

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**FLORENCE CRITTENTON SERVICES OF  
ORANGE COUNTY, INC., DID NOT  
ALWAYS CLAIM EXPENDITURES IN  
ACCORDANCE WITH FEDERAL  
REQUIREMENTS**

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Deputy Inspector General  
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October 2018  
A-09-17-01002

# *Office of Inspector General*

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## Report in Brief

Date: October 2018

Report No. A-09-17-01002



### Why OIG Did This Review

The Office of Refugee Resettlement (ORR) within HHS manages the Unaccompanied Alien Children (UAC) program, which served between 7,000 and 8,000 children annually from fiscal years (FYs) 2005 through 2011. In FY 2012, however, the number of children entering the program began to increase, and in FY 2014, ORR served 57,496 children. Because of the rapid increase of vulnerable children entering ORR care, the significant increases in program funding, and the multiple changes to ORR policies during FY 2014, we are conducting a series of reviews of ORR care providers across the Nation.

We selected for review Florence Crittenton Services of Orange County, Inc. (Crittenton), a UAC program grantee, because Crittenton had a finding related to the ORR grant in its FY 2014 Single Audit report and had citations from the State licensing office related to the health and safety of children in its care.

Our objective was to determine whether Crittenton claimed expenditures in accordance with applicable Federal requirements.

### How OIG Did This Review

We reviewed a stratified random sample of 135 expenditure transactions that Crittenton claimed during FYs 2014 and 2015 (October 1, 2013, through September 30, 2015). We also reviewed expenditures that Crittenton claimed in its Federal Financial Reports but did not record in the general ledger.

## Florence Crittenton Services of Orange County, Inc., Did Not Always Claim Expenditures in Accordance With Federal Requirements

### What OIG Found

Of the 135 sampled transactions, 90 were allowable; however, 28 contained deficiencies, resulting in unallowable expenditures of \$259,671 for employee-related and other costs. In addition to our sample results, we found that Crittenton claimed unallowable expenditures of \$53,470 for equipment. In total, Crittenton claimed unallowable expenditures of \$342,263, including \$29,122 of unallowable indirect costs. For the remaining 17 of the 135 sampled transactions, Crittenton did not identify and claim actual expenditures incurred for certain services and shelter care provided to UAC. Instead, Crittenton used rates that ORR had not approved to calculate the amount to claim these expenditures. We have set aside all of the expenditures claimed for these services and shelter care, totaling \$3,251,090 (including \$276,625 of indirect costs), for resolution by ORR and Crittenton.

Crittenton did not provide sufficient oversight of expenditures charged to the grant awards, and its policies and procedures were inadequate to ensure that it identified and claimed actual expenditures incurred for the awards.

### What OIG Recommends and Crittenton Comments

We recommend that Crittenton (1) refund to the Federal Government \$342,263 for unallowable expenditures claimed; (2) work with ORR to determine what portion of the \$3,251,090 claimed was unallowable and refund to the Federal Government the unallowable amount; (3) review its claimed expenditures for FY 2016 (the third year of the grant awards) to determine whether they were claimed in accordance with Federal requirements and refund to the Federal Government any unallowable amount; (4) strengthen its oversight, through additional supervisory review, of expenditures charged to grant awards to ensure that they are claimed in accordance with Federal requirements; and (5) implement adequate policies and procedures to ensure that it identifies and claims actual expenditures incurred for services and shelter care provided to UAC.

In written comments on our draft report, Crittenton stated that it largely disagreed with our methodology, findings, and recommendations. Crittenton provided information on actions that it had taken or planned to take to address our third, fourth, and fifth recommendations. After reviewing Crittenton's comments, we maintain that our findings and recommendations are valid. The details of Crittenton's comments and our response are shown in the body of the report.

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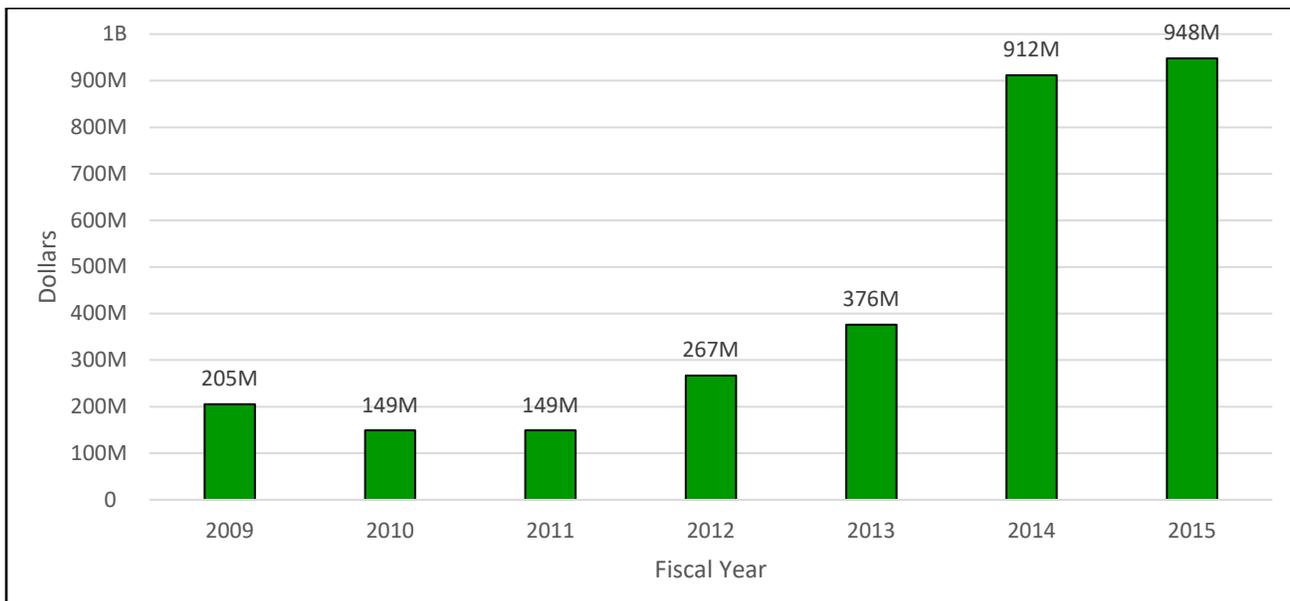
## INTRODUCTION

### WHY WE DID THIS REVIEW

The Office of Refugee Resettlement (ORR) within the U.S. Department of Health and Human Services' (HHS) Administration for Children and Families (ACF) manages the Unaccompanied Alien Children (UAC) program. The UAC program served between 7,000 and 8,000 children annually from fiscal years (FYs) 2005 through 2011. In FY 2012, however, the number of children entering the program began to increase, and by the end of FY 2012, the UAC program served approximately 13,600 children. In FY 2013, the program served 24,668 children, and in FY 2014, ORR served 57,496 children. Although the number of children that the program served decreased to 33,726 in FY 2015, ORR's funding for the program increased.

From FYs 2009 through 2015, ORR's funding for its UAC program totaled more than \$3 billion, with about \$948 million (32 percent) of the funding occurring during FY 2015 alone. (See the figure below).

**Figure: UAC Program Funding From FYs 2009 Through 2015**



Because of the rapid increase of vulnerable children entering ORR care, the significant increases in program funding, and the multiple changes to ORR policies during FY 2014, we are conducting a series of reviews of ORR care providers across the Nation. We selected for review Florence Crittenton Services of Orange County, Inc. (Crittenton), a UAC program grantee, because Crittenton had a finding related to the ORR grant in its FY 2014 Single Audit report and had citations from the State licensing office related to health and safety of children in its care. We conducted this review of Crittenton's claimed expenditures in conjunction with our review of its compliance with safety standards. Our findings and recommendations related to health

and safety were contained in a previously issued report.<sup>1</sup> This report details our findings and recommendations related to Crittenton’s financial expenditures. (Appendix C lists related Office of Inspector General (OIG) reports on UAC program grantees.)

## **OBJECTIVE**

Our objective was to determine whether Crittenton claimed expenditures in accordance with applicable Federal requirements.

## **BACKGROUND**

### **Care of Unaccompanied Children**

Within HHS, ORR manages the UAC program. The UAC program funds temporary shelter care<sup>2</sup> and other services (e.g., food, clothing, health care, education, and transportation) for unaccompanied children in ORR custody. For project periods<sup>3</sup> beginning in FYs 2014 and 2015, ORR awarded grants totaling \$2.1 billion to providers for the care and placement of children. The UAC program is separate from State-run child welfare and traditional foster care systems.

### **Applicable Federal Requirements**

For grant awards made before December 26, 2014, Federal regulations (45 CFR part 74) establish uniform administrative requirements governing HHS grants and agreements awarded to nonprofit entities. The allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of 2 CFR part 230 (formerly OMB Circular A-122) (made applicable by 45 CFR § 74.27(a)). For grant awards made on or after December 26, 2014, 45 CFR part 75 establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities.

Our audit period (October 1, 2013, through September 30, 2015) encompassed 15 ORR awards for incremental funding for cooperative agreements 90ZU0078-01, 90ZU0078-02, 90ZU0094-01, and 90ZU0094-02: 10 awards were made before December 26, 2014, to which 45 CFR part 74 applied, and 5 awards were made after December 26, 2014, to which 45 CFR part 75 applied. For the purposes of this report, there were only minor, nonsubstantive differences in

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<sup>1</sup> *Florence Crittenton Services of Orange County, Inc., Did Not Always Meet Applicable Safety Standards Related to Unaccompanied Alien Children (A-09-16-01005)*, issued June 18, 2018.

<sup>2</sup> Shelter care is provided in a residential-care provider facility in which all of the programmatic components are administered onsite in the least restrictive environment. The goal of shelter care is to provide the least restrictive setting that is in the best interest of the child, taking into consideration potential flight risk and danger to the child and others.

<sup>3</sup> A project period for the UAC program is a 36-month project with three 12-month budget periods. Our audit period covered the first two budget periods.

the language of the relevant provisions of the rules that applied to our findings; thus, for simplicity's sake, we have cited the provisions of 45 CFR part 74, which applied at the beginning of our audit period. We have included the relevant citations to 45 CFR part 75 in footnotes.

## **Crittenton**

Crittenton is a nonprofit child welfare and behavioral health agency in Fullerton, California. Since 2006, Crittenton has participated in the UAC program and served more than 4,000 children. In FYs 2014 and 2015, Crittenton was awarded approximately \$24.3 million for a residential grant (award numbers 90ZU0094-01 and 90ZU0094-02) and a home-study grant (award numbers 90ZU0078-01 and 90ZU0078-02) and claimed approximately \$20.5 million in Federal funds for the care and placement of 1,096 UAC.

Crittenton used two of its own residential facilities to provide shelter care to UAC. In FY 2014, Crittenton also used one of the five cottages in another residential facility to provide shelter care to UAC.

## **HOW WE CONDUCTED THIS REVIEW**

Our review covered \$20,381,611 in expenditures that Crittenton claimed for a residential grant and a home-study grant from October 1, 2013, through September 30, 2015. To determine whether the expenditures were claimed in accordance with applicable Federal requirements, we reviewed a stratified random sample of 135 expenditure transactions, totaling \$9,403,228, that were recorded in Crittenton's general ledger. We also reviewed all expenditures related to capital equipment and indirect costs, which Crittenton claimed in its Federal Financial Reports (FFRs) but did not record in the general ledger.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology, and Appendix B contains the details of our statistical sampling methodology.

## **FINDINGS**

Crittenton did not always claim expenditures in accordance with applicable Federal requirements:

- Of the 135 sampled transactions, 90 were allowable; however, 28 contained deficiencies, resulting in unallowable expenditures of \$259,671 for employee-related

and other costs.<sup>4</sup> In addition to our sample results, we found that Crittenton claimed unallowable expenditures of \$53,470 for equipment. In total, Crittenton claimed unallowable expenditures of \$342,263, including \$29,122 of unallowable indirect costs.

- For the remaining 17 of the 135 sampled transactions, Crittenton did not identify and claim actual expenditures incurred for certain services and shelter care provided to UAC. Instead, Crittenton used rates that ORR had not approved to calculate the amount to claim these expenditures. We have set aside all of the expenditures claimed for these services and shelter care, totaling \$3,251,090 (including \$276,625 of indirect costs), for resolution by ORR and Crittenton.

Crittenton claimed unallowable expenditures because it did not provide sufficient oversight of expenditures charged to the grant awards and its management was unfamiliar with Federal grant requirements. In addition, Crittenton's policies and procedures were inadequate to ensure that it identified and claimed actual expenditures incurred for the awards.

### **CRITTENTON CLAIMED SOME UNALLOWABLE EXPENDITURES**

Crittenton claimed some unallowable expenditures for employee-related and other costs and for equipment, totaling \$342,263, including \$29,122 of unallowable indirect costs.

#### **Crittenton Claimed Unallowable Expenditures for Employee-Related and Other Costs**

Where a funding period is specified, a recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the HHS awarding agency (45 CFR § 74.28).<sup>5</sup> To be allowable under an award, costs must be reasonable, allocable, and adequately documented (2 CFR part 230, App. A, § A.2).<sup>6</sup> A cost is allocable, among other factors, if it is incurred specifically for the award (2 CFR part 230, App. A, § A.4.a).<sup>7</sup>

For 28 of the 135 sampled transactions, Crittenton claimed unallowable expenditures for employee-related and other costs, totaling \$259,671.<sup>8</sup>

- For one transaction, Crittenton claimed an unallowable expenditure of \$231,850 for unemployment insurance benefits that were for a period before the funding period.

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<sup>4</sup> No estimates were calculated for unallowable expenditures for employee-related and other costs.

<sup>5</sup> 45 CFR § 75.309(a).

<sup>6</sup> 45 CFR § 75.403.

<sup>7</sup> 45 CFR § 75.405(a)(1).

<sup>8</sup> The number of transactions does not add up to 28 because some transactions contained more than 1 deficiency.

- For 12 transactions, Crittenton claimed unallowable expenditures of \$14,758 for salaries and wages for which Crittenton was unable to provide timesheets that documented the hours worked by the employees.
- For eight transactions, Crittenton claimed unallowable expenditures of \$9,890 for salaries and wages, transportation, and legal costs that were not related to the UAC program and therefore were not incurred specifically for the grant award. These costs were related to a State-run foster care program.
- For 18 transactions, Crittenton claimed unallowable expenditures of \$3,173 for salaries and wages for which the employees' work hours were incorrectly calculated or recorded.

### **Crittenton Claimed Unallowable Expenditures for Equipment**

Capital expenditures<sup>9</sup> for general-purpose equipment,<sup>10</sup> buildings, and land are unallowable as direct charges, except when approved in advance by the awarding agency (2 CFR part 230, App. B, § 15.b(1)).<sup>11</sup>

Crittenton claimed unallowable expenditures of \$53,470 to purchase equipment (i.e., a keyless lock system and a telephone system) without advance approval from ORR.<sup>12</sup> Crittenton did not disclose in its budget that it would charge the grant award for purchasing the equipment or otherwise provide us evidence of approval from ORR.

### **Crittenton Did Not Provide Sufficient Oversight of Expenditures Charged to the Grant Awards**

Crittenton claimed unallowable expenditures because it did not provide sufficient oversight of expenditures charged to the grant awards and its management was unfamiliar with Federal grant requirements. Crittenton stated that the unallowable expenditures claimed for employee-related and other costs were due to human errors, such as misplacing documentation, entering data incorrectly, and incorrectly calculating employees' work hours.

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<sup>9</sup> "Capital expenditures" means expenditures for the acquisition cost of capital assets (equipment, buildings, and land) or expenditures to make improvements to capital assets that materially increase their value or useful life. "Acquisition cost" means the cost of the asset, including the cost to put it in place. (2 CFR part 230, App. B, § 15.a(1))

<sup>10</sup> "General-purpose equipment" means equipment, which is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air-conditioning equipment, reproduction and printing equipment, and motor vehicles. (2 CFR part 230, App. B, § 15.a(4))

<sup>11</sup> 45 CFR § 75.439(b)(1).

<sup>12</sup> In addition to charging the purchase to the grant award, Crittenton charged monthly depreciation costs to the award. Therefore, Crittenton was reimbursed with Federal funds twice for the same equipment.

These errors were not detected during supervisory review. In addition, Crittenton was not aware that advance approval from ORR was required to purchase the equipment using grant funds.

### **Effect of Unallowable Expenditures**

Crittenton claimed \$342,263 in unallowable expenditures, consisting of \$259,671 in unallowable expenditures for employee-related and other costs,<sup>13</sup> \$53,470 in unallowable expenditures for equipment, and \$29,122 in unallowable indirect costs related to the unallowable direct costs.<sup>14</sup> In addition, because of insufficient oversight, ORR could not be sure that Crittenton's claimed expenditures for the third year of the awards were appropriate.

### **CRITTENTON DID NOT IDENTIFY AND CLAIM ACTUAL EXPENDITURES**

For 17 of the 135 sampled transactions, Crittenton did not identify and claim actual expenditures incurred for certain services and shelter care provided to UAC. Because Crittenton did not identify the amount of actual expenditures incurred, we have set aside all of the expenditures claimed for these services and shelter care, totaling \$3,251,090, including \$276,625 of indirect costs.

### **Crittenton Did Not Claim Actual Expenditures Incurred for Certain Services and Shelter Care**

Grant recipients must maintain records that identify adequately the source and application of funds for HHS-sponsored activities (45 CFR § 74.21(b)(2)).<sup>15</sup> In addition, to be allowable under an award, costs must be reasonable, allocable, and adequately documented (2 CFR part 230, App. A, § A.2).<sup>16</sup> A cost is allocable if it is incurred specifically for the award (2 CFR part 230, App. A, § A.4.a).<sup>17</sup>

The *HHS Grants Policy Statement*, part I-22, states that HHS discretionary grant awards provide for reimbursement of actual, allowable program/project costs incurred.

Crittenton did not identify and claim actual expenditures incurred for certain services (provided to UAC in one of Crittenton's cottages) and for shelter care provided to UAC. Instead, Crittenton used rates that were not approved by ORR to calculate the amount to claim these

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<sup>13</sup> No estimates were calculated for unallowable expenditures for employee-related and other costs.

<sup>14</sup> To determine the amount of unallowable indirect costs claimed, we applied Crittenton's applicable indirect cost rate, 9.3 percent, to the transaction amounts determined to be unallowable.

<sup>15</sup> 45 CFR § 75.302(b)(3).

<sup>16</sup> 45 CFR § 75.403.

<sup>17</sup> 45 CFR § 75.405(a)(1).

expenditures. Crittenton did not disclose in its budget that it planned to use rates to claim these expenditures or did not otherwise provide us evidence of approval from ORR.

### *Services Provided to Unaccompanied Children in a Cottage*

In FY 2014, Crittenton converted one of its five cottages to provide shelter care to UAC. (The other four cottages were for children who were in a non-UAC program.) Rather than identifying the actual expenditures incurred for services (e.g., living accommodations, food, clothing, and recreation) in this one cottage, Crittenton claimed expenditures of \$2,186,870 by applying a rate that it developed using a State-established rate for children placed in level-12 group homes to the number of beds in this cottage, whether or not the beds were occupied.<sup>18</sup>

### *Shelter Care Provided to Unaccompanied Children*

To provide shelter care to UAC, Crittenton used its own residential facilities. Rather than identifying the actual expenditures incurred for the use of these facilities, Crittenton claimed expenditures for monthly occupancy charges of \$787,595 using a rate that it had developed based on the rental rates for similar types of facilities in the area.

## **Crittenton's Policies and Procedures Were Inadequate To Ensure That It Identified Actual Expenditures**

Crittenton's policies and procedures were to use rates to claim expenditures for certain services and shelter care provided to UAC. Crittenton stated that it was unable to identify expenditures specifically incurred for one of its cottages because those costs were intertwined with the costs for a non-UAC program. For shelter care expenditures, Crittenton stated that using a rate was the most economical way to claim those expenditures.

## **Effect of Set-Aside Expenditures**

Crittenton claimed expenditures of \$2,974,465 for certain services provided to UAC and for shelter care provided to UAC. In addition, Crittenton claimed \$276,625 in indirect costs related to these expenditures.<sup>19</sup> Because Crittenton did not identify the amount of actual expenditures incurred and used unapproved rates to claim these expenditures, Crittenton was unable to ensure that it claimed only allowable expenditures that were specifically incurred for the grant

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<sup>18</sup> The California Department of Social Services (State agency) classifies all group homes into 1 of the 14 Rate Classification Levels (RCLs). The RCL process uses a point system to measure the level or intensity of care and supervision provided. Points are based on the number of hours per child per month of services provided for three components: childcare and supervision, social work activities, and mental health treatment services. The State agency classified Crittenton as RCL 12, and Crittenton reduced the RCL rate by 9.5 percent to develop a rate of \$7,958 for State FY 2014–2015 and a rate of \$8,160 for State FY 2015–2016.

<sup>19</sup> To determine the amount of indirect costs claimed, we applied Crittenton's applicable indirect cost rate, 9.3 percent, to the transaction amounts that we set aside.

awards. Therefore, we have set aside the total amount of \$3,251,090 for resolution by ORR and Crittenton.

## **RECOMMENDATIONS**

We recommend that Crittenton:

- refund to the Federal Government \$342,263 for unallowable expenditures claimed;
- work with ORR to determine what portion of the \$3,251,090 claimed was unallowable and refund to the Federal Government the unallowable amount;
- review its claimed expenditures for FY 2016 (the third year of the grant awards) to determine whether they were claimed in accordance with Federal requirements and refund to the Federal Government any unallowable amount;
- strengthen its oversight, through additional supervisory review, of expenditures charged to grant awards to ensure that they are claimed in accordance with Federal requirements; and
- implement adequate policies and procedures to ensure that it identifies and claims actual expenditures incurred for services and shelter care provided to UAC.

## **CRITTENTON COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, Crittenton stated that it largely disagreed with our methodology, findings, and recommendations. Crittenton provided information on actions that it had taken or planned to take to address our third, fourth, and fifth recommendations. Crittenton’s comments are included in their entirety as Appendix D. After reviewing Crittenton’s comments, we maintain that our findings and recommendations are valid.

### **CRITTENTON COMMENTS**

Regarding our methodology, Crittenton stated that the 135 sampled transactions included subsidiary ledgers and records that contained thousands of transactions and that it supplied to OIG over 18,500 records “making this the most exhaustive review we, in our collective experience, have ever experienced.”

Crittenton had the following comments on our recommendations:

- Regarding our first recommendation, Crittenton acknowledged a repayment due of \$27,821. Crittenton stated that it did not agree to refund the remaining unallowable

expenditures claimed because (1) it was an allowable method in California to charge the award based on unemployment benefits accrued as a percentage of payroll and (2) the equipment was claimed as immediate expenses and is not required to be capitalized (i.e., depreciated). Crittenton stated that it would arrange for repayment of the \$27,821 and confer with ORR regarding (1) recognition of unemployment expenses and (2) direct expenses versus depreciation.

- Regarding our second recommendation, Crittenton stated that, to fairly and equitably distribute the shared cost of a multiuse campus, it routinely uses a per diem rate recognized by the State agency. Crittenton also stated that this per diem method had been audited by a number of other agencies and that charging the award for certain services using a per diem rate was an appropriate allocation methodology. In addition, Crittenton stated that charging the award for shelter care costs using an “imputed lease rate on a square footage basis” was an allowable method commonly used. Crittenton stated that it would “discuss and mutually agree with ORR representatives which method of allocation of shelter costs they accept and implement any changes deemed appropriate by them.”
- Regarding our third recommendation, Crittenton stated that the outcome of this recommendation would be determined by successful resolution between Crittenton and ORR regarding our second recommendation and agreement regarding unemployment liability (the unemployment benefits finding related to our first recommendation).
- Regarding our fourth recommendation, Crittenton stated that it would review our findings with ORR and its external auditor to determine whether any further steps, approvals, or analyses are appropriate to further ensure fiscal operations.
- Regarding our fifth recommendation, Crittenton stated that it has implemented a cost basis for future reporting of shelter care costs and has instituted a “chain of custody process” to ensure that records are accounted for and returned to their original location once their use is no longer required.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We selected Crittenton for review because it had a finding related to the ORR grant in its FY 2014 Single Audit report and had citations from the State licensing office related to the health and safety of children in its care. Regarding other audits that Crittenton mentioned in its comments, we are unable to provide a response because we are not aware of the objective, scope, and methodology of the other agencies’ audits, which may not include reviews of Crittenton’s Federal expenditures related to the UAC program and compliance with Federal regulations.

Regarding our methodology, we selected 135 transactions recorded in Crittenton’s general ledger, and Crittenton provided the documentation that it believed was necessary to support the selected transactions. We applied the relevant Federal regulations to evaluate the selected transactions.

Regarding our first recommendation, Federal regulations (45 CFR § 74.28) state that a recipient may charge to an award only allowable costs resulting from obligations incurred during the funding period. However, the unemployment benefits that Crittenton charged to the grant award were accrued as a percentage of payroll for a period before the funding period; they were not incurred during the funding period. In addition, Crittenton charged the purchase of equipment to the grant award as immediate expenses without advance approval from ORR. It also charged monthly depreciation costs to the award and thus was reimbursed with Federal funds twice for the same equipment.

Regarding our second recommendation, Federal requirements specify that HHS discretionary grant awards provide for reimbursement of actual, allowable program/project costs incurred. The claimed expenditures that Crittenton calculated using rates were not the actual costs incurred. Because Crittenton did not identify the amount of actual expenditures incurred and used unapproved rates to claim these expenditures, Crittenton was unable to ensure that it claimed only allowable expenditures that were specifically incurred for the grant awards. Therefore, we continue to recommend that Crittenton work with ORR to determine what portion of the claimed expenditures was unallowable and refund to the Federal Government the unallowable amount.

After reviewing Crittenton’s comments, we maintain that our findings and recommendations are valid.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our review covered \$20,381,611 in expenditures that Crittenton claimed for a residential grant and a home-study grant from October 1, 2013, through September 30, 2015. To determine whether the expenditures were claimed in accordance with applicable Federal requirements, we reviewed a stratified random sample of 135 expenditure transactions, totaling \$9,403,228, that were recorded in Crittenton's general ledger. We also reviewed all expenditures related to capital equipment and indirect costs, which Crittenton claimed as expenditures in its FFRs but did not record in the general ledger.

We performed our fieldwork from August 2016 through March 2018, including site visits to Crittenton in Fullerton, California.

Our objective did not require an understanding of all of Crittenton's internal controls. We limited our assessment to Crittenton's controls related to its expenditures charged to the grant awards.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed grant documents and policies and procedures maintained at Crittenton;
- interviewed Crittenton officials to obtain an understanding of how Crittenton charged expenditures to the grant awards;
- reconciled the FFRs with Crittenton's general ledgers;
- reconciled the amounts of Federal funds that Crittenton received with the FFRs;
- selected a stratified random sample of 135 expenditure transactions that were recorded in Crittenton's general ledger during FYs 2014 and 2015 (Appendix B);
- reviewed supporting documentation for each sampled transaction to determine whether the expenditures were allowable;
- reviewed supporting documentation for capital equipment and indirect costs, which Crittenton claimed as expenditures in its FFRs but did not record in the general ledger;

- used Crittenton’s applicable indirect cost rate to calculate the amount of indirect costs applicable to the unallowable and set-aside transaction amounts; and
- discussed our findings with Crittenton officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX B: STATISTICAL SAMPLING METHODOLOGY

### TARGET POPULATION

The target population consisted of all expenditure transactions in Crittenton’s general ledger for both its residential and home-study grants during FYs 2014 and 2015.

### SAMPLING FRAME

We received an Excel file from Crittenton that listed 10,694 transactions, totaling \$18,746,438, that Crittenton had recorded as expenditures during FYs 2014 and 2015 for both its residential and home-study grants. We removed transactions valued between negative \$100 and \$100 (both debits and credits), all transactions that netted to zero, transactions there were not charged to the grant awards, and certain depreciation costs.<sup>20</sup> As a result, our sampling frame contained 5,427 transactions totaling \$18,593,933.

### SAMPLE UNIT

The sample unit was a general-ledger expenditure transaction.

### SAMPLE DESIGN AND SAMPLE SIZE

We used a stratified random sample. The sampling frame was divided into five strata based on the dollar value of the transaction, as shown in the table below.

Table: Strata

Stratum	Sampling Frame Size	Value of Frame	Sample Size	Value of Sample	Range of Values in Stratum
1	4,783	\$2,512,422	30	\$17,682	\$100.00 to \$4,164.43
2	358	4,519,591	30	367,842	\$4,168.28 to \$45,791.00
3	73	7,337,028	30	2,918,172	\$50,703.00 to \$123,959.23
4	30	6,765,186	30	6,765,186	\$125,686.73 to \$961,554.29
5	183	(2,540,293)	15	(665,654)	\$(559,182.00) to \$(100) <sup>21</sup>
<b>Total</b>	<b>5,427</b>	<b>\$18,593,933</b>	<b>135</b>	<b>\$9,403,228</b>	

### SOURCE OF RANDOM NUMBERS

We used the OIG, Office of Audit Services, statistical software to generate the random numbers.

<sup>20</sup> These depreciation costs related to capital equipment that was purchased with ORR’s grant funds.

<sup>21</sup> Stratum 5 consisted of transactions with negative dollar amounts, such as credits, adjustments, and reversals.

## **METHOD OF SELECTING SAMPLE ITEMS**

We consecutively numbered the sample units in each stratum. After generating the random numbers for each stratum, we selected the corresponding frame items.

## **ESTIMATION METHODOLOGY**

During our review of the sampled items, we identified unallowable expenditures of \$259,671. However, we did not estimate the total amount of unallowable expenditures.

**APPENDIX C: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>Florence Crittenton Services of Orange County, Inc., Did Not Always Meet Applicable Safety Standards Related to Unaccompanied Alien Children</i>	<a href="#">A-09-16-01005</a>	6/18/2018
<i>BCFS Health and Human Services Did Not Always Comply With Federal Requirements Related to Less-Than-Arm's-Length Leases</i>	<a href="#">A-06-16-07007</a>	2/20/2018
<i>Office of Refugee Resettlement Unaccompanied Alien Children Grantee Review—His House</i>	<a href="#">A-04-16-03566</a>	12/4/2017

## APPENDIX D: CRITTENTON COMMENTS



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**LA Regional Office:**  
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**Chief Executive Officer**  
Joyce K. Capelle

**Community Locations**  
Los Angeles County  
Orange County  
Riverside County  
San Bernardino County  
San Diego County

*Proudly serving the community with in-home residential treatment, and school-based services.*

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Achieve.  
Empower.**

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Child Welfare Services License # 95-249-457

August 15, 2018

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Audit Services, Region IX  
Office of Inspector General  
U.S. Department of Health & Human Services  
90 – 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Report Number A-09-17-01002

Dear Ms. Ahlstrand,

On behalf of the Crittenton team, I would like to acknowledge the exhaustive audit work performed by OIG staff. Although your report states “135 sampled transactions”, the reality is that your sampling included subsidiary ledgers and reports that themselves included thousands of transactions. In total, our office supplied to OIG over 18,500 individual records making this the most exhaustive review we, in our collective experience, have ever experienced. I believe that the man hours committed by Crittenton to this review significantly impacted our day-to-day operations. While we disagree with methodology and findings, as will be discussed in the attachment, we want to note for the record the exhaustive nature of your efforts.

The reason given for our selection includes “because Crittenton has a finding related to the ORR grant in its fiscal year 2014 single audit report...”. We highlight for any reader that the finding was due to our reliance on verbal authorization to purchase replacement vehicles to transport UACs, rather than make a written request. There was no finding that the expense itself was inappropriate or unallowable, only the Crittenton did not secure written pre-approval. There have been no other fiscal findings in thirteen years of being a care provider for the Office of Refugee Resettlement. We would also note for the record that the State of California, Department of Social Services, recently completed an audit and had no findings.

“During the audit period (April 1, 2016 through March 31, 2017), the audit did not disclose any concerns regarding Florence Crittenton Services

of Orange County, Inc.'s program operations. The audit did not reveal any disallowed costs. In addition, internal controls were noted to be strong with sufficient safeguards over its assets and it was also determined that adequate oversight was provided by the Board of Directors over the non-profit organization's program operation."

CDSS also found that:

"The Provider has a strong internal control structure in place to ensure the effectiveness and efficiency of program operations, and to ensure compliance with applicable laws and regulations".

We offer, for the record, the fact that another government entity, applying the same Code of Federal Regulations (CFR) Uniform Administrative Requirements, Cost Principles, and Audit Requirements and the Government Auditing Standards reached a different conclusion about the fiscal operations of this agency. Crittenton operates multiple programs, all of which are funded by state, county, or federal contracts/agreements. We do not claim to be perfect and can always learn and adapt our processes as circumstances dictate. However, we largely disagree with the methodology used, findings described, and recommendations as stated in the OIG's report. Areas of disagreement are as follows:

**(1) Refund to the Federal Government \$342,263 for unallowable expenses claimed.**

The largest portion of the above-referenced amount is attributable to unemployment expense. California allows for two methods of paying for unemployment benefits: as a percentage of payroll or as a reimbursement for unemployment claims made. Given the volatility of ORR funding (in fact, ORR reduced this agency's shelter grant by 40% mid-2017, resulting in reduction in force and significant unemployment claims), and recognizing the Contingent Liability principle of accounting, this agency accrues monthly for this expense as a percentage of payroll. This is a well-recognized method of accounting for this liability and one accepted by all other government agencies with which we contract. Therefore, our position is that \$231,850 of the asserted "unallowable" costs is, in fact allowable and not subject to reimbursement. The second largest portion, \$82,592, results from whether we correctly expensed certain enhancements to security systems and communications systems, or whether they are capital items that should be depreciated

over time. We believe that changes to our existing security and communications systems, to improve functionality and the safety of our campus, are immediate expenses and not required to be capitalized. While we respectfully disagree with OIG conclusions, we will discuss and resolve with ORR to determine appropriate accounting treatment. Noted for the record is the fact that expenses were made solely to benefit UAC and the efficiency of operations. The dispute here lies in the immediate recognition of expense vs. depreciation over time.

Of the remaining amount at issue, we were unable to retrieve the source documents and acknowledge minor clerical errors as follows:

\$ 14,447 payroll expenses for which time cards/timesheets could not be retrieved with reasonable effort

\$ 11,506 in payroll calculation errors

\$ 1,868 other expenses allocated to ORR in error

After many months of auditing and many documents being scanned and uploaded, we believe the missing timecards were misfiled. However, the amount of effort needed to continue the search would be significant; therefore we acknowledge a repayment due of \$ 27,821.

Action steps: (1) confer with ORR regarding recognition of unemployment expense and mutually agree to retroactive adjustments and prospective changes; (2) confer with ORR regarding the direct expense vs. depreciation over time of the security and communication upgrades, making any adjustments necessary as a result; and (3) arrange for repayment of \$ 27,821, given the staff cost of continuing to search for misfiled source documents vs. repayment to resolve the issue.

- (2) **Work with ORR to determine what portion of the \$3,251,000 claimed was unallowable and refund to the Federal Government that unallowable amount.**

Crittenton operates a number of residential facilities. Crittenton also contracts with a number of governmental agencies who place youth in these facilities. ORR policy prohibits co-mingling or UAC with other youth in placement; thus, several residential properties are maintained for the sole and exclusive use of ORR. To accommodate placement of pregnant and parenting UAC's, Crittenton allocates one cottage on its residential campus licensed to serve such youth, for the sole and exclusive use of ORR. To fairly and equitably distribute the shared cost of a multi-use

campus, Crittenton routinely uses a per diem rate recognized by California Department of Social Services. This per diem method has successfully been audited by a number of placing agencies and agreed to as an appropriate allocation methodology. The budget narrative provided to ORR for the fiscal years at audit, provide line item detail that supports these costs, but does not clearly specify that a per diem rate will be used to simplify accounting, rather than accumulate actual costs. The issue here is not whether Crittenton somehow misspent this sum, but to require that ORR and Crittenton more specifically agree on the methodology used. It should be noted that, during the course of this audit, Crittenton supplied copious detail supporting the simpler allocation method within 3.8% of the claimed expenses. Similarly, for other residential properties not shared by other placement sources, Crittenton uses an imputed lease rate on a square footage basis. Again, this methodology has been reviewed by our external auditors and is an allowable method commonly used. During the course of the audit, Crittenton was able to supply individual source documents to test the legitimacy of the rate used and was within 1.5% of the amount claimed.

Action step: Discuss and mutually agree with ORR representatives which method of allocation of shelter costs they accept and implement any changes deemed appropriate by them.

- (3) Review its claimed expenditures for FY2016 (the third year of the grant award) to determine whether they were claimed in accordance with Federal requirements and refund to the Federal Government any unallowable amounts.**

The outcome of this recommendation will be determined by successful resolution between Crittenton and ORR regarding allocation methods of shelter costs (as noted in #2) as well as agreement regarding unemployment liability. Once concluded for the audit years, we will review claimed expenditures and make any required adjustments to subsequent years.

- (4) Strengthen its oversight, through additional supervisory review, of expenditures charged to grant awards to ensure that they are claimed in accordance with Federal requirements.**

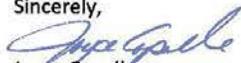
We reasonably rely on external audit, as well as numerous governmental audits, to ensure proper claiming and consistent application of contract/grant accounting requirements. As noted above, other government agencies have found our internal controls and general fiscal operations to be reasonable and appropriate. However, we will review these findings with ORR as otherwise described, as well as our external auditor to determine if any further steps, approvals or analyses are appropriate to further ensure fiscal operations.

**(5) Implement adequate policies and procedures to ensure that it identifies and claims actual expenditures incurred for services and shelter care provided to UAC.**

Although we believe that allocating shelter costs from unrelated facilities on a per diem basis is allowable, and in fact has been an accepted methodology approved by other government contracts, we have already implemented a cost-basis for future reporting. As to unemployment cost recognition, we strongly contend that the method we currently use meets the Contingent Liability principle and has been acceptable by numerous other audits. Lastly, since documents we originally had in hand (such as timecards) were misplaced during the audit process, we have instituted a "chain of custody process" for records to ensure they are accounted for and returned to their original location once their use is no longer required.

We take great pride in the work we do, our partnership with multiple governmental partners and our effective stewardship of resources entrusted to us. The purpose of any audit is to identify areas of improvement and to recommend a course of action intended to improve efficiency and effectiveness. Thank you for this opportunity to take a critical look at our policies and procedures, and to strengthen our operations. We will work with ORR to ensure that the way in which we allocate shared costs is mutually agreed, for the audit period in question, and for subsequent reporting periods.

Sincerely,



Joyce Capelle  
Chief Executive Officer