

Department of Children's Services

**For the Year Ended
June 30, 2002**

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
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John G. Morgan
Comptroller

April 10, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Michael J. Miller, Commissioner
Department of Children's Services
Cordell Hull Building, Seventh Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Children's Services for the year ended June 30, 2002.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/103



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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December 17, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Children's Services for the year ended June 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Children's Services' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Children's Services
For the Year Ended June 30, 2002

AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 2001, through June 30, 2002. Our audit scope included those areas material to the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002, and the *Tennessee Single Audit Report* for the same period. Those areas included the Medical Assistance Program (contract with TennCare), the Social Services Block Grant, and the Title IV-E programs (Foster Care and Adoption Assistance). In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of recruitment and retention activities, contracts, student and social security trust funds, information systems, cash receipts, property and equipment, disbursements, accounts receivable, rules and regulations for Community Services Agencies, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grants module to record the receipt and expenditure of federal funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Children's Services Inappropriately Requested and Received Reimbursement of \$393,075 From TennCare for Children Not Eligible for TennCare Services **

As noted in the prior five audits, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, as noted in the prior three audits, Children's Services is also billing for children not in state custody and children in state custody but on runaway status. In addition, as noted in the prior two audits, there were problems with billings for hospitalized children, and as noted in the prior

audit, for targeted case management services not provided (page 7).

Case Files Do Not Contain Adequate Documentation **

As noted in the prior three audits, the department did not have adequate documentation in each child's case file showing case manager contact with the child, family, or other individuals. In 7 of 115 case files tested (6%), there were gaps in time between case recordings documenting case manager contacts. Time lapses between entries in case notes ranged from 37 to 195 days. Additionally, case information was not added to the file in a timely manner, and documentation of permanency

planning hearings and background checks for foster parents were not maintained in case files (page 18).

Adoption Assistance Files Did Not Contain Adequate Documentation

Adoption assistance files did not contain adequate documentation related to renewal affidavits, applications, and agreements. The reasons why parents continued to receive adoption assistance payments beyond the 18th birthday were not documented. Adoption assistance and foster care payments were made to two households at the same time for one child (page 20).

The Department Charged the Title IV-E Program for Children Who Were Not Eligible for Title IV-E Reimbursement

During a review of 115 children’s case files, it appeared the department received Title IV-E funds for four children (3%) during periods when they were not IV-E reimbursable (page 23).

Foster Care Recruitment Purchases Did Not Comply With State Laws

The department purchased goods and services totaling approximately \$150,000 for foster care recruitment before requesting the approvals necessary to incur the expenditures and did not comply with state laws and regulations governing the procurements (page 25).

The Department Created a Fiscal Agent Relationship With the Memphis and Shelby County Community Services Agency

The department concealed the questionable procurement of goods and services by using the Memphis and Shelby County Community Services Agency as a fiscal agent to pay for those goods and services (page 28).

The Department Established Improper and Ineffective Employer-Employee Relationships **

As noted in the prior four audits, Children’s Services contracts with community services agencies (CSAs) to assist in implementing various state programs. Through these contracts, state officials directly supervise CSA employees (page 32).

The Department Did Not Perform Reconciliations Related to Trust Fund Accounts of Children Receiving Federal Benefits and Did Not Return Funds to the Social Security Administration Timely **

As noted in the prior four audits, the department did not perform reconciliations related to Social Security trust funds and did not return funds to the Social Security Administration timely (page 37).

Uncollected Overpayments Due From Foster Care and Adoption Assistance Parents Totaled at Least \$1,130,327 **

As noted in the eight previous audits, Children’s Services still has uncollected overpayments due from foster care and adoption assistance parents (page 46).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

“Audit Highlights” is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Children's Services
For the Year Ended June 30, 2002

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Department of Children's Services For the Year Ended June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Children's Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

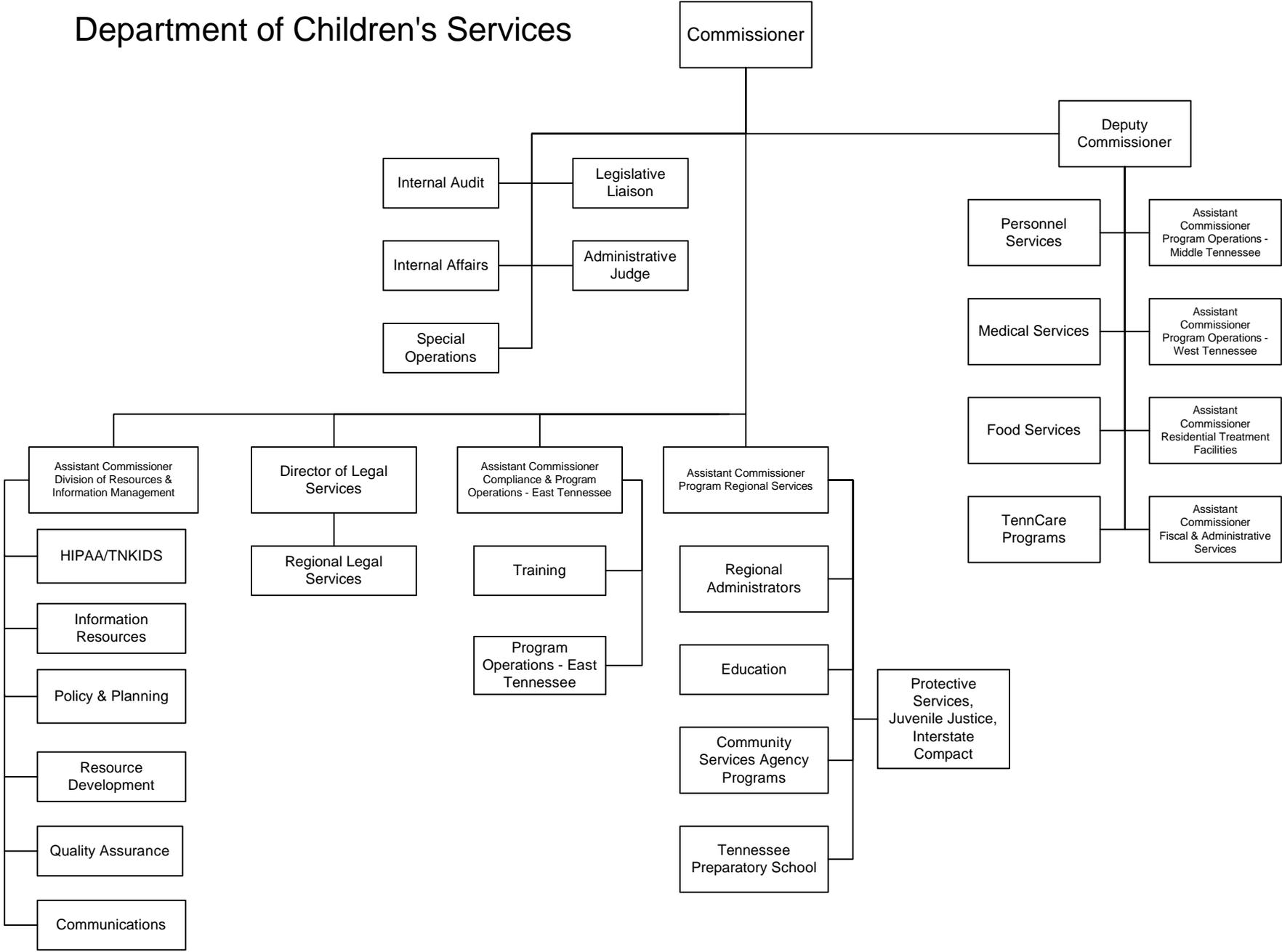
BACKGROUND

The Department of Children's Services was created by the 1996 Public Acts Chapter 1079 on May 21, 1996. The former Department of Youth Development and the Department of Finance and Administration's Office of Children's Services Administration were combined along with certain functions from the Departments of Human Services and Health concerning the welfare of children.

In collaboration with juvenile courts, local communities, schools, families, and other state agencies, it is the mission of the Department of Children's Services to provide timely, appropriate, and cost-effective services to children in state custody and at risk of custody so these children can strive to reach their full potential as productive, competent, and healthy adults. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for children and families.

An organization chart of the department is on the following page.

Department of Children's Services



AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 2001, through June 30, 2002. Our audit scope included those areas material to the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002, and to the *Tennessee Single Audit Report* for the same period. Those areas included the Medical Assistance Program (contract with TennCare), Social Services Block Grant, and the Title IV-E programs (Foster Care and Adoption Assistance). In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of recruitment and retention activities, contracts, student and social security trust funds, information systems, cash receipts, property and equipment, disbursements, accounts receivable, rules and regulations for Community Services Agencies, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grants module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Children's Services filed its report with the Department of Audit on September 6, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Children's Services has corrected previous audit findings concerning

- an inadequate system to determine medical treatment costs billed to TennCare,
- controlling employees' access to the state's computer systems, and
- the lack of rules and regulations for Community Services Agencies.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning

- inappropriate billings to TennCare for children not eligible for TennCare services;
- not collecting overpayments to foster care and adoption assistance parents;
- inadequate documentation of case manager contact with the child, family, or other individuals;
- prompt processing of journal vouchers;
- improper employer-employee relationships;
- incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records; and
- appropriate grants not being charged when initial transactions are recorded.

These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Children's Services is an integral part of our annual audit of the *Comprehensive Annual Financial Report* (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Children's Services is also an integral part of the Tennessee Single Audit, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Children's Services were material to the CAFR and to the *Single Audit Report*: Medical Assistance Program (contract with TennCare), Social Services Block Grant (SSBG), and Title IV-E (Foster Care and Adoption Assistance programs).

To address the objectives of the audit of the CAFR and the *Single Audit Report*, as they pertain to these four major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. For further discussion, see the applicable sections (Medical Assistance Program [Contract With TennCare] and Social Services Block Grant and Title IV-E Programs) of this report.

We have audited the basic financial statements of the State of Tennessee for the year ended June 30, 2002, and have issued our report thereon dated January 17, 2003. The opinion on the financial statements is unqualified. The *Tennessee Single Audit Report* for the year ended June 30, 2002, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations. These reports include reportable conditions and material weaknesses resulting from this audit.

The audit of the department revealed the following findings in areas related to the CAFR:

- As noted in the previous eight audits, since July 1, 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,130,327 are due from foster care and adoption assistance parents (page 46).
- Children's Services inappropriately requested and received reimbursement of \$393,075 from TennCare for children not eligible for TennCare services (page 7).
- The department purchased goods and services for foster care recruitment before receiving the authority to incur the expenditures and did not comply with state laws and regulations governing the procurements (page 25).
- The department circumvented state purchasing rules, violated state law, and concealed questionable transactions, including \$5,750 for use of a yacht club, \$2,590 to a local church, and \$2,500 for T-shirts from a former spouse of a DCS employee, through the creation of a fiscal agent relationship with the Memphis and Shelby County Community Services Agency (page 28).

MEDICAL ASSISTANCE PROGRAM (CONTRACT WITH TENNCARE)

The Department of Children's Services is a subrecipient of the Department of Finance and Administration, Bureau of TennCare. In accordance with its agreement with TennCare, Children's Services contracts separately with various practitioners and entities (service providers) to provide Medicaid services not covered by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that are also under contract with TennCare. Children's Services pays these service providers for Medicaid services (enhanced behavioral health services) and non-Medicaid services (housing, meals, and education) directly. Children's Services is to bill TennCare for the reimbursement of only the Medicaid services. Our primary objective was

to determine whether Children's Services was in compliance with the provisions of its agreement with TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2002. Our specific objectives were to follow up on prior audit findings concerning inappropriate billings to TennCare and an inadequate system to determine medical treatment costs billed to TennCare; and to determine whether the following types of costs were billed to TennCare:

- costs for incarcerated youth,
- costs for children not in the state's custody,
- costs related to children on runaway status,
- costs for individuals over the age of 21,
- costs for behavioral health services inappropriately provided to children under the age of three,
- costs for hospitalized children, and
- drug and alcohol treatment costs not in accordance with the department's agreement with TennCare.

Other objectives included determining whether the department had an approved contract in place with TennCare prior to services being provided and whether targeted case management billings were appropriate.

We interviewed key personnel, reviewed the contract between Children's Services and TennCare, and reviewed the TennCare waiver and the State Plan. We used computer-assisted audit techniques to compare TennCare's paid claim records to records from DCS's Tennessee Kids Information Delivery System (TNKIDS) to identify inappropriate costs billed to TennCare. We also tested a nonstatistical sample of billings to TennCare to determine that the amount charged for medical treatment costs, including targeted case management, was within DCS guidelines.

The results of our interviews and testwork indicated that the Department of Children's Services (DCS) had an approved contract in place with TennCare prior to services being provided and had an adequate system to determine medical treatment costs billed to TennCare. Furthermore, we determined that the department had not inappropriately billed behavioral health services provided to children under the age of three, drug and alcohol treatment costs not in accordance with the department's agreement with TennCare, and costs associated with individuals over the age of 21 to TennCare. However, the department has requested and received reimbursement from TennCare for the remainder of the above-mentioned cost of services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2002, as noted in finding 1. In addition, our review indicated that the department billed for targeted case management services not provided (finding 1).

Finding, Recommendation, and Management's Comment

1. Children's Services inappropriately requested and received reimbursement of \$393,075 from TennCare for children not eligible for TennCare services

Finding

The Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2002.

This is a repeat finding that was addressed by the U.S. Department of Health and Human Services (HHS) in a letter to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001. In the letter, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Federal funds are not used for health care costs of a) children who are in youth development or detention centers, b) children not in State custody, c) children on runaway status, . . . e) services provided by Children's Services to individuals in hospitals, . . . g) undocumented targeted case management . . .

Although the department has made progress in reducing reimbursements for services provided outside the scope of its agreement with TennCare, there were still the following areas where inappropriate reimbursements occurred.

Payments for Incarcerated Youth

As noted in the prior five audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates.

Management's responses to the last two audits stated that it would investigate the underlying causes and make necessary adjustments to the department's control structure. However, using computer-assisted audit techniques, our search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least \$77,667 from July 1, 2001, through June 30, 2002, for juveniles in youth development centers and detention centers. The prior audit finding disclosed inappropriate billings of \$254,880 from July 1, 2000, through June 30, 2001.

Children Not in State Custody

As noted in the prior three audits, Children's Services inappropriately billed and received payment from TennCare for children not in state custody. Management has partially concurred with this portion of the prior findings and has attributed the problem to circumstances when a social worker from DCS or a law enforcement officer removes a child from home before a court has issued an order. Management further stated that there are circumstances when a child is taken into custody, but the court finds that continued custody is not warranted. These actions could result in no court action ordering custody even though the child was in fact in legal custody. It is possible that some of the costs questioned below include payments for children removed from homes in emergency situations and short delays in court proceedings. However, management has not provided any information to support specific charges that are questioned.

TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for children not in state custody should be provided through the TennCare Behavioral Health Organizations (BHOs). Using computer-assisted audit techniques, we performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that DCS had improperly billed TennCare \$193,266 from July 1, 2001, through June 30, 2002, for services to children who were not in the state's custody. The prior audit finding disclosed inappropriate billings of \$363,800 from July 1, 2000, through June 30, 2001.

Children on Runaway Status

As noted in the prior three audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status. In response to the prior audit finding, management stated that there appear to be two main causes for children to appear on the data match. The runaway placement was not always entered correctly in TNKIDS, and the approvers may not have always caught coding errors on the invoices submitted by the vendors. Management stated that it would continue to analyze the data match and evaluate what additional controls are needed. However, using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed TennCare \$86,917 from July 1, 2001, through June 30, 2002, for services to children on runaway status. The prior audit finding disclosed inappropriate billings of \$266,670 from July 1, 2000, through June 30, 2001.

Hospitalized Children

As noted in the prior two audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but had been placed in a medical hospital. The Managed Care Organizations (MCOs) are responsible for costs incurred while the child is placed in a hospital. Children's Services' provider policy manual allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Regional Administrator, the

provider may bill DCS for up to 21 days while the child is in the hospital, but Children's Services cannot bill TennCare for those days.

In response to the prior audit finding, management stated that it believed the questioned transactions were processed before improvements to its controls were put into place. The department stated it would continue to monitor hospitalized children to ensure that the current control structure is sufficient. However, the control structure did not adequately reduce noncompliance with these requirements. Using computer-assisted audit techniques, auditors performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that DCS had improperly billed TennCare \$35,041 from July 1, 2001, through June 30, 2002, for children while they were in hospitals. The prior audit finding disclosed inappropriate billings of \$42,151 from July 1, 2000, through June 30, 2001.

Targeted Case Management

As noted in the prior audit, Children's Services inappropriately billed and received payment for targeted case management services. Management concurred with the prior finding but believed that the occurrence was an isolated incident and not a systematic problem. The Department of Children's Services bills and receives reimbursement from TennCare for targeted case management, which reimburses DCS for TennCare's share of costs associated with providing case management services for children in the state's custody. Targeted case management includes, but is not limited to, case manager visits with children, developing permanency plans, maintaining case files, and arranging TennCare-related services such as health screenings and behavioral health services. DCS bills TennCare a daily rate for each child in its custody that has been assigned a case manager. Targeted case management billings to TennCare were over \$56 million for the fiscal year. We selected a sample of 42 children for whom TennCare was billed a total of \$10,719 for targeted case management. Based on the testwork performed, there was no evidence that case management was provided to 2 of 42 children tested (5%) during the dates of service specified on the billing. Questioned costs total \$184. We believe likely federal questioned costs exceed \$10,000 for this condition.

Questioned costs associated with the instances of noncompliance reported in this finding, except those associated with targeted case management, are reported in the Department of Finance and Administration's audit report and in the TennCare findings as reportable conditions in the *Tennessee Single Audit Report* for the year ended June 30, 2002.

Recommendation

The Commissioner should continue to develop and implement procedures necessary to ensure that TennCare is not billed for inappropriate expenses related to children in youth development and detention centers, not in state custody, on runaway status, or placed in hospitals. In addition, targeted case management billings should be based on children receiving targeted case management services. Effective internal control requires management to have systems in place to adequately monitor operations, particularly relating to such compliance issues. Management could develop the information necessary to detect these discrepancies by using the types of computer analyses auditors have used to identify these problems. The

Commissioner should monitor the implementation of corrective measures and evaluate their effectiveness. Management should make it a priority to bill TennCare only for allowable services provided to eligible children.

Management's Comment

We concur.

Incarcerated Youth

As noted in the audit finding, the department reduced the incorrect billings to TennCare for incarcerated youth by \$177,213, or 70%. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children that have been incarcerated to avoid incorrect billings to TennCare. Based on departmental staff evaluation of the discrepancies noted by the auditors, it appears that the substantial cause of these errors is attributable to incorrect procedure codes used by providers on the Standard Claims Invoice (SCI) form. It is management's position that the implementation of the new Standard Claim Invoice (SCI) procedure codes for services that are ineligible for TennCare reimbursement, and the associated provider training in the use of these codes, has effectively enhanced controls and resulted in increased compliance by the department.

The discrepancies noted in the finding are further exacerbated by untimely updates to child information in TNKIDS and the lack of system integration between the SCI system and TNKIDS. Due to the excessive volume of invoices received by the department from providers, it is not feasible to perform a manual verification of each invoice to confirm a child's placement on a given date. However, the Placement Re-Design for TNKIDS is anticipated to begin development in April 2003. With the development and implementation of the Placement Re-Design and the conversion of the SCI system to the Oracle Financial System, these discrepancies will be greatly reduced as a result of the verification controls in place both for departmental personnel to confirm the child's placement and the vendor to verify that information electronically through the invoicing process.

Children Not in State Custody

As noted in the finding, the department has reduced the amount of incorrect billings to TennCare by \$170,534, or 47%. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children that have reached the age of majority in accordance with TCA 37-1-173. Departmental staff is currently evaluating the causative factors that contributed to the discrepancies noted in the finding, and although this evaluation is not complete as of this date, documentation suggests that the majority of these incorrect billings are attributable to the use of incorrect procedure codes by the provider on the SCI. In all the cases reviewed by departmental staff, the discrepancies noted are related to youth in placements that reach the age of majority as defined in TCA 37-1-173 (a) or (b) and elect to continue receiving care from the department.

Children on Runaway Status

The department is pleased that the incorrect billing to TennCare for youth on runaway status has reduced by \$179,753, or 67%, from last fiscal year's audit. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children on runaway status. Departmental records indicate total payments to vendors with youth in this category were \$707,357.23 for fiscal year 2002. Without the implementation of the identifying procedure code, TennCare would have been erroneously billed \$412,982.84 rather than the \$86,917 noted by the auditors. It is management's position that the implementation of the new Standard Claim Invoice procedure codes for this break in custody and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department as evidenced by the reduction in erroneous billings.

Hospitalized Children

As noted in the finding, the department has reduced the amount of incorrect billings to TennCare by \$7,110, or 17%. It is management's position that the implementation of the new SCI procedure codes for other situations noted in this finding that are ineligible for TennCare reimbursement and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department.

Targeted Case Management

Based on the department's review of the discrepancies noted in the finding, the billing errors occurred during the implementation of modifications to programs that bill TennCare and conversion of databases for program builds in TNKIDS. Management will take action to assure appropriate quality control is maintained over billings during future conversion and implementation of program modifications.

In conclusion, management anticipates the implementation of an Internet-based invoicing process as part of the Phase 1 implementation of the Oracle Financial System within fiscal year 2004. This application will contain edits to reduce the likelihood of errors by both departmental employees and its service providers as it will require confirmation of the child's placement on the part of the provider and verification of the custody dates by Case Management staff. This will also integrate with the Placement Re-Design portion of TNKIDS to confirm custody episodes, placement types, and other critical provider data.

SOCIAL SERVICES BLOCK GRANT AND TITLE IV-E PROGRAMS

The Social Services Block Grant (SSBG) and Title IV-E (Foster Care and Adoption Assistance) are federal programs administered by the United States Department of Health and Human Services. SSBG funds may be used to provide services directed toward one of the following five goals specified in the law: (1) to prevent, reduce, or eliminate dependency; (2) to achieve or maintain self-sufficiency; (3) to prevent neglect, abuse, or exploitation of children and adults; (4) to prevent or reduce inappropriate institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate. The objective of the

Foster Care program is to help states provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering state agency and need temporary placement and care outside their homes. The objective of the Adoption Assistance program is to facilitate the placement of hard-to-place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

Our audit of the SSBG and the Title IV-E programs focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs / Cost Principles
- Cash Management
- Eligibility
- Matching
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Federal Reporting
- Subrecipient Monitoring
- Schedule of Expenditures of Federal Awards

The primary audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, we completed internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos; performed walk-throughs; performed tests of controls; and assessed risk.

General Internal Control

Our primary objectives for this area were to obtain an understanding of, document, and assess management's general internal control. We interviewed key program employees; reviewed organization charts, descriptions of duties and responsibilities for each division, and correspondence from the grantor; and considered the overall control environment of the SSBG and the Title IV-E programs.

We did not note any significant deficiencies in management's general internal control related to the SSBG and the Title IV-E programs.

Activities Allowed or Unallowed and Allowable Costs / Cost Principles

The primary objectives in this area for the SSBG program and the Title IV-E programs were to determine

- if evidence exists that underlying records were reviewed for allowability,
- if supporting documentation was properly approved or authorized, and
- if procedures had been established to prevent duplicate payments.

Additional objectives for the Title IV-E programs were to determine

- if authorization was given by an individual who was knowledgeable of the requirements for determining activities allowed and allowable costs, and
- if a plan had been established and implemented to allocate indirect costs to the federal grant.

We interviewed key department personnel to document and evaluate the department's procedures for ensuring that costs are allowable and if procedures had been established to prevent duplicate payments. We selected a nonstatistical sample of SSBG and Title IV-E expenditures to determine if underlying records were checked to ensure that they reflect activities allowed and allowable costs and if supporting documentation was properly approved or authorized. We also reviewed the department's indirect cost plan.

Based on our interviews and reviews, we determined that procedures existed for ensuring that costs were allowable. We also determined that procedures had been established to prevent duplicate payments and the department's indirect cost plan had been properly implemented. Based on testwork performed on a sample of SSBG and Title IV-E expenditures, the transactions appeared to be adequately supported and were allowable. In addition, payments were reviewed for allowability, and supporting documentation was properly approved by individuals knowledgeable of requirements.

Cash Management

Our primary objectives in the area of cash management for the SSBG program and the Title IV-E programs were to determine

- if management developed a written policy that provides for monitoring of cash management activities;
- if management developed a written policy that provides for procedures for requesting cash reimbursements as close as is administratively possible to the actual cash outlay; and

- if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We reviewed written policies and procedures related to cash management requirements. We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on our reviews and testwork, we determined that the department had written policies covering the monitoring of cash management activities and the timing of reimbursements and that the department complied, in all material respects, with the State-Treasury cash management agreement.

Eligibility

Our primary objectives for the Title IV-E programs were to determine whether

- Title IV-E expenditures made were made on behalf of eligible children;
- appropriate forms documenting eligibility were maintained by the department;
- foster care case files contained required court orders, health and education records, evidence of permanency planning hearings, documentation of background checks for foster parents, and adequate documentation of case manager contact with the child, family, or other individuals;
- child information was entered into TNKIDS in a timely manner;
- adoption assistance files contained documentation of the child's "special needs";
- adoption assistance files contained the required applications, affidavits, and agreements; and
- documentation was maintained in the case file for continuation of the adoption assistance beyond age 18.

We interviewed key department personnel to document and evaluate internal control over eligibility determinations. We tested a nonstatistical sample of Title IV-E foster care expenditures to determine that appropriate eligibility forms were on file for the children for which the payments were made and that the children were eligible and reimbursable at the time the payments were made. We also tested foster care case files to determine if they contained required court orders, health and education records, evidence of permanency planning hearings, documentation of background checks for foster parents, and adequate and timely documentation of case manager contact with the child, family, or other individuals. We also reviewed a nonstatistical sample of adoption assistance case files to determine that the children were eligible and adoption assistance files contained documentation of the child's "special needs"; required applications, affidavits, and agreements; and documentation for continuation of the adoption assistance beyond age 18.

Based on the testwork performed, it appears that the department maintained the appropriate forms documenting eligibility, and foster care case files contained required court orders as well as health and education records. Adoption assistance files contained documentation of the child's "special needs." However, adequate documentation was not maintained in case files regarding evidence of permanency planning hearings, documentation of background checks for foster parents, and adequate documentation of case manager contact with the child, family, or other individuals, as noted in finding 2. Child information was not always entered into TNKIDS in a timely manner (finding 2). Additionally, adoption assistance files did not always contain the required applications, affidavits, and agreements, and documentation was not always maintained in the case file for continuation of the adoption assistance beyond age 18, as noted in finding 3. Furthermore, the department claimed Title IV-E reimbursement for children who were not reimbursable at the time the payments were made, as noted in finding 4.

Matching

Our primary objective for the Title IV-E programs was to determine if the department met matching requirements set forth by program regulations.

The department segregates costs for each category of Title IV-E expenditures in the cost allocation plan by cost center. For each category of expenditures, we traced the amounts to the appropriate State of Tennessee Accounting and Reporting System (STARS) reports, verified that the correct federal participation rate was used, and recalculated the federal participation amount.

Based upon the testwork performed, it appeared that the department was complying with matching requirements.

Period of Availability of Federal Funds

The primary objective in this area for the SSBG program and the Title IV-E programs was to determine if the department obligated and expended federal funds within the period of availability.

We tested a nonstatistical sample of SSBG and Title IV-E expenditures and compared the date the funds were expended by the state to the period of availability requirements of the program charged to determine if the department had obligated and expended funds within the period of availability requirements for each program.

Based on our testwork, the department had obligated and expended federal funds within the period of availability.

Procurement and Suspension and Debarment

Our primary objectives for the SSBG program and the Title IV-E programs were to determine if

- there were clear assignments of authority for contracting goods and services,
- duties were properly segregated between employees responsible for contracting and accounts payable and cash disbursing, and
- procedures were established to verify that vendors providing goods and services under the award had not been suspended or debarred.

We interviewed key department personnel to document internal control related to assignments of authority for contracting goods and services and to evaluate segregation of duties relating to contracting, accounts payable, and cash disbursements. In addition, we obtained contracts for services and reviewed for the clause stating that the contractor had not been suspended or debarred and for the appropriate signatures.

Based on our interviews and reviews, it appeared that there were clear assignments of authority for contracting goods and services, duties were properly segregated between employees responsible for contracting and accounts payable and cash disbursing, and procedures were established to verify that vendors providing goods and services under the award had not been suspended or debarred.

Federal Reporting

The primary objectives for the SSBG program and the Title IV-E programs were to determine if

- supervisors reviewed reports to ensure the accuracy and completeness of data and information included in the reports;
- federal reports were complete and submitted timely;
- written policies existed which established responsibility and provided procedures for periodic monitoring, verification, and reporting of program progress and accomplishments; and
- there was an established information system that provided for reliable processing of financial and performance information for federal awards.

We interviewed key department personnel to gain an understanding of and to document procedures for preparing federal reports related to SSBG and Title IV-E. We obtained and reviewed federal reports for completeness and timeliness of submission.

Based on our interviews and reviews, we determined that supervisors reviewed reports to ensure the accuracy and completeness of data and information included in the reports, and that federal reports were complete and submitted timely. In addition, written policies existed which established responsibility and provided procedures for periodic monitoring, verification, and reporting of program progress and accomplishments, and there was an established information system that provided for reliable processing of financial and performance information for federal awards.

Subrecipient Monitoring

The primary objectives for the SSBG and Title IV-E programs were

- to determine if the department properly distinguished between subrecipients and vendors;
- to determine if the department monitored subrecipient activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements;
- to determine if corrective action plans were submitted as required and were approved by the department;
- to determine that the department complied with the monitoring plan requirements of the Department of Finance and Administration Policy 22, “Monitoring of Subrecipients”; and
- to determine if the department’s procedures for obtaining and reviewing subrecipients’ audit reports to identify and resolve subrecipient weaknesses in internal control, instances of noncompliance with subrecipient agreements, and questioned costs were functioning in accordance with prescribed requirements.

The department’s procedures for monitoring subrecipient eligibility and activity, for monitoring program subrecipients at both program and fiscal levels, for distinguishing between subrecipients and vendors, and for determining risk assessments for subrecipients were reviewed and evaluated. A nonstatistical sample of contracts was selected to determine if the subrecipient was monitored; corrective action plans, if applicable, were submitted to the department to correct deficiencies; corrective action plans were approved by the department; and that risk assessment forms were completed in accordance with Finance and Administration’s Policy 22. We reviewed the department’s procedures for obtaining and reviewing subrecipients’ audit reports to identify and resolve subrecipient weaknesses in internal control, instances of noncompliance with subrecipient agreements, and questioned costs.

Based on our review and testwork, the department has properly classified its subrecipients and vendors, and the department’s program and fiscal monitoring of subrecipient activities was adequate. It appears that the department was in compliance with the monitoring plan requirements of the Department of Finance and Administration’s Policy 22 and that corrective action plans were submitted as required and corrective action plans were approved by the

department. The department's procedures for obtaining and reviewing subrecipients' audit reports were adequate.

Schedule of Expenditures of Federal Awards

Our objective was to verify that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported. We verified the grant identification information on the Schedule of Expenditures of Federal Awards, and total disbursement amounts were traced to supporting documentation. Based on the testwork performed, we determined that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported.

Findings, Recommendations, and Management's Comments

2. **Case files do not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, permanency plans, and criminal background checks for foster parents**

Finding

As noted in the prior three audits covering the period July 1, 1998, to June 30, 2001, the Department of Children's Services (DCS) did not have adequate documentation in children's case files showing case manager contact with the child, family, or other individuals. DCS Policies 9.1, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 9.1 states,

This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: Narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family. Case recordings and all other documentation shall be added to the case file within 30 days of case work activity. Each case shall have a case recording for each month that the case is open.

Management concurred with the prior findings and stated in its last two responses that it would ". . . continue to stress its policy regarding timeliness of case documentation and the necessity of case documentation for each month that a child is in care. In addition to quarterly monitoring of case files by field supervisors, central office staff from the Division of Program Operations will continue to monitor case recording during their case file reviews."

Although the department has made progress in reducing problems with case documentation, problems were again noted involving time lapses between documented case manager contact with the child, family, or other individuals as evidenced by case note recordings. Seven of 115 case files tested (6%) did not contain adequate documentation of case manager contact in accordance with DCS policy at the time the file was reviewed. In all 7 instances, there

were gaps in dates between case manager contacts as documented in the case recordings. Time lapses between documented contacts ranged from 37 to 195 days (averaging 62 days) in the files tested. The prior audit finding disclosed inadequate documentation of case manager visits in 26 of 116 case files examined (22%), with gaps ranging from 35 to 560 days (averaging 117 days).

As previously mentioned, DCS Policy 9.1 requires that case recordings and all other documentation shall be added to the case file within 30 days of case work activity. The TNKIDS system electronically records the date of each case recording entry to the file. Testwork comparing the date of entry with the date of activity disclosed several instances of untimely entries. Forty-nine of 115 case files tested (43%) contained instances of case notes being recorded in TNKIDS more than 30 days after case activity, contrary to DCS Policy 9.1. Time lapses between the case activity and the date that the information was entered into TNKIDS ranged from 2 to 265 days past the 30-day deadline (averaging 51 days).

Our review of case files indicated that permanency plan hearings for children in foster care were not always performed in accordance with DCS policy. Permanency plans are used to document the services to be provided and the permanency goals for a child while in state custody. According to DCS Policy 16.33, Foster Care and Permanency Planning Hearings, “The court shall hold a permanency planning hearing within twelve (12) months of the date of a child’s placement in foster care and every 12 months thereafter until permanency is achieved or until the child reaches the age of majority.” Permanency planning hearings are used to review the appropriateness of the established goals for a child and to determine what progress has been achieved in obtaining the stated goals. In 5 of 115 foster care case files tested (4%), the child’s file did not contain evidence that the permanency planning hearing was held within the 12-month criteria as described in DCS policy. One hearing was held six months late, and there was no evidence that the hearing was held for the other four children. DCS Policy 16.33 further states, “A copy of the court order reflecting the hearing’s outcome shall be obtained and filed in the child’s case record.”

In addition, our review of foster home files indicated that documentation of background checks for foster parents was not always maintained in accordance with DCS policy. According to DCS Policy 16.4, Foster Home Study, Evaluation and Training Process, “A criminal background check to include fingerprinting and sex offender registry check must be completed on each foster parent applicant, as well as any other adult member of the household, and documented in the foster home record.” In 4 of 81 foster home files tested (5%), the file did not contain documentation that the background check was performed as described in DCS policy.

Recommendation

The Assistant Commissioner of Program Operations should continue to ensure that case managers are making required contact with children in state custody and documenting the contacts made. Proper documentation, as described in DCS policies, should be prepared within a reasonable time after the visit and entered into TNKIDS within 30 days of the visit. All services provided to a child should be documented in the child’s case file. In addition, quarterly

monitoring of case files by field supervisors and case file reviews by central office staff from the Division of Program Operations should specifically address compliance with DCS Policy 9.1. Permanency planning hearings should be conducted according to DCS policy, and documentation of the hearing should be included in the child's case record. Background checks for foster parents should be performed and documented in the foster home files as outlined in DCS Policy 16.4.

Management's Comment

We concur. The department is encouraged that the number of children not having monthly case recordings has dropped by 73% from the previous year's finding. Management will continue its emphasis on making required contact with children in state custody and to document this contact timely in TNKIDS. We believe that some of the errors found concerning the timeliness of documenting case activity is due to an ongoing clean-up effort that the department instituted in June 2001. The department began producing regional monthly reports of all children in state custody containing the last date of case recording activity. The regional staff then examined the paper case files to determine whether any case activity had been omitted from TNKIDS. If there were any omissions, they were then added to TNKIDS. Since this was a clean-up effort, one would anticipate that the case recordings would be entered after the 30-day requirement.

Management will heighten its emphasis on the importance of performing and documenting criminal background checks for foster parents. Management feels very strongly that these background checks should have been performed. Additional and ongoing training shall be provided to field staff in this area.

The department does not have control over when the Permanency Planning Hearings are placed on the juvenile courts' dockets. Departmental staff will continue to prepare cases for Permanency Planning Hearings and file the necessary paperwork with the courts to have the case placed on the court docket. All efforts to secure a date for the hearings should be documented in the case file.

3. **Adoption Assistance files did not contain adequate documentation, and the department should review its policy related to Adoption Assistance payments when children return to state custody**

Finding

The Adoption Assistance Program contributes financially to assist families, otherwise lacking the financial resources, in adopting eligible children with special needs. Adoption assistance payments are to be based on the child's needs and the family's circumstances. Families must renew assistance annually by completing an application, agreement, and a notarized affidavit. Federal regulations require the state to make reasonable efforts to place a child for adoption without a subsidy. According to departmental policy, the case manager must

ask prospective adoptive parents if they are willing to adopt without Adoption Assistance payments. If the family says they cannot adopt without Adoption Assistance payments, the department considers the reasonable efforts requirement to have been met, and the process for obtaining Adoption Assistance begins.

Adoption Assistance files did not contain adequate documentation related to the yearly renewal affidavits, applications, and agreements that must be completed by the adoptive parents, as required by the department's *Adoption Services Policies and Procedures Manual*. Based on a review of 120 Adoption Assistance case files, 17 files (14%) were missing all three of the aforementioned documents. Management subsequently located the documents that were missing in 12 of the files. However, the subsequent evidence provided to the auditors should have been included in the case files during their initial review. Adoption Assistance payments totaled \$22,092 for the five children whose documentation was not located. The federal questioned costs for these payments totaled \$14,059, and the remaining \$8,033 is state matching funds. The total federal share of payments made to adoption assistance parents was \$9,278,504.

In addition, adequate documentation was not maintained showing the reasons parents were continuing to receive adoption assistance payments beyond the 18th birthday of the child. Of the 22 files of children over 18 in our sample, 14 (64%) did not contain documentation supporting the continuation of the subsidy. Management subsequently located the documents that were missing in four of the files. However, the subsequent evidence provided to the auditors should have been included in the case files during their initial review. Title IV-E funded Adoption Assistance is available until the child reaches age 18 or up to age 21 if the child has a mental or physical handicapping condition as established in the initial Adoption Assistance Agreement. If the child does not meet handicapping conditions at age 18, the Title IV-E case must be closed. A state-funded case can be opened if the child remains in high school for adoption assistance agreements created after October 1997 and any full-time school for agreements created prior to October 1997. Department of Children's Services Policy 15.10, "Adoption Assistance Agreements Created Prior to October, 1997," states, "School attendance or handicapping condition must be verified and documented in the adoption assistance case file." Adoption Assistance payments totaled \$54,717 for the ten children whose documentation was not located. The federal questioned cost for these payments totaled \$34,822, and the remaining \$19,895 is state matching funds. These amounts include federal questioned costs of \$3,498 and state matching funds of \$1,999 for one child who was also questioned in the preceding paragraph.

Furthermore, the review of adoption assistance case files disclosed one instance where adoptive parents continued to receive payments that were made on behalf of their adopted child when the child was in state custody and residing with foster parents who were receiving foster care payments. As a result, the department was making both adoption assistance and foster care payments to two individual households for the welfare of one child. According to federal regulations and departmental policies, adoptive parents are eligible to continue to receive Adoption Assistance payments even when the child is in state custody. However, the adoptive parents must continue to contribute to the child's support. According to departmental policy, child support is defined as

- compliance with the permanency plan;
- financial contributions to the child's support;
- travel to and from the residential placement resource as required by the treatment and/or permanency plan;
- participation in the treatment plan for the child as prescribed by the treating professionals;
- providing clothing, personal items, allowance, etc., for the child; and
- providing emotional support to the child which can be documented by the treatment professionals.

In this particular case, the child reentered state custody in May of 1999, and evidence in the case file suggested that reunification with the adoptive parents was not possible. Correspondence from the adoptive parents contained in the file included a 1998 letter indicating that the child could not return home and a 2001 card stating that contact will be limited to occasional phone calls and e-mail. Case notes beginning in 2000 also indicate that there has been very little contact between the child and the adoptive parents. However, there is no evidence that a case manager formally questioned the propriety of the adoption assistance payments with supervisory personnel until December 2001. And it was not until June 2002 that the supervisor brought up the issue with the DCS Director of Adoptions, suggesting the need for reviews of cases where adoptive parents continue to receive Adoption Assistance payments for children in state custody and in out-of-home placements. Adoption Assistance payments continued to be made to the adoptive parents for the entire audit period and subsequently through November of 2002.

Such payments do not appear to meet the reasonable criteria for allowable costs according to Office of Management and Budget Circular A-87, Attachment A, Section C.2. Adoption Assistance payments for this child totaled \$7,242 for the year ended June 30, 2002. This amount includes federal questioned costs of \$4,609, and the remaining \$2,633 is state matching funds.

Recommendation

The Commissioner should develop a formal policy to delineate the required contents of adoption assistance case files, similar to the current policy, "Administrative Policies and Procedures 9.1," which governs foster care case files. The Assistant Commissioner of Program Regional Services and the Director of Adoptions should develop procedures to ensure that Adoption Assistance case files are complete and that renewals and extensions of agreements are current and adequately supported, especially supporting the conditions justifying agreements which extend past the child's 18th birthday. Furthermore, procedures should be developed to identify instances where the department is making simultaneous adoption assistance and foster care payments on behalf of a child. The propriety of continuing Adoption Assistance payments for children in state custody should be periodically evaluated and documented on a case-by-case basis.

Management's Comment

We concur. The Department of Children's Services will draft a policy to govern adoption assistance case files that parallels the current DCS Policy 9.1 for foster care case files. This policy will include a listing of items located in the file, procedures for periodic case file review and scheduled redeterminations of eligibility for adoption assistance. Procedures will be put in place to periodically review files to insure the propriety of continuing adoption assistance payments for children in state custody.

4. **The department charged the Title IV-E program for children who were not eligible for Title IV-E reimbursement**

Finding

The Department of Children's Services (DCS) charged the Title IV-E Foster Care program for children who were not eligible for Title IV-E reimbursement. The Adoption and Safe Families Act of 1997 requires documentation that efforts were made to preserve the family and that removal of a child from his/her home was appropriate and necessary to ensure the child's safety, health, and welfare. To meet these requirements, DCS Policy 16.36, "Title IV-E Foster Care Funds, Court Orders and the Initial Eligibility Determination Process," states,

DCS legal staff and/or case managers shall ensure that the first court order sanctioning the removal of the child shall include a judicial determination to the effect that continuation in the home is "contrary to the welfare of the child" or that "placement is in the best interest of the child" or words to that effect.

Furthermore, DCS Policy 16.35, "Title IV-E Foster Care Funds and On-Going Reasonable Efforts to Finalize Permanency Plans," requires DCS to secure a new court order at each permanency hearing that includes a judicial determination that reasonable efforts have been made to finalize the goal of the permanency plan. Permanency plan hearings are held no later than 12 months after a child enters custody and every 12 months thereafter. Absent the required language in judicial determinations, the department may not receive Title IV-E Foster Care reimbursement for the care and maintenance of an otherwise eligible child. Policies 16.35 and 16.36 provide specific instructions for case managers to follow in recording the child's benefit status in the appropriate computer systems and documenting the child's status in the case files.

During a review of 115 children's case files, it appeared the department received Title IV-E funds for four children (3%) during periods when they were not IV-E reimbursable. The case files for the four children did not contain the required language in the court orders that would allow for Title IV-E reimbursement. According to a DCS Fiscal Director, the foster care amounts are allocated to the Title IV-E program based on the information in the eligibility database at the date of the expenditure. Incorrect eligibility information in the database results in incorrect reimbursements of Title IV-E funds. Even if these errors are subsequently found and corrected in the database, the program is not designed to retroactively adjust the Title IV-E expenditures. Instead, the program picks up the new status as of the next billing period.

Therefore, it is imperative that the data entered into the eligibility database be accurate and current and that manual adjustments be made to the IV-E allocations when errors are found. Foster care payments of \$7,914.91 were made during periods when the children were not IV-E reimbursable and are questioned costs. Total Title IV-E payments to foster care parents for the year were \$15,637,592. We believe likely questioned costs for such occurrences exceed \$10,000.

Recommendation

In accordance with departmental Policies 16.35 and 16.36, case managers should ensure the eligibility of children for Title IV-E Foster Care is adequately documented in the case files and prompt and accurate status changes are recorded in the department's computer systems. As part of the department's prepayment authorization process, case managers should review information in the eligibility database and ensure that the Title IV-E reimbursement status is correct prior to payment.

Management's Comment

We concur. The Assistant Commissioner for Fiscal and Administrative Services, in conjunction with divisional management staff, will prepare a formal request to the department's Information Resources Section to provide programming to enable automated data matches between the computer application used by fiscal to determine funding and ChipFins. As eligibility status is not fixed, manual review and adjustment cannot be performed timely and is not practical due to the volume of children in custody. Although performing data matches between the funding database and ChipFins will provide immediate correction of the problem, it is management's goal to continue to aggressively pursue the Placement Re-Design and Title IV-E Eligibility module development and implementation in the TNKIDS system. These modifications along with the implementation of the Oracle Financial System will correct this problem going forward from a fiscal perspective.

RECRUITMENT AND RETENTION ACTIVITIES

Our primary objectives in the area of recruitment and retention activities were to determine whether

- certain purchases for foster care recruitment and retention were made in accordance with state procurement procedures, and
- certain purchases for adoption recruitment were made in accordance with state procurement procedures.

We interviewed key department personnel to gain an understanding of the department's procedures for and internal control over foster care and adoption recruitment purchases. We reviewed the controls, invoices, supporting documentation, and memorandums related to these specific transactions brought to our attention.

Based on our review and testwork, the department did not comply with state laws and regulations governing the procurement of goods and services relating to foster care recruitment and retention as noted in finding 5. Furthermore, we determined that the department circumvented state purchasing rules, violated state law, and concealed questionable transactions through the creation of a fiscal agent relationship with the Memphis and Shelby County Community Services Agency relating to adoption recruitment purchases as noted in finding 6.

5. The department purchased goods and services for foster care recruitment before receiving the authority to incur the expenditures and did not comply with state laws and regulations governing the procurements

Finding

The department purchased goods and services totaling approximately \$150,000 for foster care recruitment before requesting the approvals necessary to incur expenditures on behalf of the state and did not comply with state laws and regulations governing the procurements. These purchases were made primarily under the control and direction of the DCS foster care director and regional management and were for the purpose of recruitment and retention of foster care parents. The manner in which the DCS personnel initiated these procurements violated the state's purchasing and publications procedures. Bids were not obtained and/or were not adequately documented. Persons who were not authorized to obligate state funds signed contracts for goods and services. Publications printed for recruitment and retention of foster parents were not properly approved. It appears that invoices were split in order to circumvent the state's competitive bid process, and rush charges were paid for some of the items purchased. As a result of the department's failure to obtain delegated purchase authority for these expenditures, these purchases were not paid in a timely manner until payment and approval issues with the Department of Finance and Administration, the Department of General Services, and the Comptroller of the Treasury were resolved.

The Department of Children's Services expended over \$149,000 from April through July 2002 for goods and services related to foster parent recruitment and retention. These goods and services included the following:

- promotional items such as magnets, pens, key chains, sports bottles, balloons, stress balls, folding chairs, leather portfolios, umbrellas, cups, etc., imprinted with custom logos;
- apparel such as t-shirts, polo shirts, sun visors, and caps imprinted with custom logos; banners and signs promoting foster care;
- radio, newspaper, billboard, movie theater, and magazine advertising;
- food, supplies, and catering services for foster parent appreciation dinners; and
- foster parent recruitment brochures and mailers.

On July 12, 2002, the department submitted a request to the Department of Finance and Administration for a Delegated Purchase Authority to cover these purchases. A Delegated Purchase Authority gives the approval to a state agency to purchase services for an individual program within specified limits and guidelines, and requires the approval of the Commissioner of Finance and Administration and the Comptroller of the Treasury. However, the majority of the goods and services for foster care recruitment had already been purchased prior to the request for a Delegated Purchase Authority (invoices dated beginning April 2002). According to the *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.09, “No grant, loan, purchase, or agreement shall be initiated and no obligation shall be incurred under a Delegated (Purchase) Authority prior to the delivery of an approved copy of the authority to the subject state agency.”

Contracts signed by employees

The *Rules of the Department of General Services Purchasing Division*, Chapter 0690-3-1-.08 (2) (b), states, “Only the Commissioner is authorized to bind the State in contractual agreements. Contracts signed by State personnel are null and void and do not obligate the State to payment for goods and/or services unless contracted for under authorization of Delegated Purchase Authority or Emergency Purchases.” Based on the documentation provided the auditors, it was evident that employees entered into at least five contracts totaling \$14,586 for brochures, banners, and movie theater and billboard advertising. In addition, it is probable that employees executed contracts for other advertising media purchased (e.g., radio and newspaper advertising). However, contracts were not submitted along with the invoices submitted for payment.

Publications not approved

The *Rules of the State Publications Committee*, Chapter 1190-1-.06, states, “All publications coming under the jurisdiction of the Publications Committee must be approved in accordance with the applicable guidelines, policies, and procedures.” Furthermore, DCS’s Administrative Policy and Procedure 30.10, “Publications Management,” states, “The Department of Children’s Services shall ensure that departmental publications are in compliance with the Department of General Services Publications Committee statutes, rules, policies, procedures, and guidelines.” None of the brochures printed were presented to the Publications Committee for approval. Five of the invoices submitted were for printing brochures and totaled \$8,455.

Bids were not obtained

Generally, the Department of General Services requires agencies to obtain three informal bids for purchases between \$400.01 through \$2,000. Purchases over \$2,000 must follow the competitive bid process, which is performed by the Department of General Services. The department negotiated many purchases that were in excess of \$400; however, there was no evidence that the department secured three bids. Based on the invoices submitted, there were 12 purchases totaling \$15,910 without evidence of bids. In addition, the department did not forward purchase requisitions greater than \$2,000 to the Department of General Services to initiate that competitive bid process. Based on the invoices submitted, there were 17 purchases greater than \$2,000 that were not forwarded to the Department of General Services for formal bidding.

Furthermore, only one of these purchases (\$3,808) contained evidence that the department obtained bids; there was no evidence that the department obtained bids for 16 purchases, totaling \$81,769.

Purchases were apparently split

Based on review of the invoices submitted, it appears that there were attempts to artificially divide procurements in order to make purchases below the \$400 departmental bid requirements and the \$2,000 requirement for referral to the Department of General Services for formal bids.

- Two purchases for promotional items totaling \$1,957 and \$1,956 from the same vendor were invoiced the same day.
- Numerous purchases for signs were made from the same vendor during May and June 2002. Each invoice was for either \$300 or \$400. Dates and amounts are as follows:

May 8, 22, 24, 30, and 31 for \$400 each

June 7, 7, 20, 22, 25, and 28 for \$300 each

June 17 for \$400

- Two purchases for printing totaling \$341 and \$399 from the same vendor were invoiced on June 18 and 19, respectively.

Payments were not made timely

It should be noted that certain purchase transactions were cited in more than one of the exceptions noted above. However, as a result of the department's failure to obtain delegated purchase authority for these expenditures, all of these purchases for recruitment and retention of foster care parents were not paid in a timely manner. The Prompt Payment Act of 1985 requires that if no date for payment is agreed upon in the contract, payment will be made within 45 days after receipt of the invoice. Overdue payments accrue one and one-half percent interest per month, and an agency may not seek additional appropriations to pay interest which accrues as a result of its failure to make timely payments. Payment of these purchases did not begin until October 2002. Interest of \$1,108.84 was paid to one vendor in November 2002, and other payments may be necessary if requested by the vendors.

Recommendation

The Department of Children's Services should not procure goods and services for foster care recruitment and retention without an approved delegated purchase authority in place. Furthermore, the Commissioner should ensure that all DCS personnel responsible for making these purchases have adequate knowledge of the state's purchasing policies and procedures before any purchases are made. All purchases should be made in compliance with the department's and the state's purchasing policies and operate in an open, competitive, and cost-effective manner. Contracts obligating the state should only be signed by authorized personnel. All publications and brochures should be presented to the Publications Committee for approval

prior to printing. Purchases should be adequately planned in order to take advantage of quantity discounts and avoid the additional costs of emergency purchases and rush charges associated with procurement and shipping. The department should adhere to all bidding guidelines promulgated by the Department of General Services, and should not artificially divide procurements in order to make purchases below the bid requirements. In addition, the department should make payments to vendors in a timely manner to avoid making interest payments on amounts past due. The Commissioner should take appropriate disciplinary actions against those employees responsible for inappropriate procurements.

Management's Comment

We concur. In an effort to prevent reoccurrence, new procedures for recruitment purchasing have been instituted. Regional Administrators, regional procurement staff, and regional recruitment staffs have been trained by the Department of General Services in appropriate purchasing procedures. These same personnel have been educated with regard to the use of the Publications Committee and have been instructed not to sign contracts. Delegated purchase authority will be established should recruitment funds become available in the future. In addition to disciplinary action already imposed, any future occurrence similar to this will result in further disciplinary action for responsible staff.

6. **The department circumvented state purchasing rules, violated state law, and concealed questionable transactions, including \$5,750 for use of a yacht club, \$2,590 to a local church, and \$2,500 for T-shirts from a former spouse of a DCS employee, through the creation of a fiscal agent relationship with the Memphis and Shelby County Community Services Agency**

Finding

The Department of Children's Services (DCS) concealed the questionable procurement of goods and services by using the Memphis and Shelby County Community Services Agency (CSA) as a fiscal agent to pay for those goods and services. These purchases were made primarily under the control, direction, and approval of DCS management and were for the purpose of facilitating the adoption of children in state custody (child-specific services) or general expenditures for promoting adoption (non-child-specific services). When DCS created a fiscal agent relationship with the CSA, the Department of Children's Services avoided compliance with the state's purchasing procedures, including bid requirements.

The Department of Children's Services contracts with the Memphis and Shelby County Community Services Agency, a separate legal entity, to promote adoption in Shelby County. The CSA expended over \$85,000 during the year ended June 30, 2001, and over \$138,000 during the year ended June 30, 2002, for purchases arranged for by DCS and paid for by the CSA. These goods and services included the following:

- Legal fees of adoptive parents (i.e., attorney fees and court costs) were paid for handling the finalization of adoptions. The CSA also paid for divorces for foster parents whose spouses were not parties in the adoptions. DCS records state that this assistance would help the foster parents complete the adoption process. In most cases, these fees were over \$1,000 per case.
- Entertainment was provided for the adoption/foster care parents' appreciation banquets. For the year ended June 30, 2001, DCS hired a band at a cost of \$600; for the year ended June 30, 2002, the same band was paid \$800 to play at these banquets.
- A local church was paid \$2,590 for use of the church's hall and preparation of dinner for a recruitment event. A gratuity of \$315 was included in the amount paid to the church.
- Expenditures for billboard advertisement totaled \$58,700.
- A local vendor printed adoption brochures for \$700.
- T-shirts were purchased from the former spouse of a DCS employee on at least three occasions. The cost charged to the CSA amounted to over \$2,500.
- Mouse pads, pens, license plate frames, keychains, and other similar items were purchased from a vendor in Jackson, Mississippi. One payment amounted to \$7,933, of which \$496 was for freight and handling. For the year ended June 30, 2001, this vendor was paid \$13,500.
- Supplies were purchased for use in training provided to foster care and adoptive parents. A local vendor was paid more than \$12,000 during the year ended June 30, 2001. These supplies included such things as chairs and tables.

The DCS Shelby County regional office staff made the decisions concerning how the adoption funding awarded to the CSA would be spent, rather than allowing the CSA to make decisions regarding what goods and services were to be purchased and how these goods and services would be purchased. After the purchases were initiated, DCS personnel requested the CSA to pay for them by submitting an adoption service plan, a family service plan, or memorandum which in most cases was prepared by a DCS case manager and then approved by a DCS team leader and/or the DCS Shelby County Regional Administrator. Furthermore, certain purchases initiated by DCS resulted in contractual agreements between the vendor and the Department of Children's Services. These contracts were signed by the DCS Shelby County Regional Administrator, her secretary, or a DCS Team Coordinator and included a contract with a media company for the production of billboards to advertise adoption (\$7,700); a contract with a yacht club for an adoption and foster care appreciation banquet (\$5,750); and a contract with a minor league baseball team for tickets to a baseball game (\$787.50).

The CSA fiscal office personnel prepared checks based on requests from DCS. After these checks were signed, they were often picked up by a DCS employee and delivered to the vendor. In many cases, goods were delivered directly to the DCS Regional Office, and DCS did not provide the CSA with support as to whether the goods were actually received. Furthermore, when the auditors asked the DCS Shelby County Regional Administrator to provide support for various goods and services, very minimal support was provided.

As a result of the manner in which DCS procured these goods and services, the CSA violated state law concerning its plan of operation because expenditures for the billboard advertisement subsequently amounted to \$58,700 and were not included in the CSA's plan of operation. In addition, CSA policies related to the contract approval process and routine purchases were violated due to contracts that were not signed by the appropriate official and bidding procedures that were not followed.

In addition, the manner in which the DCS personnel initiated these procurements violated the state's purchasing and publications procedures. Bids were not obtained and/or were not adequately documented. Receiving reports were not prepared, and contracts were signed by persons who were not authorized to obligate state funds. As a result of the way business was done between the CSA and the DCS Shelby County Regional Office, the CSA acted as a fiscal agent for DCS.

- The *Rules of the Department of General Services Purchasing Division*, Chapter 0690-3-1-.08 (2) (b), states, "Only the Commissioner is authorized to bind the State in contractual agreements. Contracts signed by State personnel are null and void and do not obligate the State to payment for goods and/or services unless contracted for under authorization of Delegated Purchase Authority or Emergency Purchases." Most of the contracts for the goods and services for which the CSA paid were signed by the DCS Shelby County Regional Administrator. A contract was also signed by the secretary of the DCS Shelby County Regional Administrator and a DCS Team Coordinator.
- The *Rules of the State Publications Committee*, Chapter 1190-1-.06, states, "All publications coming under the jurisdiction of the Publications Committee must be approved in accordance with the applicable guidelines, policies, and procedures." Furthermore, DCS's Administrative Policy and Procedure 30.10 "Publications Management," states, "The Department of Children's Services shall ensure that departmental publications are in compliance with the Department of General Services Publications Committee statutes, rules, policies, procedures, and guidelines." None of the brochures printed were presented to the Publications Committee for approval.
- Generally, the Department of General Services requires agencies to obtain three informal bids for purchases between \$400.01 through \$2,000. Purchases over \$2,000 must follow the competitive bid process, which is performed by the Department of General Services. The CSA paid for many purchases that were well in excess of \$400; however, neither the CSA nor DCS secured three bids. In addition, DCS did not forward purchase requisitions greater than \$2,000 to the Department of General Services to initiate that competitive bid process.

Furthermore, the DCS Shelby County Regional Administrator serves on the board of directors of the CSA and can vote on issues brought before the board. Since the Regional Administrator approved invoices for payment and served on the board, management may have been reluctant to question the transactions she approved. Also, serving on the governing board of the CSA, being employed by DCS, and approving invoices for payment by the CSA could be a conflict of interest.

In light of the fiscal agent relationship noted in the Shelby County region, inquiries were made of DCS administrators and Community Services Agencies in the other regions of the state. These inquiries did not disclose the existence of other fiscal agent relationships.

Recommendation

The Department of Children’s Services should not take actions to use grantees as fiscal agents for the department. DCS officials should not utilize grantees in ways that serve to circumvent state laws, policies, and procedures. The Commissioner should determine how this relationship with the CSA evolved into a method of permitting the department to circumvent state laws, policies, and procedures and take appropriate action.

In addition, the status of the DCS Shelby County Regional Director as a member of the board of directors of the CSA should be evaluated.

Management’s Comment

We concur in part. The department does not concur with the language stating that the department “concealed the questionable procurement of goods and services . . .” The department did not conceal nor attempted to conceal these transactions. Management made Shelby regional staff available to the auditors in both Nashville and Jackson. All documentation retained by the department was provided to the auditors.

The department has reevaluated the function of the Community Services Agencies and has instituted a clear procedure for the procurement of goods and services. This procedure states that the Community Services Agencies are to preauthorize and procure goods and services on behalf of the department according to the restrictions placed upon them by their plans of operations and their contracts. This procedure has been communicated to both the Community Services Agencies’ Executive Directors and the departmental Regional Administrators.

The department will reevaluate the relationship between the department and the Community Services Agencies, including the propriety of the DCS Regional Administrator’s seat on the CSA Board of Directors.

Auditor’s Comment

Although the department contends that it did not conceal these purchases, the manner in which these transactions were submitted and processed resulted in circumventing the department’s and the state’s established procedures for competitive procurement. This method of procurement also avoided upper management’s review and approval controls designed to detect and prevent such occurrences.

CONTRACTS

Our primary objectives in the area of contracts were to follow up on the prior audit finding concerning employer-employee relationships and to determine whether

- the department continued to enter into contracts that establish improper employer-employee relationships, and
- the department allowed contract services to be rendered before proper approvals of the contracts were obtained.

We interviewed key department personnel and reviewed terms of contracts, authorizations and dates, contract payment support, and memorandums. We also reviewed organization charts to determine the working relationships between the Department of Children's Services' employees and Community Services Agencies' employees.

Based on our testwork, the department had not allowed significant contract services to be rendered before proper approvals of the contracts were obtained. However, the department continued to enter into contracts that established improper employer-employee relationships, as disclosed in finding 7.

Finding, Recommendation, and Management's Comment

7. The department has established improper and ineffective employer-employee relationships

Finding

As noted in the prior four audits covering the period July 1, 1997, through June 30, 2001, the Department of Children's Services (DCS) has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Services Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. Some of these CSA employees are secretaries for the department's regional administrative staff. These contracts appear to create "employer-employee" relationships between the department and these individuals.

Management has not concurred with the prior audit findings, stating that direct supervision of these employees is desirable and necessary due to the nature of functions performed by the CSAs and the department's responsibilities for children in its custody. However, for the past two years, management stated that it has been working to further define the functional roles of the case managers in both agencies and was seeking to divide responsibilities along custodial and noncustodial lines. In July 2001, legislation became effective that transferred 249 CSA case manager positions to the Department of Children's Services in order to assure that no CSA employee was providing services in the areas relating to custodial children, specifically, adoption, foster care, juvenile justice, or mandated services such as child protective services and

family crisis intervention. The effect of this legislation addresses the concerns about functionality of roles outlined in the Child Welfare League of America recommendations and in the audit findings.

The positions may have been available in July 2001; however, the actual transfer process did not begin until October 2001, when 112 positions were transferred. There were no additional positions transferred during the fiscal year. On July 1, 2002, an additional 107 positions were transferred from the CSAs to DCS. Although management appears to be making progress in eliminating the supervision of CSA employees by DCS personnel, the ultimate goal of having CSA case managers serving noncustody children and having DCS case managers serving children in state custody has not yet been achieved.

The practice of allowing employees of community services agencies to report directly to Department of Children's Services officials/employees, in carrying out what can be construed as state programs, raises policy and legal issues, as well as questions of effectiveness. The Child Welfare League's report on DCS' foster care and adoption programs stated that the relationship did not work in some regions, that it was difficult to make the arrangement work well, and that it created an appearance of an employer-employee relationship.

Recommendation

The Department of Children's Services should continue its efforts to eliminate what are, in effect, employer-employee relationships. The redistribution of case management responsibilities for noncustody children and children in state custody between CSA and DCS personnel appears to eliminate the need for direct supervision of CSA employees by DCS personnel.

Management's Comment

We do not concur. As recommended in previous audit reports, the department has obtained two opinions from the Office of the Attorney General. It is clear from these opinions that the CSAs are not properly characterized as ordinary private-nonprofit organizations, that the state is indeed liable for actions of the CSAs while acting within the scope of their authority, and that DCS is required by law to maintain close oversight and control of the CSAs because the CSAs perform delegated functions that are inherently governmental in nature.

The department requested and received in June 1997 an opinion regarding the liability of CSA employees while acting within the scope of their authority. AG Opinion No. 97-092, page 3 of the opinion, states:

We have determined that CSAs are state entities for the purposes of liability and provision of legal representation because of: (1) the clear legislative intent to regard CSAs as state agencies or instrumentalities; and (2) because they are operated by the state government, receive appropriations of funds from the state,

and serve as a “conduit through which the state acts” to carry out public functions. Tenn. Op. Atty. General No. 97-092 (citing Hastings v. South Central Human Resource Agency, 829 S.W.2d 679, 682 (Tenn. App. 1991)).

It is important to note that the Community Services Agency Act provides that the CSAs “shall be a political subdivision and instrumentality of the state” and that “[a]s such, it shall be deemed to be acting in all respects for the benefit of the people of the state in the performance of essential public functions, and shall be deemed to be serving a public purpose through improving and otherwise promoting the well-being of children and other citizens of the state.” *Tenn. Code Ann.* §37-5-304. The Act provides explicitly that “[e]mployees of the community services agencies shall be considered ‘state employees’ for the purposes of §9-8-307.” Opinion No. 97-092 goes further to observe that the CSA boards are appointed by the Governor and are “state officials and thus state employees” for the purposes of governmental immunity under *Tenn. Code Ann.* 9-8-307(h).

In 2000, the department requested and received another opinion from the Attorney General addressing the issue at hand. In Tenn. Op. Atty. Gen. No. 00-113, the Attorney General states that “CSAs are clearly subject to the authority and control of the [DCS] Commissioner,” noting that the General Assembly statutorily empowered the Commissioner to establish the CSAs, to appoint each CSA executive director, approve all CSA policies, procedures, rules and regulations, and any other acts necessary or convenient to exercise the powers granted in the Act. Based on that control by the Commissioner, the Opinion states that DCS attorneys may provide any legal advice needed by the CSAs.

The finding specifically indicates that the practice of allowing employees of CSAs to report directly to DCS officials/employees, in carrying out what can be construed as state programs raises “policy and legal issues. . . .” In addition to the above opinions of the Attorney General, it should be noted that DCS has consulted with the Attorney General for the past three years based upon recommendations and similar findings in the past three audits. During those consultations, the Attorney General has identified no liability problem based on the employer/employee relationship noted by the audit and has made no recommendation of any action to be taken by the department to lessen or minimize the relationship between CSAs and the department.

Additionally, the department does not concur with the portion of the finding that there is an ineffective relationship between the CSAs and the department. While it is true that Child Welfare League of America did, in 1999, identify some areas of the state where the department and CSA relationships were strained, there were an equal number of examples where those relationships were sound and functional, characterized by shared responsibility and shared decision-making. Additionally, in response to continued effort and cooperation between the department and the CSAs, relationships between the CSAs and the department have improved during the passage of time since the initial CWLA report. While we agree that some working relationships need continued improvement, we cannot concur with a wholesale indictment of the CSA/DCS relationship in all 12 regions across the state.

Legislation was passed in June 2001, becoming effective in July 2001, that required the transfer, no later than July 2002, of CSA case manager positions to the Department of Children's Services in order to assure that no CSA employee was providing services in the areas relating to custodial children, specifically, adoption, foster care, juvenile justice, or providing services for mandated services such as child protective services and family crisis intervention. While positions could be transferred at any time after July 1, 2001, the process of identifying and transferring said positions took time. As indicated in the finding, the initial positions were transferred on October 1, 2001, and the final positions on July 1, 2002. As of July 1, 2002, DCS case managers were responsible for serving children in state custody while CSA case managers served noncustodial children.

Rebuttal

The Attorney General has stated that CSA employees have certain benefits of state employees. However, it is clear that such benefits are limited, and CSA employees are not considered state employees when reporting on the size and/or growth of state government. Although the legislation allows CSAs to contract with DCS to provide services, the legislation neither requires nor suggests that DCS contract with CSAs to carry out any DCS responsibilities that would necessitate on-site DCS supervision of CSA employees.

In fact, the legislation does not envision that an employer-employee relationship would exist between the CSAs and DCS. It clearly states that nothing within the act should be construed as creating an employer-employee relationship between DCS, the CSAs, or their contractors.

As a result of the July 2001 legislation to separate and standardize the department's and community services agencies' functions and the transfer of CSA case managers to the department, it appears that measures have been taken to address the issues noted in this finding. This assumes that the ultimate goal of having CSA case managers serve noncustody children and having DCS case managers serve children in state custody is achieved and results in eliminating the supervision of CSA employees by DCS personnel.

STUDENT AND SOCIAL SECURITY TRUST FUNDS

Our primary objectives for student trust fund accounts were to document internal control and determine whether

- disbursements were properly supported and revenues were credited to the trust fund accounts;
- management had instituted formal written policies and procedures governing student trust fund accounting;
- student trust fund transactions were properly recorded in the individual child's account; and

- student trust fund accounts are reconciled each month, and the reconciliations are adequately supported.

Our primary objectives for Social Security trust fund accounts were to follow up on a prior audit finding concerning the lack of reconciliations relating to trust fund accounts and not returning funds to the Social Security Administration timely, and to determine whether

- the department upheld its fiduciary duty to properly administer and account for trust funds held for children in state custody by ensuring expenditures were properly supported and revenues were credited to the trust fund accounts,
- management had instituted formal written policies and procedures governing trust fund accounting,
- trust fund transactions were properly recorded in the individual child's account, and
- an accounting was performed for each child on a monthly basis and prepared in a timely manner.

We interviewed key department personnel about the department's procedures for and internal control over student and Social Security trust fund transactions for children in state custody to determine whether improvements had been made during the audit period. We reviewed supporting documentation and tested a nonstatistical sample of student trust fund transactions for propriety and compliance with departmental policies. We also reviewed the student trust fund monthly bank account reconciliations on a sample basis to determine the propriety of reconciling items. We tested a nonstatistical sample of children receiving Social Security benefits to determine if an accounting was performed for each child on a monthly basis and was prepared in a timely manner. We interviewed departmental personnel to determine the types of reconciliations being performed for Social Security trust funds. We also tested nonstatistical samples of Social Security revenues and amounts used to reimburse the state for the care of children receiving benefits to determine if the transactions were properly recorded in the individual child's account and if funds were returned to the SSA in a timely manner.

Based on our interviews and testwork, we determined that, in regard to student trust funds, it appears that the department's internal controls are adequately documented. Disbursements were properly supported and revenues were credited to trust fund accounts, management had instituted formal written policies, transactions were properly recorded, and accounts are reconciled each month and are adequately supported. In regard to Social Security trust funds, we determined that the department had instituted formal written policies and procedures, an accounting was performed for each child on a monthly basis, and trust fund transactions were properly recorded in the individual child's account in all material respects. In regard to the department's fiduciary duty to administer and account for Social Security trust funds, we determined that, in all material respects, expenditures were supported and revenues were credited to the individual accounts. However, we determined that the department had not prepared reconciliations between the total of the individual Social Security trust fund accounts and the total balance on STARS, had not made refunds to the Social Security Administration in a timely manner, and did not always perform timely accountings. See finding 8.

Finding, Recommendation, and Management's Comment

8. The department did not perform reconciliations related to trust fund accounts of children receiving federal benefits, did not return funds to the Social Security Administration timely, and did not perform timely accountings

Finding

As noted in the prior four audits, covering the period July 1, 1997, through June 30, 2001, the Department of Children's Services (DCS) did not perform reconciliations related to trust fund accounts of children receiving federal benefits and did not return funds to the Social Security Administration (SSA) timely. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration for Social Security payments and Supplemental Security Income (SSI) benefits, as well as payments received from parents and from the U.S. Veterans' Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for current and future expenditures made by the state on behalf of the child. In addition, when a child leaves state custody, it is the state's responsibility to return the child's balance to the Social Security Administration within 60 days. As noted in the previous audit, during the last two years, management and its consultants, the Public Consulting Group, worked on developing a consistent methodology to account for the trust fund accounts of children receiving federal benefits. These efforts have resolved several of the issues related to trust funds noted in prior audits. However, the department still has not adequately addressed issues regarding reconciliations and timely returns of funds. Management concurred with the prior audit finding and stated:

The reconciliations noted in the finding are very labor intensive. With manual accountings for 2500 children being performed by the trust fund staff monthly the time required to perform the reconciliations noted in the finding is just not available. An automated system is being developed which will result in this process being manageable. The development of this system began in April 2000. The automated system will allow management of the division to monitor activity in each account, see that all reconciliations are performed as required, and have reports available which will note any appearance of outstanding issues. This will include any State fund transfers or refunds to Social Security approaching an untimely status. Developing a system to appropriately provide all the required processes in an accurate manner has taken more time than DCS had initially planned. We are, however, focused on implementing a system that will provide accurate and timely information on each child's account.

Based on discussions with management and the results of our testwork, it appears that there has been no improvement in the conditions that were present in the prior year. There appears to have been little, if any, progress in developing the automated system, and controls to detect errors in additions and withdrawals from the trust fund account have not improved.

Reconciliations were not performed between the total of the individual trust fund accounts and the fund's total balance on the State of Tennessee Accounting and Reporting System (STARS), which was \$13,653,958 at June 30, 2002. Similarly, no reconciliation was performed to balance totals from automated clearinghouse (ACH) journal vouchers to the amounts entered into the individual trust fund accounts. In addition, the total amounts deducted from children's trust fund accounts for expenditures made by the state on behalf of the child were not reconciled with amounts deducted from the fund's total balance. Therefore, there was no assurance that all the revenue received, in total, had been properly credited to the children's trust fund accounts and all amounts transferred to the State of Tennessee, in total, were properly deducted from the children's trust fund accounts.

Testwork performed revealed that 3 of 60 amounts received on behalf of a child (5%) were not credited to the individual child's account. We also noted that one of the 60 amounts received was not posted correctly to the child's account. In addition, one of 60 amounts transferred to the state (1.6%) was not made for the correct amount. In this instance, the state was entitled to deduct \$2,710.10 for the care and maintenance of the child. However, the corresponding transfer to the state's general fund for this transaction deducted \$3,710.10 from the fund's total balance. Had the aforementioned reconciliations been performed, these errors could have been detected and corrected in a timely manner.

The department did not refund money due to the SSA in a timely manner when children left state custody. We examined 37 trust fund accounts of children who had left state custody during or prior to the audit period. It was noted that the department did not return the child's trust fund balance to the SSA within 60 days for 10 of the 37 children who left state custody (27%). Funds were not returned for three children until 66 days, 90 days, and 120 days after their release, respectively. There was no evidence to indicate that funds were ever returned for the other seven children.

The Michael B. court settlement, dated March 28, 1995, Section III, part 8(b), states in part that the Social Security Administration is "to require state defendants to provide a final accounting and return any excess benefits received on a child's behalf to SSA within 60 days of the child's release from state custody without the necessity of a prior request for such action by SSA."

In addition, it appears that the department is not performing its monthly accountings timely. An accounting shows the benefits received, expenses made for a child's care, and the cumulative monthly balance. Testwork revealed that in 8 of 60 accounting folders tested (13%), accountings were not performed timely. In five of these files, accountings for the months of October through December 2001 were not performed until February and March 2002, and the months of January through March 2002 were not performed until May 2002. In two of these files, accountings for the months of January through May 2002 were not performed until May and June 2002. In one file, accountings for the months of October 2001 through February 2002 were performed in February 2002, and the months of March through June 2002 were performed in June 2002.

Failure to perform timely accountings resulted in at least one instance where inappropriate withdrawals were allowed because trust fund balances were not current. The child's case manager inquired as to the child's trust fund balance, and based on the information provided, purchased gifts for the child totaling \$755. However, the balance provided was overstated due to accountings that had yet to be performed. After the accountings were performed and the allowable transfer of expenses for care and maintenance was deducted, there were not sufficient funds for the gift purchases. As a result, state funds of \$755 were inappropriately expended for these items. Furthermore, these untimely accountings result in untimely transfers for the amounts due the state for expenses associated with the children's care and untimely return of funds to SSA as discussed above.

Recommendation

Note: The language in this recommendation is practically identical to that in the last audit, reflecting no improvement.

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should ensure that reconciliations are performed to balance monthly account activity to the amounts keyed into the individual trust fund accounts. In addition, a monthly reconciliation should be performed to balance the total individual trust accounts to STARS. When children leave state custody, the department should refund any benefits due to the SSA within 60 days, and all monthly accountings should be performed in a timely manner. Transfers for the amounts due the state for expenses associated with the children's care should also be made in a timely manner.

The Commissioner should complete the acquisition of the planned computer system or commit personnel resources to complete the reconciliations manually.

Management's Comment

We concur. The department continues to be challenged in providing timely accounting and reconciliation of individual trust fund accounts held for children in state custody. Due to the manual techniques necessary to perform accountings for these funds, the accounting and recording process is very time consuming and inherently results in inaccuracies and discrepancies. In the proposed budget improvements for fiscal year 2004, the department has requested additional human resources to be utilized by the Trust Fund Unit to decrease errors and enable reconciliations to occur.

The Assistant Commissioner of Fiscal and Administrative Services has directed the Trust Fund Unit to perform an accounting for each child when Central Office Eligibility Staff, Child Welfare Benefits Counselors, or Case Managers in the regions request the preauthorization of the disbursement of Care and Maintenance funds from a child's account. Since balances fluctuate daily as a result of the ongoing receipt and disbursement of funds, projection of the future usage of trust funds will have to be considered in the preauthorization of Care and Maintenance Funds.

A manual process has been developed and is being implemented to reserve any Care and Maintenance funds preauthorized by the Trust Accounting Unit for a specific disbursement. In any event, management anticipates that this process will reduce the likelihood of funds being inappropriately disbursed or ineffectively utilized.

All accounting procedures and processes performed by the Trust Accounting Unit are being reviewed to determine if adjustments to procedures or additional controls can be implemented to prevent or to more timely detect errors in the recording of transactions. The continuing development of the TNKIDS system and the future implementation of the Oracle Financial System will also aid this process by replacing the current antiquated systems with a single system that records the placement and funding eligibility for a given child. As these technological advances occur, management will monitor to ensure that the proper components for trust accounting, including reconciliations, are addressed.

INFORMATION SYSTEMS

Our primary objectives in the area of information systems were to follow up on a prior audit finding concerning the controlling of department employees' access to the state's computer systems, and to determine whether

- the department has developed and implemented adequate internal control related to the state's accounting systems used by the department (State of Tennessee Accounting and Reporting System, Tennessee Online Purchasing System, and the Property of the State of Tennessee System);
- computer programming controls related to the Tennessee Kids Information Delivery System (TNKIDS) have been designed to require users to check for duplicate entries before entering a new client, allow only appropriate users to add, change, or delete clients or information on clients, identify the user who makes a specific addition, change, or deletion of a record, and require users to change their password;
- the department has developed and tested a disaster contingency plan; and
- the department has canceled terminated employees' access to the state's computer systems.

We interviewed key department personnel to obtain an understanding of the internal control related to the TNKIDS system and the state's accounting systems used by the department (State of Tennessee Accounting and Reporting System, Tennessee Online Purchasing System, and the Property of the State of Tennessee System). We reviewed computer programming controls related to TNKIDS. We reviewed the department's disaster contingency plan and documentation related to the testing of the plan. We compared user access records at year end to terminated employee data to determine if the department has canceled terminated employee's access to the state's computer systems in a timely manner.

Based on our interviews, review of supporting documentation, and testwork, the department had developed and implemented adequate internal control related to the state's

computer systems used by the department. We determined that the TNKIDS computer system has been designed to require users to check for duplicate entries before adding new clients; to allow only appropriate users to add, change, or delete clients or information on clients; to identify the user who makes a specific addition, change, or deletion of a record; and to require password changes. In addition, the department had developed a disaster recovery plan, and the plan had been tested. The department has canceled terminated employees' access to the state's computer systems in a timely manner in all material respects.

CASH RECEIPTS

Our primary objectives were to determine whether

- departmental internal control ensured that transactions were properly supported, that receipts agreed with amounts deposited, that deposit slips were completed properly, and that funds were properly controlled and deposited intact;
- cash receipting functions were adequately segregated;
- reconciliations between the mail log, cash receipt records, and the deposit were performed; and
- the Department of Finance and Administration's (F&A) policy for timely deposit of funds had been followed.

Key department personnel were interviewed to gain an understanding of the department's procedures for and internal control over cash receipts, including segregation of duties. We also reviewed supporting documentation of reconciliations and tested a nonstatistical sample of cash receipts for proper support and for the appropriate requirements relating to internal control over receiving, receipting, controlling, safeguarding, and depositing of funds. Also, the transactions were tested for compliance with F&A's policy for timely deposit of funds.

Based on our interviews, review of supporting documentation, and testwork, it appears that transactions were properly supported, receipts agreed with amounts deposited, deposit slips were completed properly, and funds were properly controlled and deposited intact. We also determined that cash receipting functions were adequately segregated; reconciliations between the mail log, cash receipt records, and the deposit were performed; and the department is in compliance with F&A's policy for timely deposit of funds.

PROPERTY AND EQUIPMENT

Our primary objectives for property and equipment were to determine if

- the department performed and documented a year-end inventory and whether inventory procedures were adequate;

- equipment has been properly accounted for in the Property of the State of Tennessee System (POST); and
- subsidiary records maintained for laptop computers and printers were complete and accurate.

Key department personnel were interviewed to gain an understanding of the department's procedures for performing year-end inventories. We reviewed the instructions provided by management to perform the inventory, and we reviewed inventory results. We used analytical procedures to review the department's POST listing to determine if equipment items were properly classified. We interviewed key personnel to document internal control and procedures for equipment purchases and reviewed them for adequacy. We also reviewed the department's subsidiary records for laptop computers and portable printers and tested a nonstatistical sample of these items to determine the accuracy of the listing.

Based on our interviews, reviews, and testwork, we determined that the department performed and documented a year-end inventory and that inventory procedures appeared to be adequate. In addition, we determined that equipment had been properly accounted for in POST in all material respects, and subsidiary records maintained for laptop computers and printers were complete and accurate in all material respects.

DISBURSEMENTS

Our primary objectives were to follow up on a prior audit finding concerning the prompt processing of journal vouchers, and to determine whether

- the department has written procedures in place to prevent duplicate payments and overpayments, and to detect and collect duplicate payments and overpayments should they occur;
- duplicate payments and overpayments to vendors have been issued;
- disbursements were approved, supported, and paid in a timely manner;
- the process for changing the status of foster children was adequate and whether changes were made in a timely manner in order to prevent overpayments to foster and adoption assistance parents;
- payments made to foster and adoption assistance parents were reviewed and approved to determine if services were provided to children before the payments were made; and
- the Department of Finance and Administration's (F&A) Policy 18, Journal Vouchers-J Type, had been followed.

We interviewed key department personnel to gain an understanding of the department's procedures for and internal control over disbursements, including review and approval of services provided prior to payment. We reviewed supporting documentation and tested nonstatistical

samples to determine if disbursements were approved, supported, and paid in a timely manner. We tested a nonstatistical sample of journal vouchers for compliance with the provisions of F&A's Policy 18. We reviewed internal control and procedures related to status changes in the Children's Plan Financial Information System (ChipFins) and reviewed ChipFins adjustment forms to determine if significant overpayments had been made to foster and adoption assistance parents. We also examined all warrant cancellations made by the department and all refunds made to the department in order to identify any overpayments or duplicate payments made to vendors.

Based on our interviews, reviews, and testwork, it appears that the department has procedures to prevent duplicate payments and overpayments, and to detect and collect duplicate payments and overpayments should they occur. It appears that significant duplicate payments and overpayments have not been made to vendors and that disbursements were approved, supported, and paid in a timely manner. We determined that, in all material respects, the process for status changes of foster children, in ChipFins, was adequate and status changes of foster children were made in a timely manner, in order to prevent overpayments to foster and adoption assistance parents. Payments made to foster and adoption assistance parents were reviewed and approved to determine that services were provided to children before payments were made. However, we determined that the Department of Finance and Administration's (F&A) Policy 18, Journal Vouchers-J Type, had not been followed, as noted in finding 9.

Finding, Recommendation, and Management's Comment

9. The department did not process journal vouchers promptly, resulting in lost interest on amounts that were billed to the federal government

Finding

As noted in the prior six audits covering the period July 1, 1995, through June 30, 2001, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly.

Six of 28 revenue voucher transactions (21%) were not processed promptly in accordance with Policy 18. Four of these voucher transactions are the quarterly administrative costs the department bills to TennCare, and two vouchers are administrative costs billed to the Department of Human Services. These transactions are billed in accordance with the federally approved cost allocation plan. The data used to derive the administrative cost allocation are compiled from random moment sampling on a quarterly basis. Therefore, the department accumulates a quarter's costs before the allocation data are compiled and billing occurs. The TennCare journal vouchers exceeded \$350,000 and were billed from two to three months after quarter end instead of within five working days of the expenditure activity. According to Policy 18, revenue (billing) journal vouchers totaling more than \$350,000 shall be journal vouchered within five working days after the expense/expenditure is incurred or the service is rendered. The other journal vouchers, based on their dollar amount, should have been billed at least monthly.

On February 1, 2001, the department submitted a request to the federal government for an amendment to the department's cost allocation process. The department requested permission from the federal government to draw funds for these administrative costs daily based on an estimate with a settlement to the actual amount derived according to the approved cost allocation plan. The Department of Finance and Administration granted its approval for a waiver to Policy 18 for administrative cost transactions, contingent upon federal approval of the amendment to the cost allocation process. The federal government granted permission, effective October 1, 2002, to the requested changes to the department's drawdown procedures. Implementation of the revised drawdown procedures will allow the department to prepare these revenue journal vouchers and receive payment for administrative costs in a more timely manner.

In addition, testwork performed on Social Services Block Grant (SSBG) expenditures revealed that 49 of 60 expenditures tested (82%) were not paid in accordance with Policy 18. All 60 of these journal vouchers were to the Department of Health for the Children's Health Alcohol and Drug Program (CHAD). The department initiates the journal vouchers and submits the vouchers to the Department of Health. Because of time lags between DCS verifying child placement information from documentation provided by the Department of Health, and the preparation of the journal vouchers, it appears that such delays are common for these CHAD billings. Policy 18 states that the paying department that initiates the journal voucher (expenditure vouchers), regardless of the amount, shall be billed in the month following each quarter end in which the activity occurred. These transactions are not covered by the waiver to Policy 18.

If journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Furthermore, the state is losing interest income on the use of state money used to fund federal expenditures. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

Recommendation

The department should make the approved changes in the drawdown procedures in its cost allocation plan relative to administrative costs. As for the other vouchers initiated by the department, the department should, in conjunction with other departments and agencies, develop procedures to ensure that the transfers of funds are made timely and comply with Department of Finance and Administration Policy 18.

Management's Comment

We concur. The Assistant Commissioner for Fiscal and Administrative Services is committed to reviewing and, if necessary, revising current procedures to ensure that journal vouchers are prepared in a timely manner and adjustments from estimated expenditures to actual expenditures are made promptly in accordance with the agreement with the federal grantor. Effective January 1, 2003, the department began to use allocating grants in STARS to bill funding sources for allotment codes and cost centers that are subject to cost allocation in compliance with the cost allocation plan approved by the federal government on October 8, 2002. Journal vouchers to bill other state agencies for cost in these allotment codes and cost centers will be prepared semi-monthly subsequent to the processing of each pay period in STARS. The continuing development of the TNKIDS system and the future implementation of the Oracle Financial System will aid in the timely preparation of journal vouchers to other departments by replacing the current legacy systems with a single system that records the placement and funding eligibility for a given child. This enhancement to TNKIDS is scheduled to begin development in April 2003.

ACCOUNTS RECEIVABLE

Our objectives for accounts receivable were to follow up on a prior audit finding concerning significant amounts of uncollected overpayments to foster care and adoption assistance parents, and to

- determine whether the department continued to have significant amounts of uncollected overpayments,
- obtain an understanding of and document the procedures used to establish accounts receivable amounts throughout the fiscal year, and
- obtain an understanding of and document the procedures used to establish and record accounts receivable amounts at year-end.

We interviewed key department personnel to gain an understanding of the department's procedures for and internal control over establishing accounts receivable. We also reviewed the year-end accounts receivable listing to determine the amount of uncollected overpayments made to foster care and adoption assistance parents.

Based on our interviews, procedures used to establish accounts receivable were documented and appeared to be adequate and in place. However, the department still has significant uncollected amounts of overpayments made to foster and adoption assistance parents, as noted in finding 10.

Finding, Recommendation, and Management's Comment

10. **As noted in the previous eight audits, since July 1, 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,130,327 are due from foster care and adoption assistance parents**

Finding

As noted in the eight previous audits, from July 1, 1993, to June 30, 2001, Children's Services still has not collected overpayments from foster care and adoption assistance parents. Management concurred with the prior audit finding and stated,

The department has been communicating with the Department of Finance and Administration (F&A) during fiscal year 2001 to monitor progress in the implementation of a statewide collections contract. F&A consistently pursued the completion of this contracting process throughout fiscal year 2001. DCS monitored this progress and determined that a separate departmental contract would not be necessary. A vendor has been selected for statewide collections and F&A is developing the contract at the time of this response. This contract negates the need for a separate departmental contract. DCS will be utilizing the statewide contract as soon as it is fully executed to resolve these outstanding overpayment accounts.

As of June 30, 2002, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,130,327, a decrease of \$48,089 since June 2001. This decrease was due to the department's implementation of controls during the last two years to minimize the amount of foster care and adoption assistance overpayments. Also, beginning July 1, 1998, the department implemented a policy whereby payments to current foster parents with outstanding balances are reduced by 50% until the amount due is indicated to be zero.

During the year ended June 30, 1998, the department implemented a policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a receivable is established. Once an overpayment is detected, the department adjusts subsequent requests for federal funds in order to eliminate federal participation in the amount overpaid. Each month, a remittance advice is sent to the overpaid parent noting the balance due to the state. Management's previous response mentioned communicating with the Department of Finance and Administration during fiscal year 2001 to monitor progress in the implementation of a statewide collections contract. The Department of Finance and Administration entered into this contract on February 1, 2002. However, the Department of Finance and Administration had to work with the Department of the Treasury to make certain programming changes to facilitate the transfer of information between the state and the collection agency. Certain account and debtor information required by the collection agency was either not in the department's subsidiary accounting records or not in the format necessary to facilitate the transfer. Rather than delay the transfer of any accounts to the collection agency until such information was located and formatted for all accounts, it was agreed that the department would prepare batches of 100 accounts each month and submit the information to

turn over for collection. The first batch of 100 accounts totaling \$114,518 was sent to the Department of Finance and Administration on October 3, 2002. As of January 30, 2003, no additional accounts had been submitted.

Recommendation

Note: The language in this recommendation is practically identical to that in the last three audits, reflecting little improvement in the actual collection of overpayments.

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should increase their efforts to recover all funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children. These steps should include increasingly aggressive collection letters, telephone calls, collection agencies, and litigation.

Management's Comment

We concur. Although slight progress in the collection of overpayments has been made, management agrees that this progress is not acceptable. During the months of November and December 2002, the Fiscal and Administrative Services Division experienced technical difficulties with formatting the data file containing the account information necessary to submit to Finance and Administration and the contracted collection agency. These difficulties have now been resolved. Given the length of time that some of the overpayments have been outstanding, the Assistant Commissioner of the Fiscal and Administrative Services Division has directed staff to stratify the overpayments by age and by the dollar amounts described in Finance and Administration Policy Statement 23. Each overpayment will be examined, along with documentation of past collection efforts. Although this process is laborious, it is necessary to confirm the validity of each overpayment comprising the total balance. In accordance with Finance and Administration Policy 23, the department will pursue collection both through its own efforts and through file transmission to the contracted collection agency. If all reasonable collection efforts are not successful, the department will request write-off of the receivables under the auspices of the aforementioned policy.

It is important to note that the overpayments discussed in this finding are from prior fiscal years. The department is confident that the controls currently in place drastically limit the amount of overpayments to foster care and adoption assistance parents. In addition, the system currently in place allows for timely collection of any overpayments made to these parents.

RULES AND REGULATIONS FOR COMMUNITY SERVICES AGENCIES

Our primary objective was to follow up on a prior audit finding to determine whether the department had complied with *Tennessee Code Annotated* (TCA) as it relates to the promulgation of rules and regulations for the Community Services Agencies.

We reviewed TCA Section 37-5-307 to become familiar with the requirements of the statute. We also interviewed key personnel at the department.

Based on our reviews and interviews, we determined that the department submitted draft rules and regulations to the Office of the Secretary of State on February 15, 2001. A public hearing on the proposed rules was held on May 29, 2001. Requested changes to the rules were made and submitted to the Office of the Attorney General on September 2, 2001. The rules and regulations for Community Services Agencies were promulgated on August 12, 2002. As of this date, the department has complied with TCA as it relates to the promulgation of rules and regulations for the Community Services Agencies.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, “RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grants Module to record the receipt and expenditure of all federal funds.

Our objectives were to follow up on the prior audit finding concerning grants not being charged when initial transactions are recorded and to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department charged the federal grant at the time the initial expenditure transactions were made;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department’s procedures and internal control concerning Policy 20 and reviewed approvals related to the department’s indirect cost recovery plan. We reviewed supporting documentation and tested nonstatistical samples of grant awards, revenue and expenditure transactions, drawdowns, and reports submitted to the federal government to determine if indirect costs were included in the drawdowns and drawdowns were made timely using the applicable STARS reports. Grant award notification dates were reviewed and compared to the awards listed on STARS to determine if

grant awards were entered timely. A nonstatistical sample of revenue and expenditure transactions was tested to determine if the transactions were coded properly. We tested a nonstatistical sample of Social Services Block Grant and Title IV-E expenditures to determine if the department charged the federal grant at the time the initial expenditure transactions were made. We also reviewed payroll cost reallocations, the Schedule of Expenditures of Federal Awards, and reports submitted to the federal government. Each grant's total expenditure amount on the schedule and on the federal reports was reconciled with STARS.

Based on our interviews, reviews, and testwork, information was entered into the STARS Grant Control Table upon notification of the grant award in all material respects, and related revenue and expenditure transactions were coded with the proper grant codes. The department had fully utilized the STARS Grants Module to record the receipt and expenditure of all federal funds, appropriate payroll costs were reallocated appropriately and timely, the department made drawdowns weekly using the applicable STARS reports, and the proper indirect costs were included in the drawdowns. The department also had negotiated an appropriate indirect cost recovery plan and used the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government. However, we did determine, as noted in finding 11, that the department does not charge the federal grants at the time the initial expenditure transactions are made.

Finding, Recommendation, and Management's Comment

11. The department does not charge the appropriate federal grant at the time the initial expenditure transactions are made

Finding

As noted in seven previous audits covering the period July 1, 1994, through June 30, 2001, the Department of Children's Services pays expenditures with state dollars initially and later reallocates each expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. The department follows this procedure because of the different eligibility requirements of the grants it administers and its inability to match specific expenditures with child eligibility information on a timely basis. As a result, the state is losing the use of state funds and the interest income on state money used to fund federal expenditures. Management concurred with the prior audit findings. Last year's response stated that DCS began discussions with the U.S. Department of Health and Human Services to address cash drawdowns and cost allocation methodologies. In addition, DCS discussed modifications to its internal procedures in order to expedite the prompt drawdown of federal funds for child-specific expenditures.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

The department submitted a request to the Department of Finance and Administration (F&A) on February 1, 2001, for an exemption to Policy 20. F&A's response, dated February 13, 2001, granted the exception contingent on approval of the federal government. On May 7, 2001, the department requested approval from the Department of Health and Human Services to modify its drawdown methodology. On October 8, 2002, the Department of Health and Human Services approved the requested drawdown procedures, effective October 1, 2002.

During testwork on the department's major federal programs, we noted that all 60 foster care expenditures and all 40 adoption assistance expenditures tested were charged to the federal grant from one to 284 days for foster care (an average of 34 days) and from 3 to 24 days for adoption assistance (an average of 11 days) after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the Social Services Block Grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn continue to cause improper management of the state's cash.

Recommendation

Now that the department has federal approval for its modification of federal cash draw procedures and the exemption from Policy 20, the Assistant Commissioner for Fiscal and Administrative Services should ensure that the department follows the policies and procedures outlined in the modification. Drawdown amounts should be based on reasonable estimates, and be made in such a manner as to minimize time lapses between the disbursements of state funds and the drawdowns of federal funds. The drawdowns based on estimates should be adjusted to actual expenditures as soon as possible. Significant adjustments from estimated to actual expenditures could indicate noncompliance with the intent of the agreement and may result in its termination.

Management's Comment

We concur. As the department continues to implement and improve technological resources, the collection and analysis of financial data will be less burdensome. The Assistant Commissioner for Fiscal and Administrative Services is committed to reviewing and, if necessary, revising current procedures to ensure that drawdowns are made in a timely manner and adjustments from estimated expenditures to actual expenditures are made promptly in accordance with the agreement with the federal grantor.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of Children's Services filed its compliance report and implementation plan on June 26, 2002.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

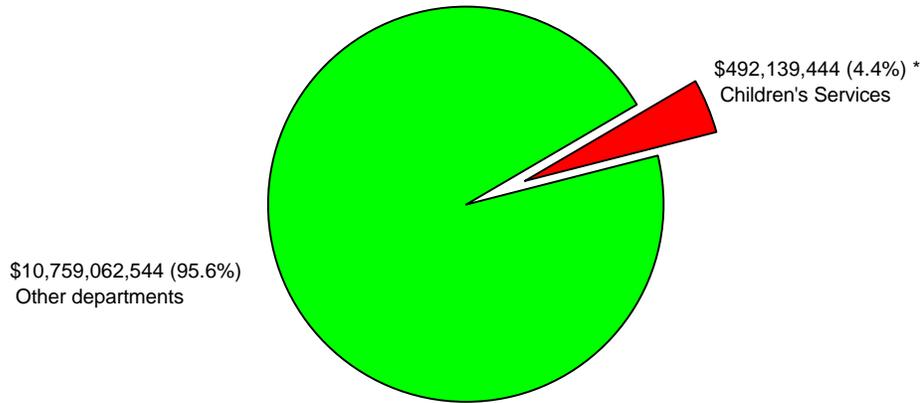
DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

- 359.10 Administration
- 359.20 Family Support Services
- 359.30 Custody Services
- 359.40 Adoption Services
- 359.50 Child and Family Management
- 359.60 Wilder Youth Development Center
- 359.61 Taft Youth Development Center
- 359.62 Woodland Hills Youth Development Center
- 359.63 Mountain View Youth Development Center
- 359.65 Community Treatment Facilities
- 359.70 Tennessee Preparatory School
- 359.80 Major Maintenance

General Fund Expenditures

Fiscal Year Ended June 30, 2002 (Unaudited)

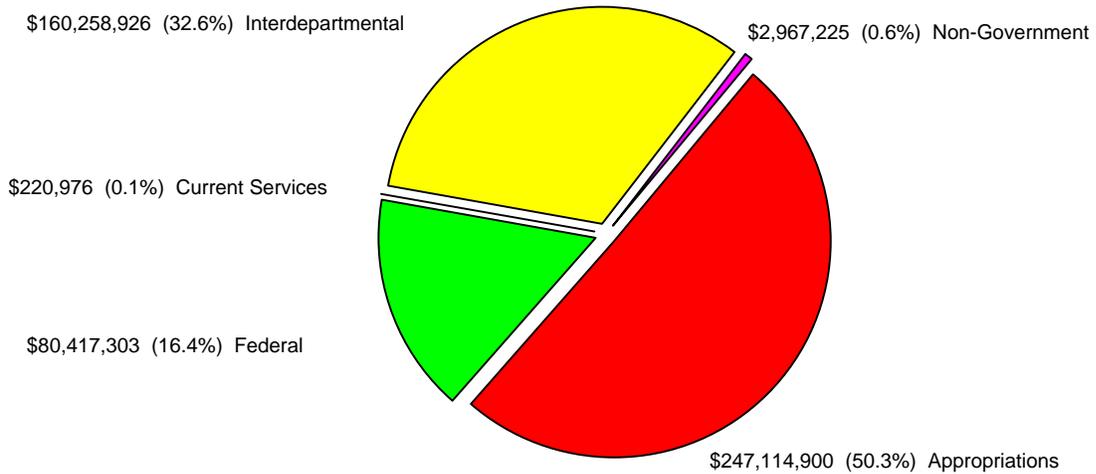


Source: Department of Children's Services

* Includes operating transfers

Funding Sources

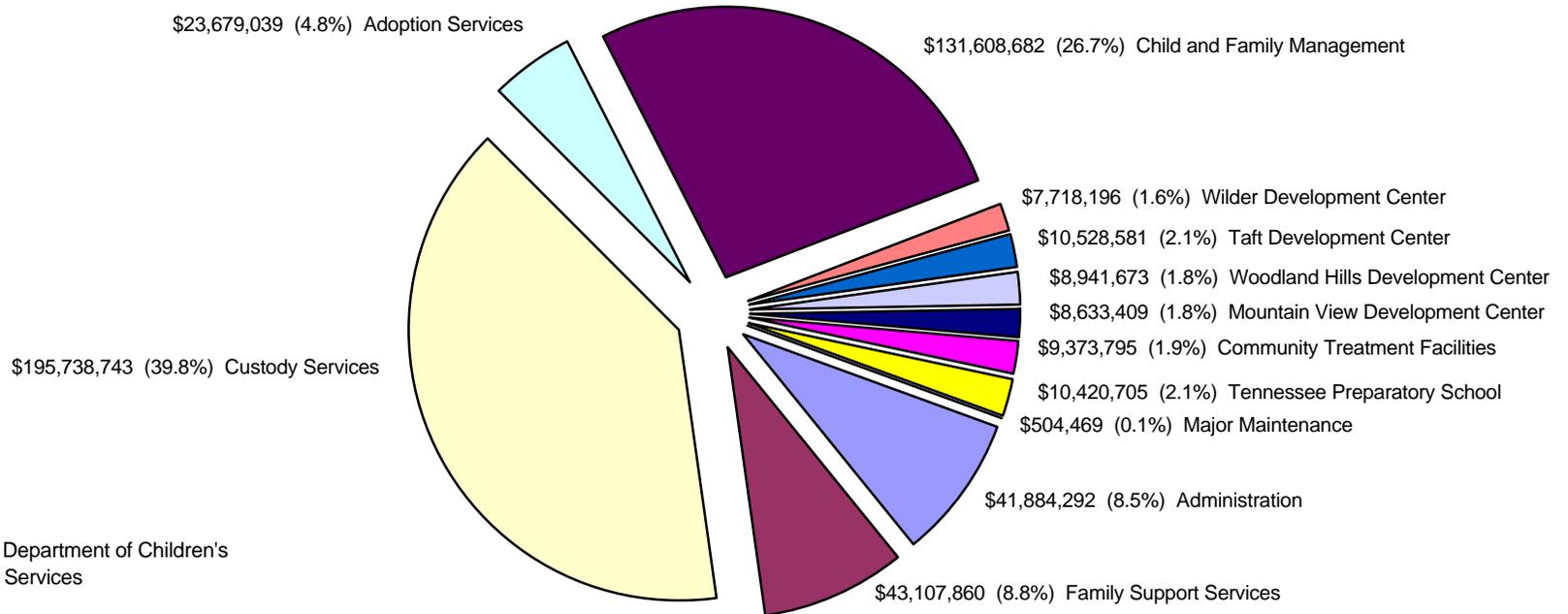
Fiscal Year Ended June 30, 2002 (Unaudited)



Source: Department of Children's Services

Expenditures by Allotment and Division

Fiscal Year Ended June 30, 2002 (Unaudited)



Source: Department of Children's Services