



CDSS

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STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY  
**DEPARTMENT OF SOCIAL SERVICES**  
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EDMUND G. BROWN JR.  
GOVERNOR

March 24, 2014

FOSTER CARE AUDITS and RATES LETTER NO. 2014-01

TO: ALL GROUP HOME PROVIDERS  
ALL COMMUNITY TREATMENT FACILITY PROVIDERS  
ALL FOSTER FAMILY AGENCIES  
ALL COUNTY WELFARE DIRECTORS  
ALL COUNTY CHIEF PROBATION OFFICERS  
ALL MENTAL HEALTH DIRECTORS

SUBJECT: FINANCIAL AUDIT PROTOCOLS

Enclosed are the current protocols for Financial Audit Report (FAR) reviews. These protocols are used by the California Department of Social Services, Foster Care Audits and Rates Branch's auditors who perform reviews of FARs that are required to be submitted either annually or triennially by non-profit organizations (NPO) that operate group home and/or foster family agency programs.

If you have any questions, please contact Ms. Fanita Polk-Reaves, Manager, Audits Policy and Support Unit, at (916) 653-1802.

Sincerely,

**(Original Signed By)**

CHERYL TREADWELL, Chief  
Foster Care Audits and Rates Branch

Enclosure

c: California Alliance of Child and Family Services  
Community Residential Care Association of California  
California Welfare Directors Association  
Chief Probation Officers of California

# FOSTER CARE NON-PROFIT ORGANIZATIONS FINANCIAL AUDIT PROTOCOLS April 2014

The purpose of the Financial Audit Report (FAR) review is to assess the financial condition of a non-profit organization (NPO), determine whether certain indicators of financial instability exist and if there is any evidence of financial malfeasance. The NPOs that operate group home and/or foster family agency programs are required to submit a FAR prepared by a Certified Public Accountant (CPA) with an Attestation Certification as set forth in Business and Professions Code (B&PC) section 5095, as a condition to receive an Aid to Families with Dependent Children-Foster Care (AFDC-FC) rate in accordance with the Welfare and Institutions Code, Manual of Policies and Procedures (MPP), Generally Accepted Government Auditing Standards (GAGAS), and Office of Management and Budget (OMB) Circular A-133 auditing standards.

## I. INITIATION

- A. Upon initial receipt of the FAR and Cost Data, it will be date stamped and distributed to the appropriate auditor.
- B. The Auditor will perform a cursory review of the FAR. If the FAR indicates that the CPA issued a Disclaimer of Opinion or the FAR is submitted in a draft format, **the FAR will be rejected**. If the FAR has not been rejected, the auditor will determine the following:
  - 1. Whether the report was prepared in accordance with applicable laws and regulations;
  - 2. Contains the required Cost Data and applicable reports;
  - 3. Is for the correct Fiscal Year; and
  - 4. Is properly signed and dated by a CPA with an attest certification.
- C. If any of the required information/documents are missing, the Auditor will contact the NPO to discuss what is required to bring the FAR into compliance. Failure to bring the FAR into compliance will result in referral for rate termination.

## II. FIRST LEVEL REVIEW

- A. If all required documents have been submitted, the Auditor will continue with the FAR review.

- B. The comprehensive review will include confirmation that the CPA had an active license and attest certification during the time the audit was performed.
- C. The Auditor will analyze the content of the statements, schedules, etc., included with the FAR as follows:
  - 1. Independent Auditor's Reports;
  - 2. Statement of Financial Position;
  - 3. Statement of Activities;
  - 4. Statement of Functional Expenses, if applicable;
  - 5. Statement of Cash Flows;
  - 6. Notes to the Financial Statements;
  - 7. Report on Other Matters Reported to Management, if applicable;
  - 8. Report on Compliance and Internal Controls;
  - 9. Schedule of Expenditures and Federal Awards (for A-133 audits only);
  - 10. Schedule of Findings and Questioned Costs
  - 11. Summary of Schedule of Prior Audit Findings and Corrective Action Plan
  - 12. Cost data reported on Forms SR 3, SR 4, and/or Foster Care Rates (FCR) 12FFA;
  - 13. Federal Revenue Certification (SR 9);
  - 14. Financial Audit Report Transmittal (SR 8)
- D. The auditor will perform a risk assessment using the FAR Desk Review Tool to identify whether or not indicators of financial instability exist. For example, a low risk assessment may be based on no material weaknesses identified, whereas a high risk assessment may be based on fiscal improprieties such as going concerns, significant deficiencies, disallowed costs, negative subsequent events, evidence of fraud, and/or misuse of funds, identified in the FAR.
- E. If there is a question about whether a FAR constitutes a high risk assessment, the auditor will consult with the Audit Manager.

### **III. SECOND LEVEL REVIEW**

- A. The Audit Manager will perform the second-level review of any FARs with a high risk assessment and all Management Decision Letters (MDL).

- B. The Audit Manager will verify and confirm the risk assessment or other determinations made by the first-level reviewer. For any FAR with a high risk assessment, the Manager will refer the FAR for a fiscal audit.

## **OTHER INFORMATION**

### **IV. MANAGEMENT DECISION LETTERS (MDL)**

- A. An MDL shall be issued within 6 months of the date of the FAR as required by MPP section 11-405.231 and shall inform the NPO of:
  - 1. Whether or not the audit finding(s) are sustained;
  - 2. Whether or not the identified Corrective Action Plan (CAP) is acceptable. See Section V. for additional information.
  - 3. The reasons for the decision;
  - 4. The action expected to repay disallowed costs;
  - 5. Any necessary financial adjustments;
  - 6. Other actions that need to be taken;
  - 7. The due date for CAP compliance, (CAP shall be initiated within 6 months of the FAR see A-133 .405(d); and
  - 8. The appeal process, when disallowed costs have been identified.
  
- B. A Final MDL (FMDL) shall be issued only when:
  - 1. All findings (by CPA and/or the Foster Care Audits and Rates Branch (FCARB) are identified and sustained; and
  - 2. An acceptable CAP has been submitted that addresses all identified findings.
  
- C. An Initial MDL may be issued when additional information or actions are required of the NPO. An Initial MDL may be used when:
  - 1. FCARB identifies additional findings and further Corrective Action is required;
  - 2. The CAP is unacceptable in full or part; or
  - 3. The CAP was not submitted with the FAR (and there has been no response to informal requests); and
  - 4. The due date for full compliance with additional requests, (normally **30** days from the date the NPO received the Initial MDL) does not delay issuance of the FMDL beyond the 6-month period required by MPP section 11-405.231.

- D. Upon completion, the MDL will undergo an internal quality control process, be finalized and routed for signature by the Bureau Chief.
- E. No MDL will be issued when no findings have been identified by the CPA or FCARB.

**V. CORRECTIVE ACTION PLAN (CAP)**

- A. A CAP should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.
- B. The CAP should be submitted with the FAR; however, if the CAP is not submitted with the FAR, (and there has been no response to informal requests) an Initial MDL will be issued requesting the CAP as provided in IV. C. above.
- C. The CAP must adequately address each of the findings. If a CAP has been submitted but it does not adequately address all of the CPA's findings or other findings identified during the review of the FAR, then an Initial MDL shall be prepared specifying additional CAP steps as provided in IV. C. above.
  - 1. The CAP must address each finding whether identified by the CPA or FCARB during review.
  - 2. When findings include disallowed costs, the CAP must include an agreement to repay.
- D. A FMDL shall be issued only when each finding (by CPA and/or FCARB) are identified and sustained; and an acceptable CAP has been submitted that addresses all identified findings.
- E. Failure to submit an acceptable CAP will result in referral for rate termination.

**VI. REPEAT FINDINGS**

- A. If the current FAR contains repeat findings from the prior FAR, a Failure to Implement CAP MDL will be issued requesting a CAP to address the repeat findings.
- B. If the same repeat findings are reported in the next FAR due, the NPO will automatically be referred for rate termination.