



**County of Los Angeles  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020  
(213) 351-5602



**BOBBY D. CAGLE**  
Director

**BRANDON T. NICHOLS**  
Chief Deputy Director

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August 21, 2019

To: Supervisor Janice Hahn, Chair  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Kathryn Barger

From: *Cynthia McCoy Miller for*  
Bobby D. Cagle  
Director

**CHILDREN'S HOME OF SOUTHERN CALIFORNIA FISCAL COMPLIANCE ASSESSMENT**

**REVIEW OF REPORT**

The Department of Children and Family Services (DCFS) Contracts Administration Division (CAD) conducted a Fiscal Compliance Assessment of Children's Home of Southern California (the Contractor) in December 2018. The Contractor provides Group Home services, and is headquartered in the Third Supervisorial District.

**Key Outcomes**

NUMBER OF PRIORITY FINDINGS
PRIORITY 1 2
PRIORITY 2 2
PRIORITY 3 0

CAD conducted an on-site Fiscal Compliance Assessment review of the Contractor's financial records, which consisted of: financial statements; bank statements; check register(s); and personnel files. The review also focused on five key areas of internal controls to determine their compliance with Group Home Contract: Financial Overview (financial records, bank statements); Loans, Advances and Investments; Board of Directors and Business Influence; Cash/Expenditures (Check Registers); and Payroll and Personnel files.

The Contractor was in full compliance with 3 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments; Board of Directors and Business Influence; and Payroll and Personnel.

*"To Enrich Lives Through Effective and Caring Service"*

Each Supervisor  
August 21, 2019  
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CAD identified potential internal control weaknesses in the area(s) of: Financial Overview, related to an operational loss and negative net asset; and Cash/Expenditures, related to checks being payable and signed by the Executive Director without a Board member signature, bank reconciliations showing outstanding checks longer than six months, and inadequate supporting documentation for payments to an independent contractor.

On February 5, 2019, the DCFS CAD Fiscal Specialist IV held an exit conference with the Contractor's Executive Director. The Contractor's representative agreed with the review findings and recommendations; was receptive to implementing systemic changes to improve compliance with regulatory standards; and agreed to address the noted potential internal control weakness in a Fiscal Corrective Action Plan.

The Contractor was placed on termination hold on February 8, 2019.

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

BDC:KR  
LTI:lm

Attachments

c: Sachi A. Hamai, Chief Executive Officer  
Arlene Barrera, Acting Auditor-Controller  
Terri L. McDonald, Chief Probation Officer  
Sheila Mitchell, Chief Deputy Probation Officer, Juvenile Services  
Public Information Office  
Audit Committee  
Jorge Marquez, Executive Director, Children's Home of Southern California



DCFS

**COUNTY OF LOS ANGELES  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES (DCFS)**

**Exit Summary and Request for Fiscal Corrective Action Plan**

**Fiscal Compliance Assessment - Internal Control Questionnaire Summary of Findings**

Contractor: Children's Home of Southern California  
 Supervisorial District(s): 3rd Supervisorial  
 On Site - Fiscal Compliance Assessment: 12/3/18 - 12/4/18  
 Entrance Conference Date: 12/3/18  
 FCAP Due Date: 3/7/19  
 FCAP Received Date: 4/26/19  
 Exit Conference Date: 2/5/19  
 FCAP Approval Date: 5/1/19  
 FCAP Follow-up Date: N/A

Children's Home of Southern California (the contractor) is a 501(c)(3) non-profit organization that contracts with the County of Los Angeles Department of Children and Family Services to provide Group Home Program. This Contractor was placed on Termination Hold on February 8, 2019.

**TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION**

FCAT Section I - Financial Overview	ISSUE	RECOMMENDATION	RANK	SUMMARY RESPONSE
1	According to the Audited Financial Statements for the period ending December 31, 2017, the Contractor incurred a loss from operation of \$77,161 and a negative net asset of \$299,637.	County may terminate this Contract for default for insolvency in the event that Contractor ceases to pay its debts in the ordinary course of business or cannot pay its debts as they become due, whether it had filed bankruptcy or not, and whether insolvent within the meaning of the Federal Bankruptcy Law or not	1	The Organization is in the process of adding new programs that will bring additional revenues. Also, we are reviewing several budget items in order to identify expenditures that need to be discontinued. We are looking for new vendors in order to obtain goods and services of the same or better quality, but at a better price. We expect that by the end of this fiscal year we are not going to have any losses. Responsible Person: Executive Director and CHSC's Board of Directors Completion Date: The procedures are currently in progress.
FCAT Section IV - Cash and Expenditures	ISSUE	RECOMMENDATION	RANK	SUMMARY RESPONSE
1	Check # 29784, 30116, and 30255 in the amount of \$6,654.51 each was made payable to the Executive Director and check # 29975, 30117, 30258 in the amount of \$1,255.67 each payable to MARQSO, a company own by the ED and his mother, for rent without a Board member signature. The checks were signed by the Program Director and Intake Coordinator/Case Manager.	In instances where the payee is also a signor on the check, the disbursement shall be reviewed and approved by a higher level employee, or Board member who shall also sign the check.	1	All lease agreements were previously approved by the Board of Directors. They are aware of those leases. Effective immediately, one of the board members is going to approve the monthly payments for rent in order to comply with your recommendation. Responsible Person: Executive Director and CHSC's Board of Directors Completion Date: Effective on May 1, 2019, all check for rent payments, or other payments to a related party are going to be signed by a board member.



**COUNTY OF LOS ANGELES  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES (DCFS)**

**Exit Summary and Request for Fiscal Corrective Action Plan**

Fiscal Compliance Assessment - Internal Control Questionnaire Summary of Findings			SUMMARY RESPONSE
ISSUE	RECOMMENDATION	RANK	
2 Bank reconciliations for the month of August and September 2018 showed outstanding checks longer than six months (December 2017)	Monthly bank reconciliation should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliation should be signed and dated by both the preparer and reviewer. Reconciling items should be resolved timely.	2	CHSC will follow your recommendation. Also, we are going to add a legend to checks. If they are not cashed within 60 days otherwise, the checks would be voided and placed a stop payment. The preparer and reviewer will be sure that no checks would be outstanding for more than 60 days and the reconciliations are prepared within 30 days of the bank statement date. Responsible Person: Executive Director and CHSC's Accountant Completion Date: The procedures are going to be implemented effective the bank reconciliation for the month of April 2019
3 Inadequate supporting documentation for payments to an independent contractor, Jade Pool and Spa. Documentation provided were account statements.	All revenues and expenditures shall be supported by original vouchers, invoices, receipts, or other documentation and shall be maintained in the manner described herein. Invoices, receipts, canceled checks and other documentation, including electronic documentation clearly establishing the nature of the expenditure and its relevance to the COUNTY program being contracted for shall be required to support an outlay of funds. Unsupported disbursements will be disallowed upon audit. CONTRACTOR will be required to repay COUNTY for all dollar for dollar disallowed costs. Photocopies (including scanned images) of invoices or receipts, any internally generated documents (e.g., vouchers, request for check forms, requisitions, canceled checks, etc.), and account statements do not constitute supporting documentation for purchases	2	CHSC will follow your recommendation effective immediately. Responsible Person: Executive Director and CHSC's Accountant Completion Date: The procedures are going to be implemented effective April 26, 2019.

Rank: Priority Ranking recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken.



**COUNTY OF LOS ANGELES  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES (DCFS)**

**Exit Summary and Request for Fiscal Corrective Action Plan**

**Fiscal Compliance Assessment - Internal Control Questionnaire Summary of Findings**  
 The County of Los Angeles Department of Children and Family Services, Contract Administration Division's (CAD's) Fiscal Section found deficiencies in the following areas: **(Indicate either Full Compliance, Improvement Needed, or Not Applicable for each area**

FCAT Section	Fiscal Year 2017-18	Fiscal Year 2018-19
I. Financial Overview	Not Applicable	Improvement Needed
II. Loans, Advances and Investments	Not Applicable	Full Compliance
III. Board of Directors and Business Influence	Not Applicable	Full Compliance
IV. Cash/Expenditures	Not Applicable	Improvement Needed
V. Payroll and Personnel	Not Applicable	Full Compliance

Reviewed and Approved by	Signature	Date
Fiscal Compliance Reviewer, Financial Specialist IV Print Name: Luis Moreno		
Fiscal Compliance Unit Manager, ASM II Print Name: Enrique Valdez		
Contract Compliance Section manager Print Name: Diana Flagg		
CAD Division Manager, Print Name: Leticia Torres-Ibarra		
Administrative Support Bureau (ASB) Chief Print Name: Kym Renner, Deputy Director		

Children's Homes of Southern California

NAME OF AGENCY

Fiscal Corrective Action Plan

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*Agencies*

Recommendation Number	Summary Statement of Recommendations	Contractor's Plan of Correction (Each corrective action should be cross-referenced to the appropriate recommendation. Please state agreement/disagreement with each recommendation).	Responsible Person	Completion Date
FCAT Section I- Financial Overview  Question No.3	<p>Finding: According to the Audited Financial Statements for the period ending December 31, 2017, the Contractor incurred a loss from operation of \$77,161 and a negative net asset of \$299,637.</p> <p>Group Home contract agreements, Part II (Standard Terms and Conditions) Paragraph 21 (Events of Default), which states in part, "County may terminate this contract for default or insolvency in the event that Contractor ceases to pay its debts in the ordinary course of business or cannot pay its debts as they become due, whether it had filed bankruptcy or not, and whether insolvent within the meaning of the Federal Bankruptcy Law or not.</p>	<p>CHSC's management agrees with the recommendation, but has the following comments: The Organization is in the process of adding new programs that will bring additional revenues. Also, we are reviewing several budget items in order to identify expenditures that need to be discontinued. We are looking for new vendors in order to obtain goods and services of the same of better quality, but at a better price. We expect that by the end of this fiscal year we are not going to have any losses.</p>	<p>Jorge Marquez, Executive Director  CHSC's Board of Directors</p>	<p>The procedures are currently in progress</p>

*[Handwritten Signature]*

Authorized Signature: \_\_\_\_\_

Date: April 26, 2019

Children's Homes of Southern California

NAME OF AGENCY

Fiscal Corrective Action Plan

Recommendation Number	Summary Statement of Recommendations	Contractor's Plan of Correction (Each corrective action should be cross-referenced to the appropriate recommendation. Please state agreement/disagreement with each recommendation).	Responsible Person	Completion Date
FCAT Section IV- Cash/Expenditures Question No. 18	<p>Finding: We reviewed bank statements, canceled checks, check registers, and credit card statements for the months of August, September and October 2018. The following deficiencies were noted:  Check # 29784, 20116 and 30255 in the amount of \$6,654.51 each was made payable to the Executive Director and check # 29975, 30117, 30258 in the amount of \$1,255.67 each made payable to MARQSOL, a company owned by the EID and his mother, for rent without a Board member signature. The checks were signed by the program director and Intake Coordinator/Case Manager.  A-C Handbook Section B 2.1 states, "In instances where the payee is also a signor on the check, the disbursement shall be reviewed and approved by a higher level employee, or Board Member who shall also sign the check."</p>	<p>CHSC's management agrees with the recommendation, but we have the following comment:  All lease agreements were previously approved by the board of directors. They are aware of those leases. Effective immediately, one of the board members is going to approve the monthly payments for rent in order to comply with your recommendation.</p>	Jorge Marquez, Executive Director  CHSC's Board of Directors	The procedures are currently in progress.  Effective on May 1, 2019, all check for rent payments, or other payments to a related party are going to be signed by a board member.

Authorized Signature: \_\_\_\_\_

Date: April 26, 2019

**Fiscal Corrective Action Plan**

Recommendation Number	Summary Statement of Recommendations	Contractor's Plan of Correction (Each corrective action should be cross-referenced to the appropriate recommendation. Please state agreement/ disagreement with each recommendation).	Responsible Person	Completion Date
FCAT Section IV- Cash/Expenditures Question No.26	<p>Findings: Bank reconciliations for the month of August and September 2018 showed outstanding checks longer than six months (December 2017).</p> <p>A-C Handbook Section 8.1.4. states, "Monthly bank reconciliation should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliation should be signed and dated by both the preparer and reviewer. Reconciling items should be resolved timely."</p>	<p>CHSC's management agrees with the recommendation.</p> <p>CHSC will follow your recommendation. Also, we are going to add a legend to checks. If they are not cashed within 60 days otherwise, the checks would be voided and placed a stop payment.</p> <p>The preparer and reviewer will be sure that no checks would be outstanding for more than 60 days and the reconciliations are prepared within 30 days of the bank statement date.</p>	Jorge Marquez, Executive Director  CHSC's Accountant	The procedures are going to be implemented effective the bank reconciliation for the month of April 2019.

Date: April 26, 2019

Authorized Signature: \_\_\_\_\_  

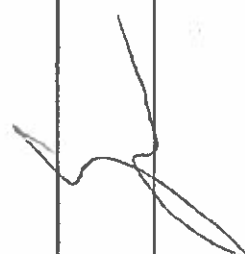

Children's Homes of Southern California



NAME OF AGENCY

Fiscal Corrective Action Plan

Recommendation Number	Summary Statement of Recommendations	Contractor's Plan of Correction (Each corrective action should be cross-referenced to the appropriate recommendation. Please state agreement/disagreement with each recommendation).	Responsible Person	Completion Date
<p>FCAT Section IV- Cash/Expenditures Question No 28</p>	<p>Finding: Inadequate supporting documentation for payments to an independent contractor, Jade Pool and Spa. Documentation provided were account statements.  A-C Handbook Section A.3.2. states: "All revenues and expenditures shall be supported by original vouchers, invoices, receipts, or other documentation and shall be maintained in the manner described herein. Invoices, receipts, canceled checks and other documentation, including electronic documentation clearly establishing the nature of the expenditure and its relevance to the COUNTY program being contracted for shall be required to support an outlay of funds. Unsupported disbursements will be disallowed upon audit. CONTRACTOR will be required to repay COUNTY for all dollar for dollar disallowed costs. Photocopies (including scanned images) of invoices or receipts, any internally generated documents (e.g., vouchers, request for check forms, requisitions, canceled checks, etc.), and account statements do not constitute supporting documentation for purchases."</p>	<p>CHSC's management agrees with the recommendation.  CHSC will follow your recommendation effective immediately</p>	<p>Jorge Marquez, Executive Director  CHSC's Accountant</p>	<p>The procedures are going to be implemented effective April 26, 2019.</p>



Date: April 26, 2019

Authorized Signature: \_\_\_\_\_