

**Audit Results From  
CAFR and Single Audit Procedures**

**Department of Children's Services**

**For the Year Ended  
June 30, 2005**

**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
Division of State Audit**

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**Department of Children's Services  
For the Year Ended June 30, 2005**

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**Department of Children's Services  
For the Year Ended June 30, 2005**

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**EXECUTIVE SUMMARY**

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**Findings**

- FINDING 1 Since 1994, the department still has not identified ineligible adoption assistance payments timely and continues to have difficulty collecting overpayments from foster care and adoption assistance parents. As of June 30, 2005, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$998,717.
- FINDING 2 Since 2002, the department has continued to charge the Title IV-E program for children's expenditures that were not Title IV-E reimbursable and had no documentation of criminal background checks of approved foster parents. Based on examination of 145 files, it appears the department received Title IV-E funds for 7 children (5%) during periods when the children's expenditures were not Title IV-E reimbursable. This was a significant improvement over the prior year error rate of 22% (28 of 127 case files). For 5 of 110 foster parents' files tested (5%) the files did not contain adequate documentation that the criminal background checks were performed.
- FINDING 3 Since 1999, children's case files have not contained adequate documentation of case manager compliance with departmental policies regarding contacts and timeliness of case recordings for foster children. Our review revealed that 22 of 132 children's case recordings tested (17%) did not contain adequate documentation of at least one face-to-face contact with a case manager during each month the child was in custody. For 21 of 132 children's case recordings tested (16%), instances of case notes being recorded in TNKids more than 30 days after the casework activity were noted. The prior audit finding disclosed that 54 of 127 case recordings tested (43%) had time lapses between the case activity and the date that the information was entered into TNKids of more than 30 days.
- FINDING 4 The foster parents' files did not contain documentation of annual foster home reassessments and that foster parents completed PATH training. The review of foster parents' files revealed that in 8 of the 110 children's foster parents' files tested (7%), there was no documentation to show that DCS performed the foster home reassessment annually and/or that the foster parents had completed PATH training.
- FINDING 5 Since 2002, Adoption Assistance files have not contained adequate documentation to support the subsidies paid to adoptive parents. Our review of a

sample of 150 Adoption Assistance files found 7 files (5%) that did not have the necessary documentation to support the Adoption Assistance payments.

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Children's Services during our annual audit of the state's financial statements and major federal programs. For the complete results of our audit of the State of Tennessee, please see the State of Tennessee *Comprehensive Annual Financial Report* for the year ended June 30, 2005, and the State of Tennessee *Single Audit Report* for the year ended June 30, 2005. The scope of our audit procedures at the Department of Children's Services was limited. During the audit for the year ended June 30, 2005, our work at the Department of Children's Services focused on two major federal programs: Foster Care Title IV-E and Adoption Assistance. We audited these federally funded programs to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the programs to ensure compliance. Management's response is included following each finding.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

April 13, 2006

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

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

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Children's Services as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2005, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in certain findings which are detailed in the Findings and Recommendations section.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

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

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January 12, 2006

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

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Children's Services as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2005. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Children's Services.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal programs administered by the Department of Children's Services. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Major Federal Programs Administered by the  
Department of Children's Services \***  
**For the Year Ended June 30, 2005**  
**(in thousands)**

CFDA Number	Program Name	Federal Disbursements
93.658	Foster Care Title IV-E	\$32,086
93.659	Adoption Assistance	\$17,901

Source: State of Tennessee's Schedule of Federal Financial Assistance for the year ended June 30, 2005.

\* The department also received funding from the Bureau of TennCare for the care of children in state custody. A significant portion of these funds are from the Medical Assistance Program (CFDA Number 93.778), a major federal program administered by the Department of Finance and Administration, Bureau of TennCare.

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We have issued an unqualified opinion, dated December 20, 2005, on the State of Tennessee's financial statements for the year ended June 30, 2005. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified certain internal control and compliance issues related to the major federal programs at the Department of Children's Services. Those issues, along with management's response, are described immediately following this letter. 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.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,



Arthur A. Hayes, Jr., CPA  
Director

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## FINDINGS AND RECOMMENDATIONS

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1. **Since 1994, the department still has not identified ineligible payments timely and continues to have difficulty collecting overpayments from foster care and adoption assistance parents**

### Finding

As noted in the previous eleven audits, the Department of Children's Services (DCS) has had difficulty collecting the large outstanding balance of state-funded adoption assistance and foster care overpayments. As of June 30, 2005, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$998,717. The department has initiated collection and write-off efforts during the audit period; however, neither has resulted in a substantial reduction of the balance.

The department received authorization to write off a total of \$195,415 of old, uncollectible accounts during the audit period. Sixty-one vendors paid \$17,428, which resulted in their accounts being paid in full. Through the efforts of a collection agency, an additional \$14,161 was collected. Management stated that they have forwarded to their attorneys a request to approve an additional \$610,085 for write-off as uncollectible. However, the department has not forwarded the request to the Department of Finance and Administration for approval.

Furthermore, there are still problems with preventing and detecting adoption assistance overpayments on a timely basis. Management concurred with the prior audit finding and stated,

The department continues to make progress toward recovering uncollected overpayments, and when all reasonable efforts are exhausted, obtain permission to write-off these outstanding accounts. In September 2002, the department initiated collection activities with a collection agency for some of these overpayments. After the collection agency concluded its work, the department forwarded these uncollected accounts to the department's legal counsel to further attempt collection. The department's legal counsel determined that \$75,000 was uncollectible. The department will request permission from the Department of Finance and Administration in March 2005 to "write-off" this amount. Of the total outstanding, 55% (\$648,610) is currently being handled by the collection agency prior to turning these accounts over to the department's legal division, and if necessary, to the Department of Finance and Administration to write-off. The department has recovered \$21,229 from the collection agency and \$10,333 from DCS efforts. There are 290 remaining accounts currently at the department for recovery. The department will continue to make progress with these overpayments, as resources within the agency allow.

The department has strengthened controls and improved intra-agency coordination to reduce adoption assistance overpayments, which account for the

greatest portion of the overpayment cited in the audit finding. Prior to the conclusion of the audit, the department finalized procedures effective May 2004 that require the submission of copies of any revised, renewed, or new agreements along with the payment request (Form 16). No payment is made until a copy of the agreement is received. Procedures were also strengthened to address payments inadvertently made on behalf of children turning age 18, 21 or 3. Additional documentation is required with the submission of payment, plus joint signatures by the parent and field staff attesting to the accuracy of the child's status.

Management also concurred with the 2003 audit, and stated,

Controls in place were not effective for reducing the amount of or improving the timely collection of overpayments to foster care parents. Controls regarding adoption assistance payments have not been effective. To address this issue the Department of Children's Services, Director of Fiscal Services will establish a team from Accounts Payable and Accounts Receivable to assure timely compliance with the Department of Finance and Administration's Policy 23 concerning the collection of accounts receivable. Beginning February 2004, monthly letters will be mailed to the last known address for persons with accounts that have had no collection activity in the ninety days prior to January 31, 2004. The number of monthly letters mailed will comply with Finance and Administration's Policy 23 based on the dollar amount to be collected. Mailing of all letters required by Policy 23 will be completed prior to April 30, 2004. A file of all accounts adhering to the requirements of Policy 23 that remain uncollected as of May 31, 2004, will be submitted to the Department of Finance and Administration to be turned over to the assigned collection agency prior to June 30, 2004. All accounts returned uncollected by the assigned collection agency will be reviewed by DCS legal staff to determine the appropriate legal action, if any. This referral will be completed within thirty days from the date the accounts have been returned by the Department of Finance and Administration. At the time that all collection activities have been exhausted, uncollected accounts will be written off in compliance with Policy 23. The balances due will be marked in CHIPFINS as written off. However, the balance will remain active in CHIPFINS to facilitate collection if the person becomes a foster or adoption parent at a later date. In addition to the above actions, the Commissioner has instructed DCS Fiscal and Program Operations to form a management team to address issues related to timely notification of placement disruptions by foster and adoptive parents and to facilitate timely recordings to these events in DCS records.

During the past two years, the department has taken action which has significantly reduced the instances and duration of overpayments to foster parents, also resulting in improved collection of the current overpayment balances. However, in spite of continually concurring with the need for attention to the much larger balance of prior overpayments, these balances have

largely remained uncollected and not written off. Furthermore, the department continues to have difficulty in the prevention and timely detection of adoption assistance overpayments.

From the 148 adoption assistance receivable accounts at June 30, 2005, testwork on 13 of the larger overpayments detected by the department during the audit period indicated that:

- Five overpayments resulted from disrupted adoptions where the parents surrendered their rights to the children. For these cases, the ineligible payments to the adoptive parents continued for four months to as much as three years. Two were for four months, one was nine months, one was a year, and one was three years. The one account that was overpaid for three years occurred because the adoptive parent falsified records.
- Two children over the age of 18 were not attending school, which made them ineligible to receive adoption assistance. These ineligible payments continued for seven and ten months.
- The remaining six overpayments were due to a variety of reasons. One child was married (five months). One child received supplemental security income (eight months). One child was in custody without a contract (five months). One child's payments were sent to the wrong parent (two months). One child's funding changed (two months). One child's case was closed, but payment was still authorized by the case manager (one month).

Several of the overpayments occurred because the adoptive parents did not promptly notify DCS of the changes in the children's status. However, it appears that in many of the cases, DCS' internal controls were not adequate to promptly detect disruptions and other status changes and prevent overpayments to the adoptive parents.

### **Recommendation**

The Executive Director of Program Support should continue efforts, as required by the Department of Finance and Administration (F&A) Policy 23, "Accounts Receivable – Recording, Collection, and Write-Offs," to recover all funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children. After management has taken all appropriate steps to collect the outstanding receivable, the Executive Director of Program Support should promptly request through F&A that the remaining uncollectible accounts be written off. The Commissioner of DCS should develop protocol for the different divisions within the department—particularly between DCS Fiscal Services, DCS Adoption Services, DCS regional offices' adoption units, and Child Protective Services—so that the proper individuals are informed in a timely manner of changes in children's cases and/or changes that affect adoption assistance eligibility. The Executive Director of Child Permanency should ensure that adoption assistance paid to adoptive parents is terminated when eligibility terminates. Since adoption assistance payments are based on information indicated on the Subsidized Adoption Turnaround Document (Form 16), regional designees should verify this information before authorizing payments. Management should also consider adding stronger

language to the contracts between the adoptive parents and DCS concerning the parents' failure to notify DCS when the adoption disrupts or terminates.

Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

### **Management's Comment**

The department concurs to an extent. We disagree that we have difficulty collecting overpayments. All procedures agreed to in previous audits and in accordance with Finance and Administration Policy 23 are followed to collect overpayments. The department has for at least two years implemented the recommendation outlined in the 2005 audit report. The department is currently seeking the advice of the Attorney General's office concerning the write-off of the account receivable that has been returned from the collection agency. The most current amount submitted for write off is \$607,035, and of this amount \$539,914 was created prior to FY-2000.

Adoption contracts will be updated to reflect by May 1, 2006 stronger language that requires the adoptive parents notify DCS when the adoption disrupts or terminates. Follow up training will occur to ensure that these contracts are being used throughout Tennessee by July 1, 2006. The performance steps outlined in the business process mapping which is currently underway for Adoption Assistance will be incorporated into DCS policy and follow up training will occur to ensure that this policy is being implemented throughout Tennessee by no later than December 2006. These steps include a face-to-face meeting between a regional representative and the adoptive family as a part of the annual re-determination.

The Executive Director of Finance and Program Support will place this finding and all associated documentation and policy communication matters on the agenda for the State Continuous Quality Improvement (CQI) Team agenda during the month of March 2006, and at least quarterly thereafter. The State CQI Team through the Executive Director of Finance and Program support will ensure that this finding is addressed by all appropriate regional and central office CQI Teams, and the Executive Directors of Regional Support will ensure this finding is included in all of the Regional Administrator CQI Team meetings.

The Executive Directors of Regional Support will have the primary responsibility for ensuring appropriate follow up regarding specific cases in non-compliance.

### **Rebuttal**

As evidenced by management's comments, the bulk of the balance is older outstanding debt. However, even after considering the proposed write-offs, the outstanding balance of

receivables will exceed \$300,000. Although the department has initiated collection and write-off efforts during the audit period, neither has resulted in a substantial reduction of the balance.

2. **Since 2002, the department has continued to charge the Title IV-E program for children's expenditures that were not Title IV-E reimbursable and had no documentation of criminal background checks of approved foster parents**

### **Finding**

#### **Nonreimbursable Expenditures**

As noted in the prior three audits covering the period July 1, 2001, through June 30, 2004, the Department of Children's Services (DCS) charged the Title IV-E Foster Care program for children's expenditures that were not Title IV-E reimbursable. 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 or 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 hearings are to be held no later than 12 months after a child enters custody and every 12 months thereafter. Absent the required reasonable efforts 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 the Child Welfare Benefits Counselors to follow in recording the child's benefit status in the appropriate computer systems and documenting the child's status in the case files.

Management concurred with the prior audit finding and stated:

The department has, however, bolstered training, processes and procedures designed to adequately document reimbursement by Title IV-E. In July 2004, the department initiated annual training with child welfare benefits staff on the timely and accurate recording of a child's Title IV-E status in the ChiPFinS eligibility database. The department will continue to provide this training. In 2004, the department also began annual training by regional attorneys on Title IV-E eligibility legal requirements and court orders to child welfare benefits staff. This training will also be on going.

In March 2004, the department issued monthly reports of court orders that are absent the required Title IV-E language to Regional Administrators, deputy general counsels and regional supervising attorneys for review and follow-up. It is believed that these training and monitoring efforts will result in improved compliance.

Further, procedures have been put into place with the child welfare benefits counselors directing that they can only deem a child eligible for Title IV-E if a signed court order is documented. The child welfare benefits counselors are prohibited from deeming a child eligible for Title IV-E until there is proof of the signed court order.

The department will continue to work aggressively with judges to ensure that the judges and/or referees issue court orders at the annual permanency plan hearing or at other hearings, e.g., termination of parental rights hearings, and that the annual court orders include a judicial determination that reasonable efforts were made to finalize the permanency plan. In those instances where a judge or referee do not timely issue an annual reasonable efforts judicial determination, DCS regional program, eligibility staff, and central office Fiscal staff will coordinate procedures to ensure that prompt action is taken to designate the child's ChiPFinS Title IV-E status as non-reimbursable until the required judicial determination of reasonable efforts to finalize the child's permanency plan is obtained. . . .

In order to address the timeliness of permanency plan hearings, the department will continue to send notice or file motions to set permanency plan hearings sufficiently in advance of the 12 month date. This includes tracking due dates of the hearings, and working with the courts on assuring hearings are scheduled timely.

Based on discussion with management, DCS has continued to use the program implemented last year to retroactively review the changes in the status of the children by comparing status information between the Children's Plan Financial System (ChiPFinS) and the funding databases. According to management, this retroactive review is performed quarterly or when possible. Based on review of the funding files in which funds were allocated to the Title IV-E program, DCS performed its reviews during and after the current audit period. The last review noted was in October 2005. Refunds to the Title IV-E program were noted. However, the following amounts questioned were not refunded as of October 3, 2005.

A sample of 145 children's case files was selected for examination. Based on examination of the 145 files, it appears the department received Title IV-E funds for 7 children (5%) during periods when the children's expenditures were not Title IV-E reimbursable. This was a significant improvement over the prior year error rate of 22% (28 of 127 case files).

- Two of the children's case files did not contain the court orders that included judicial determinations that DCS had made reasonable efforts to finalize the goal of the

permanency plan. The periods of unallowable reimbursements for the two children's expenditures were two months. The federal questioned costs for these payments totaled \$1,001, with an additional \$544 in state matching funds.

- Two children's case files contained evidence that the children were not Title IV-E reimbursable because of lack of deprivation. However, the department continued to allocate the children's expenditures to Title IV-E. The periods of unallowable Title IV-E reimbursements during the audit period were five and seven months. The federal questioned costs for these payments totaled \$4,229, with an additional \$2,296 in state matching funds.
- Three children's case files were for children who reached the age of 18 but were not expected to graduate from high school by the age of 19. Title 45, Section 233.90(b)(3), of the *Code of Federal Regulations* states: "Unless the child is expected to graduate from a secondary educational, or an equivalent vocational or technical training, institution before his or her 19<sup>th</sup> birthday, eligibility ceases at the child's 18<sup>th</sup> birthday." The periods of unallowable Title IV-E reimbursements during the audit period were from four to seven months. The federal questioned costs for these payments totaled \$1,804, with an additional \$980 in state matching funds.

### **Criminal Background Checks**

As noted in the prior three audits, DCS has been unable to provide documentation that all required criminal background checks have been performed for prospective foster and adoptive parents.

Title 45, Section 1356.30(a) and (b), of the *Code of Federal Regulations* states, "The foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents." Also, DCS Policy 16.4 (F)(1), "Dual Approval Process for Resource Parents," states, "A criminal background check to include TBI/FBI 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 resource home record."

The 145 children's case files examined for Title IV-E eligibility represented 110 foster parents' files. For 5 of the 110 foster parents' files tested (5%) the files did not contain adequate documentation that the criminal background checks were performed. Without performing the proper criminal background checks on foster parents prior to placing children in their homes, the department is at risk of placing children with abusive or criminal individuals. The prior audit finding disclosed that in 3 of 106 foster parents' files tested (3%), the file did not contain documentation that the criminal background checks were performed. The department's failure to obtain criminal background checks resulted in unallowable Title IV-E payments during the audit period to these parents for periods ranging from one to 12 months. The federal questioned costs for these payments totaled \$9,620, with an additional \$5,237 in state matching funds.

Management concurred with the prior audit finding and stated:

To further strengthen compliance of criminal background checks of foster homes, DCS policy 16.4 was reviewed and modifications were made January 2005 to insure that the State of Tennessee was in compliance with federal regulations. These modifications require that all homes be in full compliance with all of the provisions in Policy 16.4 for DCS foster home approval, including criminal background checks and PATH training prior to approval as a foster home.

The department is putting in place better procedures to ensure that foster homes not in compliance do not receive payment. At this writing, efforts are underway with a target date of April-May 2005 for payments in ChiPFinS to be validated via a programmatic interface against the Foster Home Application and Child Placement system (FHACP), a web-based application that tracks foster home certification and re-certification. This same functionality will be maintained when ChiPFinS is converted into the TnKids system in a later TNKids release. Contracts with private agencies that provide for foster home services for DCS were amended effective October 1, 2004 to allow DCS to assess a penalty for unapproved placement of a custody child in a home that does not meet minimum standards per DCS Policy 16.4.

Management also concurred in the 2003 audit and stated,

Current policy is clear on the requirements for criminal background checks and thirty hours of PATH training prior to having children placed in the foster home. DCS policy 16.4 states, "A criminal background check to include fingerprinting and sex offender registry check must be completed on each foster parent applicant..." and it must be documented in the foster home record. It is apparent that DCS staff is not consistently complying with this policy. The department contracted with a vendor to complete computerized fingerprinting. To further improve fingerprinting procedures the Commissioner has appointed a committee to review the current process and make recommendations for improvements. In addition Regional Administrators, with the aid of the Director of Foster Care, will develop regional plans for monitoring and review of foster homes to ensure that background checks are performed and PATH training is received per DCS policy. Regional Administrators will be notified of the regional plans at the RA meeting scheduled for April 2004. All regional plans must be completed by April 30, 2004. At the same time, central office foster care staff will compile a list of all foster homes lacking a background check or PATH training. Any foster home lacking either a background check or PATH training has ninety days to meet all Title IV-E requirements. If established requirements are not met the foster home will be closed. DCS contracts with The University of Tennessee for all training on background checks and PATH requirements. DCS staff will meet with the University of Tennessee staff in March 2004. At that time, the department will stress the importance of criminal background checks and PATH training during the foster home approval process. DCS will

communicate the significant role they play in educating and training DCS field staff, new and current, on the PATH requirements and background checks.

Management also concurred in the 2002 audit and stated,

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 percentage of files tested lacking criminal background checks in 2003 and 2002 were 5% (5 of 91 and 4 of 81, respectively), which is the same rate as the current year's.

In summary, foster care payments totaling \$25,711 were made during periods when the children's expenditures were not Title IV-E reimbursable and are questioned costs. The federal questioned costs total \$16,654 (Grant Number 0501TN1401: \$15,309 Grant Number 0401TN1401: \$1,345), and the remaining \$9,057 is state matching funds. Federal expenditures for Title IV-E Foster Care exceeded \$32,000,000 during the year.

### **Recommendation**

In accordance with departmental policies 16.35 and 16.36, case managers should ensure that the eligibility and reimbursability of children for Title IV-E Foster Care are adequately documented in the case files and that prompt and accurate status changes are recorded in the department's computer systems. As part of the department's prepayment authorization process, Team Leaders should review children's eligibility files and compare the information in the files to information in the eligibility database and ensure that the Title IV-E reimbursement status is correct prior to requesting Title IV-E funds. Furthermore, the Deputy Commissioner for Protection and Permanency should ensure that the criminal background checks are performed on all foster parents prior to placing children in the home. Documentation related to foster parents should be maintained and available when requested. In addition, management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

### **Management's Comment**

The Department partially concurs. The department has made significant improvement on expenditures inappropriately charged to the Title IVE program (down from an error rate of 28% to 5%). The department implemented the link with the foster parent placement system and payment system in May 2005 to prevent any payment to a unapproved home (e.g. without PATH

training or background check). The audit report period may have covered dates prior to May 2005. The federal questioned cost of \$16,654 has been processed and will be reflected this quarter.

The department concurs that continued diligence is required to assure all case files maintain appropriate documentation. DCS is aware of this issue and to better prepare and address this, DCS Internal audit is performing a review of 72 files including foster home files and vendor files to monitor department compliance. The reviews will be conducted in February, April, June, and August of 2006. This review will inform and reinforce with staff the required documentation.

The Executive Director of the Office of Child Permanency will work with the Director of Quality Assurance to ensure the development of uniform standards and forms for the resource parent files contained in all twelve regions and through the private provider community. These files must document that background checks were performed and all other requirements as issued by DCS policy. In addition, the Director of Quality Assurance will work with staff to develop a process modeled after the Quality Service Review Process to review a representative sample of resource parent files maintained in all twelve (12) regions and the private providers. Staff in consultation with the Director of Quality Assurance will build a continuous quality improvement (CQI) team with representatives from all twelve (12) regions and the private providers to participate in a statewide resource parent file review process by no later than December 2006.

The department's Internal Audit Division will conduct at least annually an audit of all documents and files used to substantiate payment from all regions. Regions that fail to show improvement during any audit will be reviewed more frequently.

In addition, the Executive Director of Finance and Program Support will place this finding and all associated documentation and policy communication matters on the agenda for the State Continuous Quality Improvement (CQI) Team agenda during the month of March 2006, and at least quarterly thereafter. The State CQI Team through the Executive Director of Finance and Program support will ensure that this finding is addressed by all appropriate regional and central office CQI Teams, and the Executive Directors of Regional Support will ensure this finding is included in all of the Regional Administrator CQI Team meetings.

The Executive Directors of Regional Support will have the primary responsibility for ensuring appropriate follow up regarding specific cases in non-compliance.

### **Rebuttal**

We are unable to discern which, if any, portion of the finding with which management fails to concur.

3. **Since 1999, children's case files have not contained adequate documentation of case manager compliance with departmental policies regarding contacts and timeliness of case recordings for foster children**

**Finding**

As noted in the prior six audits covering the period July 1, 1998, through June 30, 2004, the Department of Children's Services (DCS) did not have adequate documentation in the children's case files showing case manager contact with the child, family, or other individuals. DCS also did not maintain timely case note recordings.

Management concurred with the prior finding and stated,

The department began new efforts to ensure that case managers make the required contacts with children in state custody and document the contacts made. The department has recently embarked on a Continuous Quality Improvement (CQI) initiative, and also enhanced its reporting tools to better monitor case manager activities. Each region has identified and hired a CQI Coordinator and the coordinators are in the process of building CQI teams in each region. These teams will focus on improving core performance in areas such as contacts and adequate documentation.

The "Zero Contact Report" has been generated, tested and refined over the past several months. The report as of March 2005 is now fully operational and will assist Regional Administrators with holding staff accountable for making the required contact. Regional Administrators will use the report to monitor activities and provide timely intervention with team leaders and case managers regarding performance. Regional Administrators will incorporate the review of this monthly report with the CQI process.

Another report generated on a monthly basis for the Regional Administrators is the "Performance Improvement Tool (Case Recording Report)" that provides data on every case manager and their cases. This report includes the following categories: Date last event occurred, Days since last event, Date event was recorded in TNKIDS, #Days between event and recording. The last two columns were recently added in order to detect and address delays in proper documentation.

Management also concurred in 2003 and stated,

The department continues to improve its performance regarding contacts, timeliness of case recordings, and permanency plans for foster children. DCS is encouraged that the average number of days between documented contacts was reduced from 62 days to 47 days. Also, the department has reduced the percentage error rate for entering case recordings into TNKIDS within thirty days by 12% and decreased the average number of days to enter recordings to 30 days.

In the prior audit it was averaging 51 days. To continue to improve the process, DCS began production of a TNKIDS report on contacts in December 2003. The report is based on case recordings that document case manager-child visits, parent-child visits, sibling visits, and case manager-parent visits. This is a live report on TNKIDS available to all TNKIDS users. Supervisors can use this report to easily identify case managers who may be struggling to comply with contact and visitation standards. Quality assurance will continue to review 120 cases each month for compliance with contact and visitation standards. Regional Administrators will be required to use available data to more closely monitor case manager and team performance, and to provide support and leadership in this area. Job Performance Plans will be revised for case managers and supervisors specifically listing contact and visitation standards. In occurrences of extended non-compliance progressive discipline can be exercised. . . . In addition, Policy 31.14, "Case Recordings for Foster Care, Adoption Services, and Juvenile Justice Cases," became effective September 1, 2003.

DCS Policy 16.38-BA (A) regarding face-to-face visits with children in foster homes or other DCS residential facilities states,

If a child moves to a new DCS placement at any time following his/her initial placement, the child shall be visited as if he/she were just entering care and shall be visited and seen face-to-face: (a) Six (6) times during the first eight (8) weeks of the new placement, (b) Once every two weeks for the second eight (8) weeks, and (c) Not less than two (2) times per month thereafter. The Case Manager shall have face-to-face contacts with the foster parents or agency staff as often as necessary, but no less than once each month.

The current audit of children's case recordings revealed excessive time lapses in the face-to-face contact between case managers and children. We reviewed the TNKids database case recordings for a sample of 132 children. Our review revealed that 22 of 132 children's case recordings tested (17%) did not contain adequate documentation of at least one face-to-face contact with a case manager during each month the child was in custody.

The 22 children were in custody a total of 256 months during the audit period. For 43 of 256 (17%) of the months in custody, the case managers made no face-to-face contact with the children. Excessive time lapses between documented contacts ranged from one to four months for the 22 children. See details below:

<u>Months of No Face-to-Face Contact</u>	<u>Number of Children</u>	<u>Total Months</u>
4 consecutive months	1	4
3 consecutive months	3	9
3 months (2 consecutive)	4	12
2 consecutive months	4	8
1 month	<u>10</u>	<u>10</u>
Totals	<u>22</u>	<u>43</u>

The prior audit finding disclosed inadequate documentation of case managers' visits in 26 of 127 (21%) of the case files examined, with gaps ranging from 35 to 248 days.

DCS management has generated reports related to face-to-face contacts with children and distributed the reports to the regional offices for follow-up. Although the reports generated may be useful in identifying the number of missed contacts with children, the results of the testwork indicate that many children still are not seen on a monthly basis.

Policy 31.14 states,

Each contact (successful or unsuccessful) with or on behalf of clients will be documented in TNKids case recordings within thirty (30) days from the date of the contact. Case recordings serve as the official record of efforts made to serve DCS client children/youth and families.

. . . Regardless of whether or not TNKids case recordings are printed and placed in the child/youth's record, the official case recordings are those in TNKids.

We also reviewed the sample to determine whether the case managers entered the children's casework activity into the TNKids database timely. Comparing the date of entry with the date of the casework activity disclosed several instances of untimely entries. For 21 of 132 children's case recordings tested, (16%), instances of case notes being recorded in TNKids more than 30 days after the casework activity were noted. Time lapses between the case activity and the date that the information was entered into TNKids for the 21 files ranged from 2 to 210 days past the 30-day deadline, with an average of 52 days late. The prior audit finding disclosed that time lapses between the case activity and the date that the information was entered into TNKids, for 54 of 127 case recordings tested (43%), ranged from 7 to 367 days past the 30-day deadline.

### **Recommendation**

The Deputy Commissioner for Protection and Permanency should ensure that case managers are making the required face-to-face contacts with children in state custody and documenting the contacts made. Proper documentation of the casework activity, as described by DCS policies and procedures, should be entered into TNKids within 30 days of the casework activity. 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 policies and procedures. In addition, management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

## Management's Comment

The Department concurs. The department; however, has focused a good deal of attention to this area. DCS has provided management-reporting tools to assist Regional Administrators in monitoring compliance. In recent months, DCS staff initiated corrective action on some data entry issues, and began distributing to Regional Administrators twice-monthly reports that showed case recordings that were late and required remedial action. For a twelve-month period Dec.-Jan. 2005, a monthly average of 93% of the children in custody had a face-to-face visit. The Executive Director of Finance and Program Support will place the issue of face-to-face contact and all associated documentation on the agenda for the State Continuous Quality Improvement (CQI) Team agenda during the month of March 2006, and at least quarterly thereafter. The State CQI Team through the Executive Director of Finance and Program support will ensure that this finding is addressed by all appropriate regional and central office CQI Teams, and the Executive Directors of Regional Support will ensure this finding is included in all of the Regional Administrator CQI Team meetings.

Per the Brian A. court settlement, the department is required to perform an annual audit of TNKIDS to assess in part whether case recordings and other required information is entered and done timely and accurately. Internal audit is responsible for the audit that was released in January 2006. The department will use the information contained in the audit finding to drive improved performance and compliance. The department acknowledges that more development work is needed to produce a regular report that helps monitor compliance with the timeliness of casework recordings.

The Executive Directors of Regional Support will have the primary responsibility for ensuring appropriate follow up regarding specific cases in non-compliance.

#### **4. The foster parents' files did not contain documentation of annual foster home reassessments and that foster parents completed PATH training**

### Finding

As noted in the previous audit, the Department of Children's Services (DCS) did not comply with its policies concerning foster parents' training and foster home reassessments. The foster parents' files did not contain documentation that DCS performed the foster home annual reassessments and that foster parents completed the required Parents As Tender Healers (PATH) training.

DCS Policy 16.16, "Resource Home Re-Assessment, Denial/Closure," states, "Each approved Department of Children's Services (DCS) resource home must be re-assessed within twelve (12) months of the initial approval and at least annually thereafter until the home is closed."

DCS Policy 16.4, "Dual Approval Process for Resource Parents," paragraph (B)(1), states, "All applicants interested in resource parenting must complete the thirty (30) hours of

PATH training.” Paragraph (C)(7), states, “The foster home study must be completed within sixty (60) days of the completion of the PATH training.”

The prior audit revealed that 16 of 106 children’s foster parents’ files (15%) did not contain documentation to show that the foster home reassessments were performed annually and /or that the foster parents had completed PATH training.

Management concurred with the prior audit finding and stated,

The department initiated case file reviews beginning in February 2004 to ensure that all foster care cases had the appropriate documentation of PATH dates and home reassessments. These reviews are continuing. To ensure that DCS staff complies with DCS policy 16.4, central office staff will conduct periodic case file reviews.

We tested a sample of 110 foster parents’ files to determine whether DCS staff performed and documented the required annual reassessments of the foster homes and the foster parents had attended or completed PATH training. The review of foster parents’ files revealed that in 8 of the 110 children’s foster parents’ files tested (7%), there was no documentation to show that DCS performed the foster home reassessment annually and/or that the foster parents had completed PATH training. We determined the following details concerning the 8 files:

- DCS Regional Office staff did not maintain a file for one foster family.
- One file did not contain documentation to show that the foster home reassessment was performed after the initial approval on May 23, 2001. DCS Regional staff had not performed the annual foster home reassessment for 2005, 2004, 2003, or 2002.
- One file did not contain documentation to show that the DCS Regional Office staff performed the foster home reassessment in 2005, 2004, or 2003. Documentation in the file showed the last home reassessment was performed on April 12, 2002.
- One file documented that the foster home reassessment was performed 13 months late. Furthermore, the file did not contain documentation to show that the foster parent had completed PATH training.
- Two files documented that the foster homes’ reassessments were performed 4 and 6 months late.
- Two other files did not contain documentation to show that the foster parents had completed PATH training.

### **Recommendation**

The Deputy Commissioner for Protection and Permanency, along with Regional Administrators, should communicate the importance of the foster home reassessment and foster parents’ training to the responsible staff. Team Leaders should ensure that all foster parents complete the PATH training and that all foster home reassessments are performed annually.

In addition, management should ensure that risks such as these noted in this finding are adequately identified and assessed in management's documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

### **Management's Comment**

We concur. As mentioned previously, the department is conducting a review of 72 files including foster home and vendor files to better monitor the department's compliance. This review will instruct and reinforce with staff the required documentation.

The Executive Director of Finance and Program Support will place the documentation of annual foster home reassessment and completed PATH training on the agenda for the State Continuous Quality Improvement (CQI) Team agenda during the month of March 2006, and at least quarterly thereafter. The State CQI Team through the Executive Director of Finance and Program support will ensure that this finding is addressed by all appropriate regional and central office CQI Teams, and the Executive Directors of Regional Support will ensure this finding is included in all of the Regional Administrator CQI Team meetings.

As previously mentioned, the Executive Director of the Office of Child Permanency will work with the Director of Quality Assurance to ensure the development of uniform standards and forms for the resource parent files contained in all twelve regions and through the private provider community. These files must document that background checks were performed and all other requirements as issued by DCS policy. In addition, the Director of Quality Assurance will work with staff to develop a process modeled after the Quality Service Review Process to review a representative sample of resource parent files maintained in all twelve (12) regions and the private providers. Staff in consultation with the Director of Quality Assurance will build a continuous quality improvement (CQI) team with representatives from all twelve (12) regions and the private providers to participate in a statewide resource parent file review process by no later than December 2006.

The Executive Directors of Regional Support will have the primary responsibility for ensuring appropriate follow up regarding specific cases in non-compliance.

5. **Since 2002, Adoption Assistance files have not contained adequate documentation to support the subsidies paid to adoptive parents**

### **Finding**

As noted in the three previous audits covering the period July 1, 2001, through June 30, 2004, Adoption Assistance case files did not contain adequate documentation to support the Adoption Assistance subsidies paid to the adoptive parents. The total federal share of the

Adoption Assistance Program exceeded \$17,000,000. Management concurred with the prior audit finding and stated,

Adoption policies have been revised to advise staff of required contents of Adoption Assistance case files and any changes in eligibility for Adoption Assistance funding should be documented in the case file, and related adjustments in funding should be made immediately.

In addition, the department's regional staff completed a desk review of all Adoption Assistance Agreements against a list of current payments made through fiscal services. As noted previously, field staff now submits copies of all new agreements and any renewals or revisions with the Form 16 to Fiscal Services for payment and funding verification.

Currently a monthly report is produced and distributed to Central Office and field staff for children turning 18, 21, or 3 years of age. Adoption Services Team Coordinators are required to review the adoption assistance case file to ensure that payment adjustments are appropriate for children turning three years of age and that appropriate documentation is included for continuing eligibility for children turning eighteen years of age.

The Adoption Assistance Program contributes financially to assist families, otherwise lacking the financial resources, in adopting eligible children with special needs. According to Department of Children's Services (DCS) Policy 15.11, 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 it 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. Title IV-E federally 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 Adoption Assistance payments cease. However, the adoptive parents may receive state-funded adoption assistance if the child remains in high school and the original adoption assistance agreement was created after October 1997. The adoptive parents may also receive state-funded adoption assistance if the child is in any full-time school and the original adoption assistance agreement was 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."

The changes mentioned above by management in response to previous findings have been put in place and were observed by the auditor during fieldwork. However, Adoption Assistance files still did not contain adequate documentation related to the applications, agreements, and yearly renewal affidavits that must be completed by the adoptive parents, as required by the department's *Adoption Services Procedures Manual*. Our review of a sample of

150 Adoption Assistance files found seven files (5%) that did not have the necessary documentation to support the Adoption Assistance payments.

- Four files did not contain documentation that DCS had determined the special needs of the children during the initial adoption application for Title IV-E eligibility. The federal questioned costs for these payments totaled \$15,605 with an additional \$8,511 in state matching funds.
- Adoption Assistance Renewal Affidavits for three files were not properly completed by the adoptive parent(s) to indicate whether or not the adoptive child's special needs condition still existed. The federal questioned costs for these payments totaled \$4,235 with an additional \$2,302 in state matching funds.

During the review of another child's case file recordings in TNKids which was in addition to the sample selected above, it was noted that the adoptive parent did not want an adopted child to remain in her home. She requested that the child and her adopted brother return to state custody. DCS granted the adoptive parent's wishes. The children were returned to state custody on November 16, 2004, and were placed in foster care. Despite the adoptive parent's desire to no longer keep the children, DCS continued to pay adoption assistance until March 2005. The adoptive parent agreed to terminate her parental rights on December 2, 2004. The adoption assistance payments should have ceased on December 2, 2004. The federal questioned costs for the payments for both children totaled \$1,536, with an additional \$838 in state matching funds.

DCS Policy 15.17 (A) (3) states,

When a child is placed in foster care for any reason, a determination must be made whether the child continues to be eligible for adoption assistance. Federal guidelines require that an Adoption Assistance payment be terminated when the adoptive parent(s) is no longer legally responsible for the support of the child or the adoptive parent(s) is no longer supporting the child.

The total federal questioned costs for these payments were \$21,376 (Grant Number 0501TN1407: \$17,314; Grant Number 04501TN1407: \$4,062) with an additional \$11,651 in state matching funds. The total federal questioned costs during the previous audit were \$51,093 with an additional \$28,126 in state matching funds. Although fewer occurrences of noncompliance and questions were noted during this audit period, the testwork indicates that management continued to issue payments even though documentation was not present in the files or when the parent no longer had custody of the children.

### **Recommendation**

The Executive Director of the Office of Child Permanency and the Director of Foster Care, Adoptions, & Kinship Care should develop procedures to ensure that Adoption Assistance case files are complete and that renewals and extensions of agreements are current and adequately supported. Any changes in eligibility for Adoption Assistance funding should be

documented in the case file, and related adjustments in funding should be made immediately. Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities.

Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

### **Management's Comment**

The Department concurs. The federal questioned cost of \$21,376 has been processed and will be reflected this quarter.

The Executive Director of Finance and Program Support will place the lack of adoption assistance documentation on the agenda for the State Continuous Quality Improvement (CQI) Team agenda during the month of March 2006, and at least quarterly thereafter. The State CQI Team through the Executive Director of Finance and Program support will ensure that this finding is addressed by all appropriate regional and central office CQI Teams, and the Executive Directors of Regional Support will ensure this finding is included in all of the Regional Administrator CQI Team meetings.

As part of the proposed requirement for an annual face-to-face meeting, the department will ensure there is proper documentation in the case files. In addition, the department will also develop and implement the same process for adoption assistance case file review and documentation as outlined with the resource parent file and foster care files. Internal Audit will also conduct annual adoption assistance case file reviews as previously outlined. This will be completed by no later than December 2006.

The Executive Directors of Regional Support will have the primary responsibility for ensuring appropriate follow up regarding specific cases in non-compliance.

The Department is aware of the current status of this finding and is assessing departmental risk.

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## STATUS OF PRIOR AUDIT FINDINGS

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### State of Tennessee Single Audit Report for the year ended June 30, 2004

Audit findings pertaining to the Department of Children's Services were included in the *Single Audit Report*. The updated status of these findings as determined by our audit procedures is described below.

#### **Resolved Audit Findings**

The current audit disclosed that the Department of Children's Services has corrected a previous audit finding concerning the department not obtaining adequate approval for administrative leave with pay and inappropriately used federal funds.

#### **Repeated Audit Findings**

The current audit disclosed that the Department of Children's Services has not corrected the previous audit findings concerning overpayments due from foster care and adoption assistance parents, charging the Title IV-E program for non-reimbursable expenditures, documenting case manager compliance with departmental policies in case files, lack of documentation in the foster parents' files and maintaining adequate documentation in adoption assistance files. These findings will be repeated in the *Single Audit Report* for the year ended June 30, 2005.

#### **Most Recent Financial and Compliance Audit**

Audit report number 04/046 for the Department of Children's Services, issued in November 2004, contained certain audit findings that were not included in the State of Tennessee *Single Audit Report*. These findings were not relevant to our current audit and, as a result, we did not pursue their status as a part of this audit.

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## OBSERVATIONS AND COMMENTS

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited

to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

## **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.