



Department of Audit

Milwaukee County

Jerome J. Heer
Douglas C. Jenkins

• Director of Audits
• Deputy Director of Audits

January 20, 2004

To the Honorable Chairman
of the Board of Supervisors
of the County of Milwaukee

We have completed our limited review of the La Causa Inc.'s (La Causa) reported expenses associated with the Special Needs Child Care Program for the period May 1, 2002 through July 31, 2003 (July 2003 is the most recent month for which La Causa has submitted an invoice for SNCC services). La Causa submitted program expenses totaling \$1,264,285 during this 15-month period. Our review focused on employee salaries, benefits and payroll taxes, professional fees and occupancy costs, as well as related administrative costs. Based on our review, we have determined that La Causa submitted a total of \$511,431 in expenses during this 15-month period (\$329,087 for 2002 and \$182,344 for 2003) that should be disallowed for a variety of reasons.

Please refer this report to the Committee on Health and Human Needs.

A handwritten signature in cursive script that reads "Jerome J. Heer".

Jerome J. Heer
Director of Audits

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors
Scott Walker, County Executive
Linda Seemeyer, Director, Department of Administrative Services
Terrence Cooley, Chief of Staff, County Board Staff
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Richard Ceschin, Research Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff
Delores Hervey, Committee Clerk, County Board Staff

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: January 20, 2004
To: Paula Lucey, Director, Department of Health and Human Services
From: Jerome J. Heer, Director of Audits
Subject: Review of La Causa, Inc. Special Needs Child Care Program Expenditures

Background

In May 2002, the Department of Health and Human Services (DHHS) entered into a contract with La Causa, Inc. to provide Special Needs Child Care (SNCC) Program services. The services included:

- Increase the awareness and access to appropriate quality child care in Milwaukee County for children with special needs.
- Develop a network of fee-for-service providers to support SNCC Program services.
- Build the capacity of child care facilities to better serve special needs children and their families.
- Provide care coordination related to child care for children with special needs.

Based on concerns with large increases in the salary expenses charged to this program, your department requested our assistance in reviewing La Causa's documentation to determine the accuracy of expenses billed to the County under the SNCC program.

Analysis

We have completed our limited review of the La Causa Inc.'s (La Causa) reported expenses associated with the Special Needs Child Care Program for the period May 1, 2002 through July 31, 2003 (July 2003 is the most recent month for which La Causa has submitted an invoice for SNCC services). La Causa submitted program expenses totaling \$1,264,285 during this 15-month period. Our review focused on employee salaries, benefits and payroll taxes, professional fees and occupancy costs, as well as related administrative costs. In that regard we performed the following tasks:

- Reconciled the payroll register to the general ledger of accounting transactions;
- Reconciled Expense Fiscal Reports to the general ledger;
- Examined position descriptions;
- Conducted interviews of past and current employees involved in the program;
- Examined supporting documentation related to professional fees; and

- Reviewed the methodology used to calculate occupancy fees (maintenance, mortgage expenses, utilities, etc.).

We performed our review with the assistance of the Department of Health and Human Services Quality Assurance staff. Based on our review, we have determined that La Causa submitted a total of \$511,431 in expenses during this 15-month period (\$329,087 for 2002 and \$182,344 for 2003) that should be disallowed for a variety of reasons. The disallowed expenses, comprising 40% of total expenses reported by La Causa for the program during the 15-month period reviewed, are segregated into six categories, as shown in **Table 1**.

Table 1
Summary of Disallowed Expenses
Submitted by La Causa
May 1, 2002—July 31, 2003

	<u>2002</u>	<u>2003</u>	<u>Total</u>
Salaries	\$ 115,017	\$ 140,652	\$ 255,669
Benefits	11,430	10,081	21,511
Payroll Taxes	8,329	10,871	19,200
Professional Fees	154,380	12,477	166,857
Occupancy	<u>10,014</u>	<u>8,263</u>	<u>18,277</u>
Direct Cost Subtotal	\$ 299,170	\$ 182,344	\$ 481,514
Administrative Costs*	\$ <u>29,917</u>	N/A	\$ <u>29,917</u>
Total Disallowances	\$ <u>329,087</u>	\$ <u>182,344</u>	\$ <u>511,431</u>

* Capped at 10% of direct costs per contract. Figure for 2003 pending determination of final 2003 costs.

Source: Determination by Department of Audit based on contract terms and supporting documentation provided by La Causa, Inc.

Following is a discussion of the procedures followed and details of the manner in which expenses within each grouping were determined to be unallowable. All figures identified for 2002 and 2003 apply only to those portions of the years within the 15-month period reviewed.

Employee Salaries

La Causa uses its payroll system to allocate varying percentages of employees' salaries to the SNCC program for reimbursement by the County. Percentages used to allocate salaries ranged

from 25% to 100%. In addition to allocations made through the payroll system, La Cause made numerous adjustments through general ledger entries. Based on interviews conducted with employees as to their level of participation in the program, we determined that the percentages used to allocate salaries to the program were incorrect for 16 of the 30 employees. In one instance, La Causa agreed to pay an individual three months' salary after his employment ended, but charged 100% of the salary and benefits costs for those three months to the SNCC program. Based on our review, total amounts disallowed equated to 39.1% of the salary expenses claimed in 2002 and 47.7% of the salary expenses claimed in 2003. Details of these disallowances are presented in the attached spreadsheets.

Employee Benefits

La Causa reported SNCC employee benefits expenses of \$29,233 and \$21,134 for 2002 and 2003, respectively. These expenses are approximately proportional to the salary expenses claimed for the same periods. Based on the percentage of salaries disallowed for the two years, we calculated \$21,511 in disallowances of employee benefits expenses (\$11,430 for 2002 and \$10,081 for 2003).

Payroll Taxes

La Causa also reported SNCC employee payroll tax expenses of \$21,301 and \$22,791 for 2002 and 2003, respectively. These expenses are proportional to the salary expenses claimed for the same periods. Based on the percentage of salaries disallowed for the two years, we calculated \$19,200 in disallowances of employee payroll taxes (\$8,329 in 2002 and \$10,871 in 2003).

Professional Fees

La Causa contracts with various agencies to provide professional services associated with outreach, assessments, training, technical assistance and case management related to the SNCC program. La Causa reported SNCC professional fees expenses of \$301,901 for 2002 and \$50,150 for 2003. We reconciled these amounts to La Causa's general ledger and examined supporting documentation associated with the expenditures reported. Based on that review, we identified professional fees expense disallowances of \$154,380 for 2002 and \$12,477 for 2003. Amounts disallowed were either not supported with underlying documentation or were a duplication of fees charged to the program in other forms. **Table 2** details the professional fees disallowed.

Table 2
Summary of Disallowed Professional Fees Expenses
Submitted by La Causa
May 1, 2002—July 31, 2003

<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
July 2002	Accrued Professional Fee	\$ 50,000	No Documentation Provided
August 2002	Accrued Professional Fee	100,000	No Documentation Provided
October 2002	Interagency Payment	2,040	Duplication of Fees
December 2002	Unreconciled Balance	2,340	Reported \$301,901 – Actual Ending Balance \$299,561
January 2003	Accrued Professional Fee	<u>12,477</u>	Duplication of Fees
Sub Totals			
2002		154,380	
2003		<u>12,477</u>	
2002 and 2003 Total Professional Fees Disallowances		<u>\$166,857</u>	

Source: Determination by Department of Audit based on contract terms and supporting documentation provided by La Causa, Inc.

Occupancy

In accordance with its SNCC contract, La Causa provides group training sessions to child care providers and to parents that have children with special needs. According to La Causa, these training sessions were provided at four locations within buildings owned by La Causa. The occupancy fees reported were based on a combination of square footage and a percentage of time the locations were available to the SNCC program. We reviewed training schedules and interviewed training staff regarding the use of the four locations for SNCC purposes. According to program staff involved in day-to-day operations, only one of the four locations was actually used for SNCC program training. Based on supplementary information provided by La Causa, we accepted additional occupancy charges associated with individuals whose salary expenses were partially allocated to the SNCC Program. After taking these adjustments into account, we disallowed SNCC occupancy expenses of \$10,014 for 2002 and \$8,263 for 2003.

Administrative Expenses

The contract between DHHS and La Causa for SNCC services limits program administrative expenses to a maximum of 10% of direct program costs. Therefore, based on disallowances of \$299,170 in direct program expenses for 2002, we disallowed an additional \$29,917 in administrative expenses. A similar adjustment to administrative expenses may be necessary after final 2003 direct program costs are determined.

Fiscal Accountability

According to an addendum to the SNCC Request for Proposal, this program was designated for an extended funding cycle. Specifically, the funding was scheduled to consist of an initial nine-month period in 2002 and two one-year periods thereafter. However this funding cycle was contingent upon a number of criteria, including a "...demonstrated capacity regarding fiscal management and reporting/record keeping."

In an audit of La Causa conducted by the State Division of Children and Family Services (DCFS), Office of Program Audit and Review (OPRA), concerns were expressed with the agency's overall financial health. The audit identified \$428,000 in unallowable or questioned costs out of total payments of \$5.2 million for the Fiscal Year 2002 On-Going Case Management program. In conjunction with the findings of the OPRA report, DCFS established several criteria for La Causa to continue its contractual services in 2004. In a letter to the Division of Children and Family Services dated November 19, 2003, La Causa noted its commitment to reduce administrative costs and to balance its budget by the end of 2004.

As part of a separate audit of La Causa's financial statements for 2002, the independent audit firm of Virchow, Krause & Company issued a management letter that noted the following:

"Reportable condition #1: During the year, management provided the Board of Directors with monthly financial information. However, due to the subsequent recording of numerous proposed audit adjustments, the financial information provided was not an accurate reflection of the financial position or results of operations. Management needs to implement procedures to ensure that future financial statements provided to the Bureau are reflective of the Organization's financial performance.

Reportable condition #2: As previously mentioned, the volume of journal entries has changed the operating results of the Organization. As a result, the Organization's general ledger does not support expense reimbursement reports submitted to grantors. It is imperative that timely and accurate records be maintained to assure the propriety of financial statements and claim reimbursement forms.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees within the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are material weaknesses.”

A total of 104 audit adjustments were necessary to correct La Causa financial statements for year-end 2002. La Causa responded to the independent auditor’s findings by acknowledging internal control weaknesses and describing a corrective action plan that included the hiring of consultants, the purchase of software and internal staff training. In its response, La Causa also indicated that it:

“...had reviewed the financial reports and expenditures of each program and have concluded that after the audit adjustments referred to above, there is appropriate detail to support the expenditures and expenses for each contract in 2002.”

Our review clearly shows that, even after taking into consideration all audit adjustments, for the 2002 Special Needs Child Care contract, expenses were not supported by appropriate documentation.

La Causa Response

A preliminary draft of this memo was shared with La Causa, Inc. on Friday, January 9, 2004. Subsequent to that meeting, on Monday, January 12, 2004, we reviewed additional documentation provided by La Causa regarding the disallowances contained in the draft report. Based on our review of that additional documentation, we accepted a total of \$38,344 in support of expenses previously lacking any supporting documentation. In addition, we accepted \$4,453 in additional occupancy costs associated with individuals participating in the SNCC Program (these occupancy charges were previously not billed to the program). Adding to these amounts a 10% allowable administrative expense (for 2002 expenses), the disallowances identified in this final report reflect an adjustment of \$46,880 from our preliminary draft figure.

However, during that same review process, we carefully considered, but did not accept, additional information provided by La Causa regarding the allocation of salary and related expenses charged to the SNCC Program that we have identified as disallowances. We did not accept the additional information provided by La Causa for several reasons, including the following:

- The information supplied was not contemporaneous. Federal and state cost principles require reimbursable salary expenses to be documented with contemporaneous records on a monthly basis. La Causa was unable to provide any contemporaneous records in support of allocations

of salary expenses to the SNCC Program. Further, La Causa could not provide any contemporaneous records to explain the rationale for specific salary figures contained in revised SNCC Program budgets submitted to DHSS in July and September 2003, which did not match salary expenses charged to the program by La Causa. Therefore, we believe the initial interviews we conducted with each person whose salary was charged in some part to the SNCC Program reflect the best judgment of those individuals in estimating the percentage of their time devoted to various aspects of the program. A subsequent survey conducted by La Causa attempted to document a pre-determined amount of disallowances. The survey instrument provided the employees a desired result. The outcome conflicts radically with our own interviews, and does not, in our view, represent acceptable, credible documentation of actual program expenses.

- There were several discrepancies in the additional information provided by La Causa regarding its survey of employees for which we disallowed salary expenses. In several instances, La Causa indicated we had disallowed all salary expenses for an individual when in fact we had not.
- In two instances, La Causa was unable to contact an individual that we had interviewed. We had disallowed all or a portion of their salary allocations based on those interviews. Yet, a La Causa administrator attested to the accuracy of La Causa's salary allocation for those individuals.

After meeting once again with La Causa on January 16, 2004, La Causa has acknowledged audit disallowances of \$363,670, but continues to dispute \$147,761 based on further refinements of the additional information provided to us on January 12.

Conclusions and Recommendations

Based on our review and the reportable conditions cited by La Causa's independent auditors, we believe La Causa has not met the fiscal accountability criteria established for extended funding of the Special Needs Child Care program. Our disallowance of 40% of the SNCC program expenses reported by La Causa for the 15-month period May 1, 2002—July 31, 2003 suggests that funding for the program could be substantially reduced with no programmatic impact on the number of families served. Further, it should be noted that as a pass-through agency funding the Special Needs Child Care program with state funds, the County Department of Health and Human Services has a fiduciary responsibility to ensure a proper accounting of program expenditures. Therefore, we recommend that DHHS:

1. *Recoup from La Causa the \$511,431 in disallowed expenses. Since La Causa continues to dispute \$147,761 of that amount, we suggest DHHS seek guidance from the State of Wisconsin regarding the additional information provided by La Causa in its efforts to document that portion of the disallowance.*

2. *Re-evaluate the level of funding required to meet the Special Needs Child Care Program's goals.*
3. *Consider re-opening this program to competitive bids and/or modifying the delivery model for this program to ensure fiscal and programmatic accountability.*

A written response from La Causa management is attached. A separate response from the County Department of Health and Human Services also is attached.



Jerome J. Heer
Director of Audits

JJH/cah

Attachments

cc: Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
Linda Seemeyer, Director, Department of Administrative Services
Terrence Cooley, Chief of Staff, County Board Staff
Steve Cady, Fiscal & Budget Analyst, County Board Staff
Richard Ceschin, Research Analyst, County Board Staff
Lauri Henning, Chief Committee Clerk, County Board Staff
Delores Hervey, Committee Clerk, County Board Staff

La Causa, Inc.
Schedule of 2002
Special Needs Child Care Program
Salary Expense Disallowance

Position Title	La Causa Allocation Percent	Total Salary Allocated	Salary Disallowed	Salary Allowed	Percentage Allowed	Explanation
Dir of Enrichment & Enhancement	25%	\$12,317.09	\$12,317.09	\$0.00	0%	Stated does not provide any direct service
Transport Sup/Parent Advocate	30%	\$4,531.55	\$4,531.55	\$0.00	0%	Stated does not provide any direct service
Admin Assistant-PEACE Acad	50%	\$5,165.96	\$2,582.98	\$2,582.98	25%	Based on interviews
VP of Child Development	60% & 100%	\$39,750.00	\$0.00	\$39,750.00	60% & 100%	60% May through October, 100% November & December
Elem/Mid School Teacher-LA	25%	\$3,416.67	\$2,733.34	\$683.33	5%	Disallowed allocation associated with MPS school
Elem/Mid School Teacher-Comp	25%	\$2,163.04	\$1,730.43	\$432.61	5%	Disallowed allocation associated with MPS school
Sup/Fam Worker-Crisis Nursery	50%	\$14,516.16	\$14,516.16	\$0.00	0%	Stated does not provide any direct service
Social Worker- HELP Program	50%	\$12,594.77	\$6,297.39	\$6,297.39	25%	Based on interviews
Dir of Training-PEACE Academy	75%	\$35,429.58	\$23,619.72	\$11,809.86	25%	Based on interviews
Trainer-SNs Proj-20 hrs per wk	50%	\$9,513.92	\$9,513.92	\$0.00	0%	Stated she did not provide any training in 2002
Dir of Child Dev & Family Svcs	25%	\$12,352.10	\$4,940.84	\$7,411.26	15%	Stated 15% for 2002
Admin Assistant-Child Develop	100%	\$1,538.40	\$0.00	\$1,538.40	100%	
Special Needs Consultant	100%	\$4,518.75	\$0.00	\$4,518.75	100%	
OR Coord/Prenatal Spec-Fam Rsrc Ctr	50%	\$8,850.99	\$7,965.89	\$885.10	5%	Stated only 5% of her time directly related to Special Needs
Child Care Worker-Fam Rsrc Ctr	50%	\$5,470.12	\$5,425.67	\$44.45	0%	Provided child care at 2 training sessions 5 hours@\$8.89/hr
Family Resource Ctr Supervisor	50%	\$12,447.97	\$12,447.97	\$0.00	0%	Stated does not provide any direct service
Trainer-SNs Proj-20 hrs per wk	100%	\$3,997.00	\$0.00	\$3,997.00	100%	
Special Needs Case Coordinator	100%	\$12,016.89	\$0.00	\$12,016.89	100%	
Prin Trainer/Assist Dir PEACE Acad	50%	\$11,235.27	\$0.00	\$11,235.27	50%	
Special Needs Case Coordinator	100%	\$17,875.00	\$0.00	\$17,875.00	100%	
Special Needs Director	100%	\$35,234.13	\$6,394.20	\$28,839.93	100%	Employment terminated November 11, 2002
Assistant Trainer-PEACE Acad	100%	\$668.25	\$0.00	\$668.25	100%	
Special Needs Case Coordinator	100%	\$23,671.80	\$0.00	\$23,671.80	100%	
Admin Assistant-Child Develop	50%	\$4,290.59	\$0.00	\$4,290.59	50%	
Trainer-SNs Proj-20 hrs per wk	50%	\$676.80	\$0.00	\$676.80	50%	
Total		\$294,242.80	\$115,017.14	\$179,225.66		

Note: Schedule applies to expenses claimed by La Causa for the period May 1 - December 31, 2002.

Source: Department of Audit based on La Causa payroll allocation records, interviews and invoices submitted to the Department of Health and Human Services.

La Causa, Inc.
Schedule of 2003
Special Needs Child Care Program
Salary Expense Disallowance

Attachment 2

Position Title	La Causa Allocation Percent	Total Salary Allocated	Salary Disallowed	Salary Allowed	Percentage Allowed	Explanation
Dir of Enrichment & Enhancement	50%	\$20,524.96	\$20,524.96	\$0.00	0%	Stated does not provide any direct service
Transport Sup/Parent Advocate	70%	\$14,904.24	\$14,904.24	\$0.00	0%	Stated does not provide any direct service
Director of Education Equity	25%	\$8,333.33	\$0.00	\$8,333.33	25%	
Admin Assistant-PEACE Acad	75%	\$3,293.80	\$889.64	\$2,404.16	25%	Allocated 75% in Jan and 25% thereafter
Special Needs Case Coordinator	100%	\$4,833.32	\$0.00	\$4,833.32	100%	
President and CEO	25%	\$17,187.50	\$17,187.50	\$0.00	0%	Does not provide direct service. Indirect Admin. cost.
VP of Child Development	50%	\$24,687.51	\$3,249.99	\$21,437.52	50%	Allocated 100% Jun15 through Jul
Elem/Mid School Teacher-Comp	25%	\$3,374.56	\$2,699.65	\$674.91	5%	Disallowed allocation associated with MPS school
Elem/Mid School Teacher-LA	25%	\$5,833.38	\$4,666.70	\$1,166.68	5%	Disallowed allocation associated with MPS school
Sup/Fam Worker-Crisis Nursery	50%	\$12,443.09	\$12,443.09	\$0.00	0%	Stated does not provide any direct service
Social Worker- HELP Program	25%	\$5,630.94	\$0.00	\$5,630.94	25%	
Dir of Training-PEACE Academy	25%	\$16,139.26	\$12,250.13	\$3,889.13	10%	Allocated 75% Jan & Feb 50% Mar & Apr & 10% in Jun.
Trainer-SNs Proj-20 hrs per wk	50%	\$9,418.16	\$9,323.94	\$94.22	0%	Participated in 2 training sessions 7 hours@ \$13.46/hr
Dir of Child Dev & Family Svcs	25%	\$11,229.98	\$3,208.66	\$8,021.32	15%	12% - 15% from Jan - May, 25% thereafter
Admin Assistant-Child Develop	50%	\$8,750.00	\$0.00	\$8,750.00	50%	
Special Needs Consultant	100%	\$9,307.25	\$0.00	\$9,307.25	100%	
OR Coord/Prenatal Spec-Fam Rsrc Ctr	50%	\$6,889.71	\$6,200.74	\$688.97	5%	Stated only 5% of her time directly related to Special Needs
Child Care Worker-Fam Rsrc Ctr	50%	\$2,773.62	\$2,729.17	\$44.45	0%	Provided child care at 2 training sessions 5 hours@\$8.89/hr
Family Resource Ctr Supervisor	50%	\$10,956.72	\$10,956.72	\$0.00	0%	Stated does not provide any direct service
Trainer-SNs Proj-20 hrs per wk	100%	\$10,273.75	\$0.00	\$10,273.75	100%	
Special Needs Case Coordinator	100%	\$14,082.22	\$0.00	\$14,082.22	100%	
Prin Trainer/Assist Dir PEACE Acad	50%	\$7,322.71	\$0.00	\$7,322.71	50%	
Special Needs Case Coordinator	100%	\$6,884.02	\$0.00	\$6,884.02	100%	
Special Needs Director	100%	\$17,365.20	\$0.00	\$17,365.20	100%	
Special Needs Director	100%	\$6,562.50	\$6,562.50	\$0.00	0%	Employment terminated November 11, 2002
Special Needs Case Coordinator	100%	\$20,825.00	\$0.00	\$20,825.00	100%	
Trainer-SNs Proj-20 hrs per wk	50%	\$2,430.60	\$0.00	\$2,430.60	50%	
Chief Financial Officer	25%	\$12,854.16	\$12,854.16	\$0.00	0%	Does not provide direct service. Indirect Admin. cost.
Total		\$295,111.48	\$140,651.79	\$154,459.69		

Note: Schedule applies to expenses claimed by La Causa for the period January 1 - July 31, 2003.

Source: Department of Audit based on La Causa payroll allocation records, interviews and invoices submitted to the Department of Health and Human Services.

