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

PHILIP L. BROWNING
Director

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First District
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August 14, 2015

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

From: Philip L. Browning
Director

HUMANISTIC FOUNDATION DBA NEW CONCEPT GROUP HOME FISCAL COMPLIANCE ASSESSMENT

The Department of Children and Family Services (DCFS) Contracts Administration Division (CAD) Contract Fiscal Compliance conducted a review of Humanistic Foundation dba New Concept Group Home (the Group Home) in November 2014. This Group Home provides services to Probation youth only.

SUMMARY

CAD conducted a fiscal compliance assessment, which included an on-site review of the Group Home's financial records such as financial statements, bank statements, check register, and personnel files to determine the Group Home's compliance with the terms, conditions, and requirements of the Group Home Contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The Group Home was in full compliance with 3 of 5 areas of the fiscal compliance assessment: Loans, Advances and Investments; Cash/Expenditures; and Payroll and Personnel.

CAD identified deficiencies in the areas of Financial Overview, related to negative net assets, and a loss from operation and unpaid payroll taxes; and Board of Directors and Business Influences, related to less-than-arms-length (related party) lease transactions.

Attached are the details of our review.

REVIEW OF REPORT

On March 4, 2015, Ali A. Gomaa-Mersal, DCFS Fiscal, held an Exit Conference with staff from the Group Home Marcheletta Madison, Executive Director and Sueretta Small, Assistant Executive Director. The Group Home representatives agreed with the review findings and recommendations; were receptive to implementing systemic changes to improve compliance with regulatory standards; and to address the noted deficiencies in a Fiscal Corrective Action Plan (FCAP).

The Group Home provided the attached approved FCAP addressing the recommendations noted in this report.

A copy of this compliance report has been sent to the Auditor-Controller.

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

PLB:EM
LTI:agm

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Jerry Powers, Chief Probation Officer
John Naimo, Auditor-Controller
Marcheletta Madison, Executive Director, Humanistic Foundation New Concept Group Home

HUMANISTIC FOUNDATION DBA NEW CONCEPT GROUP HOME
FISCAL COMPLIANCE ASSESSMENT REVIEW
FISCAL YEAR 2014 - 2015

SCOPE OF REVIEW

The Fiscal Compliance Assessment included a review of Humanistic Foundation, Inc. dba New Concept Group Home's (the Group Home) financial records for the period of January 1, 2013 through September 30, 2014. CAD reviewed the financial statements, bank statements, check register, and personnel files to determine the Group Home's compliance with the terms, conditions, and requirements of the Group Home Contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The on-site 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 Group Home was in full compliance with 3 of 5 areas of the fiscal compliance assessment: Loans, Advances and Investments; Cash/Expenditures; and Payroll and Personnel.

FISCAL COMPLIANCE

CAD found the following areas out of compliance:

Financial Overview

- The audited financial statement for the fiscal year that ended December 31, 2013, shows negative net assets in the amount of $341,275 and a loss from operations in the amount of $4,869.

The net asset deficit is related to the Group Home's outstanding payroll taxes that occurred under a different management structure at the Group Home. The Group Home submitted an offer and compromise to the Internal Revenue Service (IRS) in 2013 and is working to resolve this issue. The current payroll taxes are being paid timely. The loss of operations was a one-time occurrence, which the Group Home attributed to its change in accounting and payroll service providers. The Group Home expects its next Audited Financial Statement to reflect this.

- There are unpaid payroll taxes in the amount of $578,913 for salaries paid during: 2000-2001; 2002-2003; 2004-2005; 2006-2007; and 2008-2009.

The outstanding payroll taxes occurred when the Group Home was operated by a prior management team. The current management team pays the current payroll taxes as they are

due. The Group Home is working with the IRS to finalize an agreement in response to its offer and compromise submitted in 2013.

Recommendations:

The Board of Directors shall ensure that:

1. A plan is implemented to eliminate the net asset deficit by resolving the outstanding payroll tax issue with the IRS and to resolve the one-time loss from operations and prevent net asset deficits and losses from operations in the future.

2. A copy of the Offer and Compromise submitted to the IRS is provided.

Board of Directors and Business Influence

- Less-than-arms-length (related party) lease transactions. The Group Home leases two homes from the spouse of the Executive Director, who is a member of the non-profit Board of Directors. The homes are in Kern County and are used for children placed through Kern County. The monthly lease rates are $2,000 and $1,700, which may exceed 1% of the allowable limit based on the assessed value obtained from the Kern County Assessor's website.

No County of Los Angeles children or youth are placed in the Kern County homes. DCFS CAD Fiscal will follow-up with the Group Home and the California Department of Social Services (CDSS) Financial Audit Unit to ensure the related party leases are allowable.

Recommendation:

The Board of Directors shall ensure that:

3. It complies with the Welfare and Institutions Code Section § 11462.06 (a) regarding party lease transactions to ensure the lease amounts are allowable and the Group Home facility is not leased from any person who is on or related to a member of the non-profit organizations Board of Directors.

MOST RECENT FISCAL REVIEW CONDUCTED BY THE AUDITOR-CONTROLLER

A recent fiscal review of the Group Home has not been posted by the Auditor-Controller.

NEXT FISCAL COMPLIANCE ASSESSMENT

The next fiscal compliance assessment of the Group Home will be conducted in the County Fiscal Year 2015-2016.

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HUMANISTIC FOUNDATION, INC.

DBA New Concept Group Home

RESIDENTIAL TREATMENT PROGRAM

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March 25, 2015

Department of Children and Family Services
Fiscal Compliance Assessment
425 Shatto Place, Room 401
Los Angeles, CA 90020

FCAT section I – Financial Overview

Question No.3- 4
Finding

The audited financial statement indicated that the Contractor had negative net assets in the amount of $341,275 and loss from operation in the amount of $4,869 for the year ending December 31, 2013.

Fiscal Corrective Action Plan (FCAP)

There is a letter attached from Sunil Narayan, of Narayan & Associates, CPA, addressing this finding.

Question No. 10
Finding

The Agency has unpaid payroll taxes of $578,913 for salaries paid during 2000-2001-2002-2003-2005-2006-2007-2008-2009.

Fiscal Corrective Action Plan (FCAP)

The Organization's payroll tax liabilities are a great concern and resolving it is a number one priority. We want to assure the California Department of Children and Family Services, that this problem has not and will not in any way affect our overall financial ability to provide adequate foster care services to the children in-trusted in our care.

3731 Stocker Street Suite #208 Los Angeles, CA. 90008 Phone: 323-290-2540 Fax: 323-290-2226

The Organization has filed Form NO. 656, Offer in Compromise with the Internal Revenue Service, (IRS) January 2013. Our case was on hold for a few months, because the Revenue Officer assigned to our case was placed on special assignments, but she has been actively engaged with our case as of October 2014. This process is taking a while due to the IRS having to review their records and documents in an attempt to show proof of liability.

In December 2014, the Revenue Officer Ms. Ureta, suggested to Dr. Velma W. Union, (Enrollment Agent for Humanistic Foundation, Inc.) to refile a corrected Offer in Compromise stating doubt as to liability. The new Offer in Compromise will be filed by Monday March 30, 2015.

We are in constant communication with the IRS, and the Foster Care Audits and Rates Branch, of the California Department of Social Services in Sacramento. As soon as there is a resolution to this delicate situation the Organization will inform all prudent branches of the California Department of Social Services of the final outcome.

In 2009 the Organization contracted a payroll processing service to process all payrolls, file all required payroll reports, and pay all payroll taxes. This will be an ongoing process for Humanistic Foundation, Inc.

FCAT Section III – Board of Directors, and Business Influence

Question No. 15
Finding

Less-than-arms-length transactions: the agency is leasing two homes from the spouse of the ED. The ED is on the Board of Directors. The homes are in Kern County and are used for children placed through Kern County group home contract. The monthly lease rates are $2,000 and $1,700, which exceeded 1% of allowable limit based on the assessed value obtained from the Kern County Assessor's website. The values of the properties are $144,000 and $155,448 respectively. The rent based on the assessed values of these properties should be $1440 and $1555 respectively.

Fiscal Corrective Action Plan (FCAP)

On Wednesday March 11, 2015, a Board of Directors meeting was held by Humanistic Foundation, Inc. Marcheletta Madison, resigned the position of Executive Director for the Board of Directors for Humanistic Foundation, Inc. A copy of the Board Minutes for the meeting are attached.

The monthly leases for Kern County are paid from funds received from Kern County only. Mrs. Madison, at her expense, has ordered appraisals for each property in Kern County. The appraisals are scheduled to be completed next week. Upon receipt of them the Organization will make whatever adjustments to the leases necessary to be in compliance.

Signature of Humanistic Foundation, Inc., Representative

Printed Name Sueretta Small, Title Assistant Executive Director

Signature Sueretta Small, Date 3/25/2015

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HUMANISTIC FOUNDATION, INC.

DBA New Concept Group Home

RESIDENTIAL TREATMENT PROGRAM

AGES 11 - 17

April 21, 2015

Department of Children and Family Services
Fiscal Compliance Assessment
425 Shatto Place, Room 401
Los Angeles, CA 90020

Addendum to Fiscal Corrective Action Plan (FCAP) dated March 25, 2015, for the following:

FCAT Section I – Financial Overview

Question No. 3-4
Finding

The audited financial statement indicated that the Contractor had negative net assets in the amount of $341,275 and loss from operation in the amount of $4,869 for the year ending December 31, 2013.

Fiscal Corrective Action Plan (FCAP)

The negative net assets of ($341,275) are due to previous year payroll tax liabilities. A third party, Dr. Velma Union, E.A., is in communication with the IRS Offer in Compromise department to reduce the assessed amount, and determine if there was an error in the assessment.

Our Organization previously used Peachtree Complete Accounting. Upon recommendation from our CPA, beginning January 1, 2014, we switched to Quick Books Accounting. Intuit was not able to convert our Peachtree files to Quick Books. Independent Business Solutions, Inc., an accounting firm reviewed the 2013 Peachtree files, and converted them to Quick Books. When they were done they disclosed a net loss of $4,869. We don't expect to have any net losses for 2014, since switching to Quick Books.

There is a letter attached from Sunil Narayan, of Narayan & Associates, CPA addressing this finding.

3731 Stocker Street Suite #208 Los Angeles, CA. 90008 Phone: 323-290-2540 Fax: 323-290-2226