenses and decrease spending within 30 days of discovery. Line item budgets will be adjusted accordingly by the CEO and reviewed by the Board of Directors for approval.

FCAT Question No. 6 10/22/2014 – 10/30/2014
Finding: The Semi-Annual Expenditure Report for the period ended June 30, 2014 was submitted late.

Fiscal Corrective Action Plan
The Chief Executive Officer will ensure the Semi-Annual Revenue and Expenditure report will be mailed on or before September 1 for the semi-annual report for the period ended June 30 and March 1 for the semi-annual report for the period ended December 31 or based on what is indicated in writing per contract.

400 Corporate Pointe, Suite 300 ▪ Culver City, CA. ▪ Office: (310) 337-7989 ▪ Fax: (310) 417-3554 ▪ info@chainreactioninc.org

FCAT Question No. 10 10/22/2014 – 10/30/2014
<u>Finding:</u> We compared the 941 tax forms and the payment history report provided by the Contractor and noted delinquent payroll tax liabilities. The Contractor did not have payment arrangement with the Internal Revenue Service (IRS).

Fiscal Corrective Action Plan
On December 2, 2014 C.H.A.I.N. Reaction, Inc. contacted IRS secondary to not receiving the IRS tax transcript for the four quarters ending 6/30/14 as requested in November. In addition, we applied for Penalty Abatement due to good compliance with tax form. The IRS representative set a call back date for Monday, January 26, 2015 to review the payments to ensure all payments for the THP-Plus program have been paid in full and to request written correspondence to document tax liabilities paid in full.

Effective March 1, 2015, C.H.A.I.N. Reaction, Inc. Accountant will pay taxes directly during the payroll periods to ensure paying tax liabilities as they become due. C.H.A.I.N. Reaction, Inc. will also change payroll to two pay periods (5th and 20th) monthly to ensure timely and appropriate payments as indicated on payroll.

Financial Compliance Assessment (FCAT)
Section III- Board of Directors, and Business Influence

FCAT Question No. 15 10/22/2014 – 10/30/2014
<u>Finding:</u> In 2011, the Contractor entered into an auto lease agreement with the ED for a 2001 vehicle at $200 per month plus repair and maintenance. It is questionable if the related party transactions are at the lessor of actual cost or the reasonable cost for the Contractor.

Fiscal Corrective Action Plan
Effective January 1, 2015, C.H.A.I.N. Reaction, Inc. will discontinue vehicle lease with the Executive Director. C.H.A.I.N. Reaction, Inc. is not in a financial position to purchase a vehicle or provide a down payment and pay a financial institution for a new vehicle, thus the reason for entering into a vehicle lease without financing (interest cost) or mileage restrictions from the Executive Director. Nevertheless, C.H.A.I.N. Reaction, Inc. will pay to its employee's mileage reimbursement current standard mileage rates as per Internal Revenue Services.

Financial Compliance Assessment (FCAT)
Section IV- Cash Expenditures

Bank Statements, Cancelled checks, check registers and credit card statements for the months of June, July and August 2014.

FCAT Question No. 17
Finding: We noted checks payable to the check signer for payroll, auto lease expense and reimbursements. All cancelled checks bear only one signature from the ED.

Fiscal Corrective Action Plan
There is one additional check signer for C.H.A.I.N. Reaction, Inc. In the event the payee is also the signor on the check, the disbursement shall be reviewed and approved by a Board Member who shall also sign the check. Effective November 20, 2014, Rhyan Foster, Board Member was appointed as the additional check signer for checks written to the Executive Director.

FCAT Question No. 25
Finding: The Agency did not follow-up on outstanding items on the bank reconciliation report. One check remains outstanding for longer than six months on the bank reconciliation report.

Fiscal Corrective Action Plan
C.H.A.I.N. Reaction, Inc. Executive Director will review and the bank reconciliations for appropriateness and accuracy with Accounting. The Executive Director will research outstanding items if applicable, after reviewing the report with accounting and have reconciling items, resolved within 30 days.

FCAT Question No. 26
Finding: 1 of 7 credit card expenditures reviewed did not have supporting documentation.

Fiscal Corrective Action Plan
Effective March 1, 2015, C.H.A.I.N. Reaction, Inc. staff will submit all receipts at the close of business if expenses occur during business hours (8:00am – 5:00pm). Expenses that occur after business hours must be submitted to the Executive Director within one business day. The Executive Director will log the receipts in the electronic (Excel, QuickBooks, etc.) or expense form within five business days after receipt has been submitted. The Executive Director will place the original receipt or invoice in the designated chronological file folder. In the event the Executive Director makes the purchase, the Executive Director will log the receipt in the electronic database (Excel, QuickBooks, etc.) or expense form within five business days after purchase has been made. The Executive Director will place the original receipt or invoice in the designated chronological file folder.

FCAT Question No. 28
Finding: The Contractor did maintain a fixed asset listing. However the listing did not include the item serial number, date of purchase, acquisition cost and source(s) of funding.

Fiscal Corrective Action Plan
As a result of the Fiscal Compliance Assessment, C.H.A.I.N. Reaction, Inc. has been reviewing the current fixed assets in the office and apartments. Effective March 1, 2015, the Executive Director will work with Property Management to research the date of purchase to include on the fixed asset listing. All appliances that have serial numbers for purchases made before December 31, 2014 will be entered by March 1, 2015. For items without a serial number (i.e. furniture) N/A will be indicated on the form.

All purchases made after March 1, 2015 will have a sticker affixed with an assigned number, which will be documented on the revised Fixed Asset listing. In addition, the purchase date, acquisition cost and source(s) of funding will be included on the revised Fixed Asset listing.

Financial Compliance Assessment (FCAT)
Section V- Payroll and Personnel

FCAT Question No. 29
Finding: All 3 personnel files reviewed did not have a job description.

Fiscal Corrective Action Plan
The THP-Plus contract ended on December 31, 2015. However, employees that were employed during this review period have approved job descriptions in the THP-Plus Provider Plan.

Effective February 1, 2015 employee job descriptions that are included on the approved Plan of Operation will be copied and placed into the employee personnel records. All new employees will also have their job description as stated in the approved Plan of Operation, copied and placed into their personnel records.

If you have any questions or concerns as outlined in our FCAT Corrective Action Plan, please feel free to call me on 310-428-1290. I can also be reached by email at ceo@chainreactioninc.org.

Sincerely,

Jessica Saint-Paul, MPH, MCHES, PA-C
Chief Executive Officer