Key Points Of Report

Texas Department of Protective and Regulatory Services1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

Our audits continue to indicate that the Department is not complying with all federal requirements for two of its largest federal programs. Expenditures for these programs total $100 million and represent 45 percent of total federal funds expended by the Department in fiscal year 1994. Payments have not been limited to appropriately documented clients and costs for the Child Welfare Services program. This resulted in material noncompliance with federal requirements. Discrepancies continue to exist in Foster Care eligibility data between automated systems. In addition, the Department has overcharged federal funds due to its method of allocating Foster Care income credits. Also, noncompliance with cash management requirements was noted for the Foster Care program

Key Findings

- The Department is not limiting payments to appropriately documented clients and costs for the *Child Welfare* Services Program. This has resulted in material noncompliance with federal requirements. This issue has been identified in prior audits.

- The Department's automated systems continue to contain discrepancies in *Foster Care* information, which result in incorrect payments and noncompliance with federal requirements. This issue has been noted in prior audits.

- *Foster Care* income credits have not been allocated in accordance with federal requirements, resulting in questioned costs of $328,847.75.

- The Department does not have sufficient cash management monitoring procedures in place to minimize federal cash requests and prevent holding excess funds for the *Foster Care* program.

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Other Related Reports

The U.S. Department of Health and Human Services' Office of Inspector General issued a report (Report # A-06-92-00086) with findings related to the *Foster Care* program, which is administered by the Texas Department of Protective and Regulatory Services. Additionally, the State Auditor's Office issued a report in September 1994, on the review of management controls at the Department (SAO Report No. 95-003). The effect of the exceptions and issues identified in these reports was considered in our fiscal year 1994 audit plan for the Department.

Internal Control Issue

Internal Control Issue 1:

Revise Federal Cash Management Monitoring Procedures

The Department does not have sufficient cash management monitoring procedures in place to minimize federal cash requests and prevent holding excess funds for the *Foster Care* program (CFDA 93.658). The Department requested and had excess federal funds on hand for 16 of the 39 state working days tested. The State incurs an interest liability for each day federal funds are held by the Department.

Title 31 of the *Code of Federal Regulations (CFR), part 205.7(c)(4)*, states that federal funds shall not be requested more than three business days prior to disbursement. An interest liability begins the day the federal funds are credited to a state account and continues until the State pays out the funds for program purposes.

Recommendation: We recommend the Department revise cash management monitoring procedures to ensure federal funds are requested only for immediate cash needs.

Management's Response: We acknowledge that there were procedures in fiscal year 1994 that were insufficient to minimize the interest liability with regards to the holding of federal funds for the Foster Care Program.

We agree with your recommendation and have developed a specific action plan in which the implementation phase is scheduled to begin in February, 1995 and continues through the reporting period for fiscal year 1995.

Internal Control Issue 2:

Monitor Reconciliation Of Federal Reports To The Accounting Records

The Department has not ensured that quarterly federal reports are reconciled to the accounting records on a regular basis for its 18 federal programs. Additionally, procedures are not in place to ensure that all adjustments are posted to the accounting records in a timely manner. Because these controls are not in place, errors could exist in the accounting records or federal reports which do not get corrected.

Although the Department contracts with the Department of Human Services for these services, the Department has the responsibility to monitor the work and verify that all appropriate procedures are performed. Regular reconciliations and timely posting of adjustments are necessary to ensure that information in federal reports and the financial statements is accurate and complete.

Recommendation: We recommend that the Department more closely monitor its contracted accounting services. Specifically, the Department should ensure that all outstanding reconciliations are performed and that current year reconciliations are performed on a regular basis. Additionally, the Department should ensure that the Department of Human Services develops adequate procedures to verify that all adjustments are posted in a timely manner to the accounting records.

Management's Response: There are approximately 105 reconciliations for the Department of Protective and Regulatory Services since it started in September of 1992. Of those 105 reconciliations, we have completed 59. We are currently working on the most recent quarter, and will then begin working backwards to complete the reconciliations that have not been finished.

Corrections to reconciling items in the prior quarters cannot be made until all the reconciliations have been completed, and we can track through the quarters to see if any corrections have been done. As we complete the reconciliations for the current quarters, we will be developing procedures to correct any new reconciling items within the quarter.

Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds, especially for the Department's most significant federal programs administered by the U. S. Department of Health and Human Services.

Federal Compliance Issue 1:

Limit Payments To Appropriately Documented Clients And Costs

(Prior Audit Issue)

Out of 45 *Child Welfare Services* (CFDA 93.645) clients tested, the Department paid $6,594 for purchased services provided to ten clients without sufficient documentation showing that the clients were eligible for these services. As a result, the Department is in material noncompliance with the federal eligibility and allowable cost requirements for this program.

The ten errors totaled $3,267 of purchased services, which represents 35.4 percent of the $9,241 tested. An error rate of five percent or more is considered material noncompliance. The $6,594 in questioned costs represents total unauthorized payments made on behalf of these clients for the fiscal year ended August 31, 1994.

The Department uses *Child Welfare Services* funds to prevent child abuse and ensure the safety of abused children. The $21.9 million spent on this program in fiscal year 1994 included payments for psychological evaluation and testing, therapy, counseling, and parent skills training for clients.

Before clients are considered eligible for these services, a caseworker must document the need for the services and authorize the payment for the services. Ten of the 45 clients tested received services for which eligibility was not documented under the *Child Welfare Services* program.

Five of these ten clients received services before the need was documented in a service plan. The service plan, which is prepared by the caseworker, defines the services needed by the client.

For one of the ten clients, the need for the services was documented, but the authorization for the services was not documented.

For four of the ten clients, the need for services was not documented in a service plan and there was no form authorizing the services.

Recommendation: We recommend that the Department ensure that services are provided to eligible clients and that payments are made only for allowable costs as mandated by federal regulations. The Department should strengthen procedures and provide training to ensure that services are properly authorized and that the need for services is properly documented. Additionally, the Department should reimburse the $6,594 of questioned costs to the program.

Management's Response: State office program specialists will publish a statewide memorandum by March 1, 1995 reminding contract managers to follow existing agency policy concerning corrective and adverse actions to include the recoupment of payments to contractors made prior to written authorizations for service. New agency policy will be addressing corrective and adverse actions as a result of monitoring of contracts. This policy will not be effective until sometime after May 1, 1995.

In addition, a Protective Services Action (PSA) memorandum and training will be provided to staff to ensure that staff document needed services to children before the services are authorized and received. During the last quarter of 1994, staff were trained on Section 6000 of the Child Protective Services Handbook (CPSH). This training addressed services provided to children in substitute care. A section of this training was specific to identifying and documenting needed services before services are provided. A second training will be provided to staff in the spring/summer of 1995. This training will also focus on documenting client needs in the plan of service before services are authorized.

Management will also send a PSA to staff instructing them that client needs must be identified and documented in the service plan before services can be authorized. This memorandum will be sent no later than March 1, 1995.

The $6,595 adjustment will be made when sustained by the Administration for Children and Families, U.S. Department of Health and Human Services.

Federal Compliance Issue 2:

Agree Eligibility Information Between Automated Systems

(Prior Audit Issue)

As noted in the prior year, the client information system and the payment system did not contain the same eligibility information for all clients. Additionally, the Department's method of identifying discrepancies in the eligibility information could render incomplete results because their methodology does not include all clients. The Department determined that 60 of the 10,000 children in the *Foster Care Program* (CFDA 93.658) had conflicting eligibility information between the two systems. This determination does not include closed case files.

This conflict in eligibility information can cause incorrect payments, resulting in noncompliance with federal requirements. The Department is in the process of determining the dollar impact of the 60 eligibility errors which affect fiscal years 1993 and 1994. At this time, the dollar impact of any eligibility errors in closed case files cannot be determined.

The errors occurred because the Department is not following the procedures established to ensure that the eligibility information in both systems is the same. Also, the Department does not have procedures to ensure that all eligibility discrepancies are identified. However, the Department is currently improving the automated systems to match eligibility status between the client information system and the payment system.

Recommendation: We encourage the Department to continue improving its automated systems to ensure that eligibility information matches. Until the improvements are made, the Department should establish procedures to ensure that all eligibility errors are identified for both active and closed client cases. Additionally, the Department should complete the correction of errors already detected.

Management's Response: The Department concurs that the manual interface between the automated Foster Care, Adoption And Conservatorship Tracking System (FACTS) and the automated Level of Care (LOC) file is inadequate. There is an active work order in the Department of Human Services MIS to create an electronic interface between the two files which will prevent discrepancies from occurring in the future. We expect this project to be complete by late Spring 1995.

The report used to identify the 60 eligibility errors mentioned above will be run on a monthly basis to identify any additional mismatches which may occur between now and the time the electronic interface is implemented. The department will, of course, complete the correction of errors already detected and any other errors detected.

Federal Compliance Issue 3:

Allocate Foster Care Income Credits In Accordance With Federal Requirements

The Department did not allocate Foster Care income credits in accordance with federal requirements for the *Title IV-E Foster Care Program* (CFDA 93.658). When allocating income credits between the state and federally funded portions of cost, the income credits were applied disproportionately higher against the State's share of cost. Consequently, federal funding sources were overcharged. The Department's calculation for questioned costs totaled $328,847.75.

Income received by *Title IV-E* eligible children is considered a credit or reduction against the child's monthly cost of care. *Office of Management and Budget (OMB)*

Circular A-87 requires that income be credited against state and federal funding sources based on the proportion that each source contributes to the cost of the program.

Recommendation: We recommend that the Department allocate *Title IV-E* income credits in accordance with federal requirements.

Management's Response: Foster Care billing system programming changes instituted in December 1991 directed that a Title IV-E eligible foster care child's income was to be applied first to the maintenance costs above the level allowable to be matched by Title IV-E federal funds. Any remaining child's income was allocated at the same state/federal ratio as the Title IV-E allowable maintenance costs.

Effective November, 1994 foster care billing system programming has been revised to deduct income from the total maintenance costs per child prior to applying state/federal cost allocation methodology.

The agency concurs with the finding and will make a voluntary decreasing adjustment of $328,847.75 if this finding is sustained by the Administration for Children and Families, U.S. Department of Health and Human Services.

Federal Compliance Issue 4:

Make Timely Adjustments For Identified Questioned Costs

The Department did not make an adjustment to the federal claims report for approximately $44,000 in *Foster Care* program (CFDA 93.658) questioned costs identified in the fiscal year *1993 Statewide and Financial Compliance Audit Results* report.

The additional $44,000 in questioned costs were identified in fiscal year 1993 during the follow-up of a prior-year finding. These costs resulted from an error in the Department's initial calculation of questioned costs. Although the additional questioned costs were communicated to the Department during the fiscal year 1993 audit, no corresponding adjustments were made to the federal claims report.

Recommendation: We recommend that the Department make timely adjustments to the federal claims reports when questioned costs are identified. The $44,000 in questioned costs identified in the fiscal year 1993 audit should be returned to the Federal Government through an adjustment to the federal claims report.

Management's Response: Included in the FY 1992 Statewide and Financial Compliance audit (SAO-3-078-92 or CIN A-06-94-25-320) was a finding entitled, "Initiate Prompt Updates In Response To Rate Changes." In accordance with that finding, a decreasing adjustment of $695,075 was made to the Title IV-E federal claim.

Follow-up work on this finding during the FY 1993 Statewide and Financial Compliance audit identified that an incorrect foster care daily rate was used to calculate the original finding. Daily rates effective January 1, 1992 were used rather than the rates effective September 1, 1991. The daily rate for the Level of Care V was revised in January, 1992 which resulted in a different percentage of Title IV-E allowable costs. The recalculation of the finding resulted in an additional federal overpayment of $44,317. Although *identified as questioned costs to the agency staff, this finding was not included in the final FY 1993 audit report.*

States are required by the federal government to identify all adjustments to federal claims resulting from audits to be tracked and identified by the federal common identifying number (CIN). These CIN's are assigned when audits are reviewed by the cognizant federal agency. During the federal review process, it has been this agency's experience, that some findings are deemed immaterial and are not sustained by the federal agency. It is this agency's practice to make decreasing/increasing federal claims when sustained by the cognizant federal agency.

The agency agrees that the agency staff made an error in the original calculation of the FY 1992 finding and that an additional decreasing adjustment of $44,317 is appropriate. This adjustment will be made when sustained by the Administration for Children and Families, U.S. Department of Health and Human Services.

Federal Compliance Issue 5:

Establish Policies And Time Frames For Processing Foster Care Eligibility Corrections

The Department does not have standardized policies or time frames for processing *Foster Care* (CFDA 93.658) eligibility corrections. Consequently, regional offices have established their own informal policies, and corrections are not always processed in a timely or consistent manner. We noted that one regional office waits up to one year before correcting errors identified in a client's eligibility status. This delay can result in incorrect payments and noncompliance with federal requirements.

Federal regulations require that payments be made only to clients eligible for federal funding. Also, good management practices suggest that known errors be corrected in a timely manner to ensure accuracy of payments.

<u>Recommendation</u>: We recommend that the Department establish policies and procedures for the processing of *Foster Care* eligibility corrections. These policies should designate a reasonable time frame for completion of the eligibility correction.

<u>Management's Response</u>: The Department concurs that there needs to be written, agency-wide policies for correcting foster care eligibility errors. State office program staff expect that an eligibility error be corrected as soon as it is detected by the eligibility worker, or if the result of monitoring, as soon as it is reported to the eligibility worker. Timely correction will prevent future incorrect billings to the wrong foster care assistance program.

In addition, the Department will set reasonable time frames for corrections of past inaccurate billings. These corrections will automatically adjust the agency's Title IV-E claim as appropriate.

These expectations will be stated in a planned revision of the foster care assistance application and review policies contained in the agency's Child Protective Services Handbook.

Audit Scope

The primary focus of our audit was the Department's financial and administrative controls over its three major federal programs relating to the State's child and adult protective services. These three programs had federal expenditures of approximately $170 million for fiscal year 1994. We gained an understanding of the internal control structure, including the general control environment, as well as controls over federal cash management and federal programs. Specific procedures were used to test compliance with the major federal programs.