County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
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BRANDON T. NICHOLS
Director

JENNIE FERIA
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July 17, 2026

To: Supervisor Hilda L. Solis, Chair
Supervisor Holly J. Mitchell
Supervisor Lindsey P. Horvath
Supervisor Janice Hahn
Supervisor Kathryn Barger

for

From: Brandon T. Nichols
Director

HANNA'S HOUSE DBA HANNAH'S CHILDREN'S HOMES FISCAL DESK REVIEW REPORT

The Department of Children and Family Services (DCFS) Contract Compliance Division (CCD) conducted a Fiscal Desk Review of Hanna's House dba Hannah's Children's Homes in May 2026. This Contractor has one office located in the fourth district, one office located in Orange County and one office located in San Bernardino County and provides services to DCFS placed children, Probation foster youth and Non-Minor Dependents (NMDs) and children, youth and NMDs placed by other counties.

Key Outcomes

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

The CCD conducted a Fiscal Desk Review which consisted of reviewing the following: Financial Statements, Internal Revenue Service Tax Transcripts, Board of Directors Listing, Board Meeting Minutes, and 501(c)(3) Letter.

The CCD identified potential internal control weaknesses in the following areas:

Priority 1

- The Audited Financial Statements and Single Audit Report for the Fiscal Year (FY) ending December 31, 2024, had a $78,079 operational loss with a current ratio of 0.47.

- The Audited Financial Statement and Single Audit Report for the FY ending December 31, 2024, had a Significant Deficiency disclosure.

Priority 2

- The Audited Financial Statement and Single Audit Report for the Contracted Providers FY ending December 31, 2024, was not timely submitted to the California Department of Social Services.

On May 28, 2026, DCFS' CCD Financial Specialist IV held an exit conference with the Contractor's Chief Executive Officer. The Contractor's representative agreed with the review findings and recommendations and were receptive to implementing systemic changes to improve compliance with regulatory standards. The Contractor agreed to address the noted potential internal control weakness in a Fiscal Corrective Action Plan (FCAP).

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

If you have any questions, your staff may contact me or Aldo Marin, Board Relations Manager, at (213) 371-6052.

BTN:LEM:RT
KR:DF:ai

Attachments

c: Joseph M. Nicchitta, Chief Executive Officer
Oscar Valdez, Auditor-Controller
Public Information Office
Audit Committee
Connie Franks, Chief Executive Officer, Hanna's House dba Hannah's Children's Homes
Jacqueline Juarez, Bureau Chief, Fiscal and Performance Audits, CDSS
Kellee Coleman, Assist Program Admin. South LA Region, CCLD
Bernice Karnsrighong, Regional Manager, Community Care Licensing Division (CCLD
Jean Herring, Licensing Program Manager, Community Care Licensing Division

HANNA'S HOUSE
FAMILY IS WHAT YOU MAKE IT

June 24, 2026

Corrective Action Plan
Fiscal Year Ended 2024

To Whom It May Concern:

The organization is committed to maintaining sound financial management practices and a strong system of internal controls. In response to the findings, management has developed the following corrective action plan to strengthen processes and promote ongoing compliance.

Finding 1 – Late Submission of Audited Financial Statements

Cause:

The single audit was timely completed and submitted to the Federal Audit Clearinghouse. However, the prior audit firm did not complete and submit the SR-8 Financial Audit Report Transmittal and SR-10 Certification of Audited Cost Data forms required by the California Department of Social Services. Management understood that completion of these supplemental state-required forms was included within the audit firm's scope of work. Because those forms were not completed and submitted with the audit package, the state submission appeared incomplete notwithstanding the timely completion and federal submission of the single audit.

Corrective Action:

The Organization retained a new auditing firm in June 2026. The new firm's scope of work includes completion of all required audit components, including the SR-8, SR-10 and any related supplemental forms required for submission to the State of California. Going forward, management will coordinate with the audit firm throughout the audit process to ensure that all required state and federal audit submission requirements, including submission to the Federal Audit Clearinghouse, are completed timely.

Finding 2 – Operating Loss and Current Ratio

Cause:

The year-end negative cash balance resulted from a payroll timing issue rather than an operating cash shortage. Payroll information for the January 1 payroll was submitted to Paychex at the end of December; however, Paychex inadvertently processed the payroll in December. The Organization receives federal funds through the Payment Management System and had nearly $5 million in funds available in that system at year-end. Due to the holiday schedule and the earlier-than-expected payroll processing date, the related drawdown had not yet been deposited into the Organization's checking account before the payroll was processed, resulting in a negative year-end cash balance.

Corrective Action:

Effective February 1, 2026, the Organization strengthened its payroll funding and cash management timelines to prevent recurrence. Management will account for bank holidays, payroll vendor processing deadlines and Payment Management System drawdown timing when scheduling payroll funding. Prior to payroll processing, finance staff will confirm the scheduled payroll date, anticipated cash requirement and availability of funds in the operating account. The Organization will also require secondary review before payroll files are released and will monitor cash flow on a rolling basis to ensure federal drawdowns are completed sufficiently in advance of payroll deadlines.

Finding 3 – Significant Deficiency Resulting in Audit Adjustment

Cause:
The audit adjustment resulted from the accounting treatment of a deposit related to the Organization's annual insurance policies. The amount should have been recorded as a prepaid expense and amortized over the 12-month policy period. Instead, it was expensed in the month the deposit was paid, resulting in an improper period recognition that required adjustment during the audit.

HANNA'S HOUSE

FAMILY IS WHAT YOU MAKE IT

Corrective Action:

The Organization has strengthened its accounting function by hiring additional, more qualified accounting staff and engaging outside consultants to assist with complex accounting matters and significant journal entries, including prepaid expenses, accruals, deferrals and other year-end adjustments. Management will perform enhanced review of material deposits, prepaid expenses and expense allocations to ensure costs are recognized in the appropriate accounting period. Management will continue to use outside technical accounting support as needed for complex or unusual transactions.

The Organization maintains established financial management and oversight practices and will continue to execute periodic reviews and refinements as part of its standard operating procedures and governance cycle. Please note that [redacted] will be responsible for implementing these corrections.

Sincerely,

[redacted]

CEO, Hanna’s House