AUDIT REPORT

Department of Children's Services

May 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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John G. Morgan
Comptroller

May 22, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Viola 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 period March 1, 2004, through March 31, 2006.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements 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
06/060

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COMPTROLLER OF THE TREASURY
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April 20, 2006

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 period March 1, 2004, through March 31, 2006.

We conducted our audit in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the department's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Children's Services is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

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.

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
May 2007

AUDIT SCOPE

We have audited the Department of Children's Services for the period March 1, 2004, through March 31, 2006. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts and grant agreements in the areas of the Children's Trust Fund, the state-funded Foster Care program, the Chafee Foster Care Independent Living program, administrative leave, the Financial Integrity Act, and Department of Finance and Administration Policy 20 – "Recording of Federal Grant Expenditures and Revenues." The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and participating in the negotiation and procurement of services for the state.

AUDIT FINDINGS

The Department Continues to Hold Over $14 Million for Which the Rightful Owner Is Unknown and the Department Still Does Not Return Money to the Social Security Administration Promptly for Children No Longer in State Custody*

As noted in the seven previous audits, covering the period July 1, 1997, through February 28, 2004, the Department of Children's Services had not reconciled the children's trust fund balance reported in the State of Tennessee Accounting and Reporting System to the department's ledgers and did not always return unused money to the Social Security Administration within 60 days for children no longer in state custody (page 5).

The Department Did Not Transition Youth to Adult Services in a Reasonable Time and Made Improper Payments of Over $365,000 to or on Behalf of Individuals Between 23 and 30 Years Old

Youth in custody were not transitioned into adult services by their 23rd birthday, and the Department of Children's Services continued to pay for services on their behalf (page 9).

The Department of Children's Services Has Violated Its Own Eligibility Requirements for the Independent Living Program

The Department of Children's Services provided services for young adults in the Independent Living program who did not comply with its policies (page 15).

The Department Did Not Obtain Approval for Discretionary Leave With Pay and Did Not Mitigate the Risk of Payments for Excessive or Inappropriate Leave

The Department of Children's Services did not obtain approval from the Department of Personnel for discretionary leave with pay that extended beyond 30 days (page 18).

* This finding is repeated from prior audits.

Financial and Compliance Audit
Department of Children's Services

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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 requires 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.

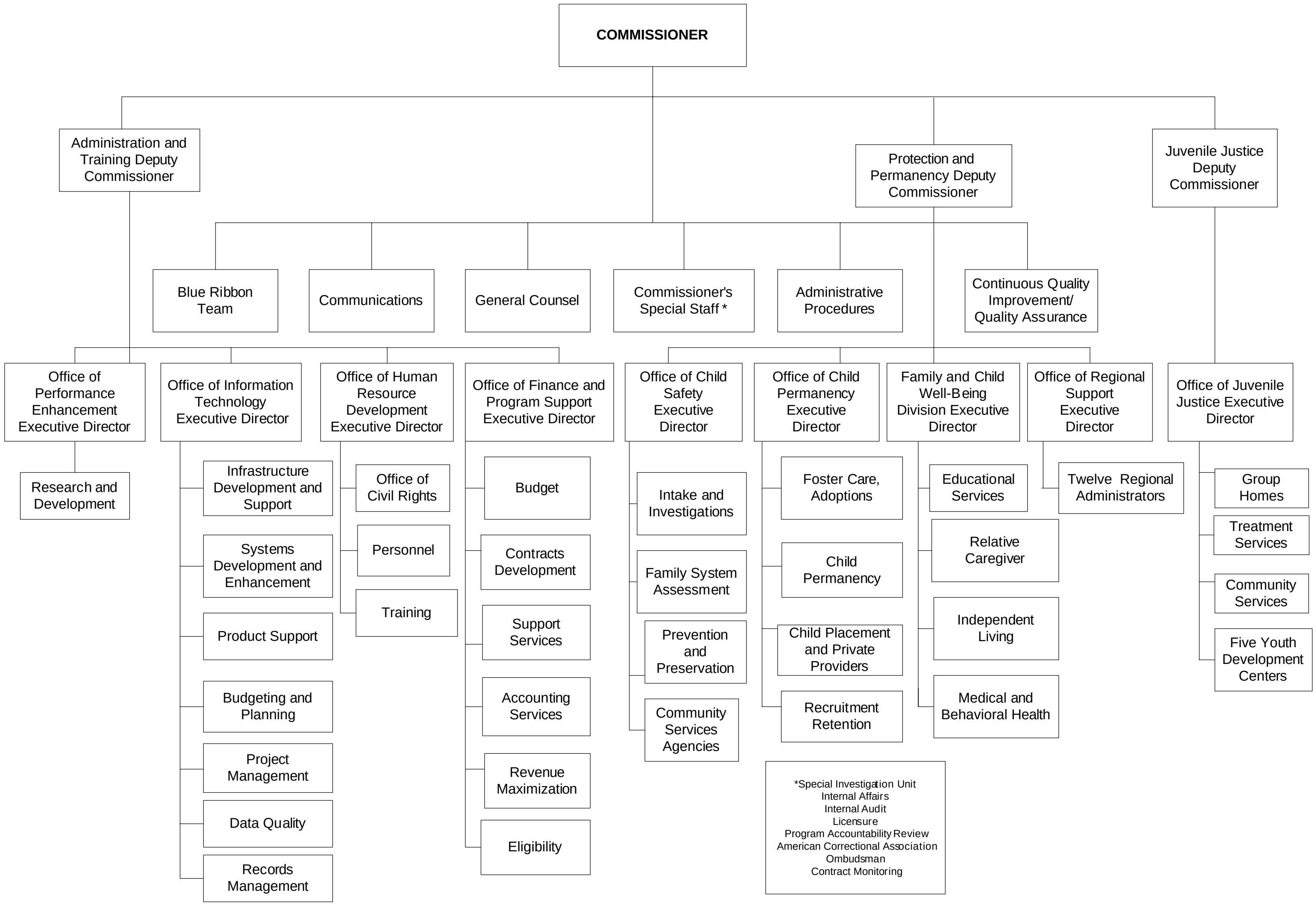
BACKGROUND

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 cooperation with families, local communities, juvenile courts, and schools, it is the mission of the Department of Children's Services to provide timely, appropriate, and cost-effective services for 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 department is to provide appropriate care for children and youth in state custody, in close proximity to their homes, and return them to their families or provide for permanency in a timely manner; work with communities to provide prevention and intervention services to protect children, strengthen families and supervise youthful offenders; increase community involvement, local decision making and accountability for funding and services; and create an effective management and delivery system to ensure services are provided in a timely and cost-effective manner.

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

DEPARTMENT OF CHILDREN'S SERVICES
ORGANIZATION CHART



AUDIT SCOPE

We have audited the Department of Children's Services for the period March 1, 2004, through March 31, 2006. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts and grant agreements in the areas of the Children's Trust Fund, the state-funded Foster Care program, the Chafee Foster Care Independent Living program, administrative leave, the Financial Integrity Act, and Department of Finance and Administration Policy 20 – "Recording of Federal Grant Expenditures and Revenues." The audit was conducted in accordance with *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 April 1, 2005. Audit report number 04/046 for the Department of Children's Services, issued in November 2004, contained four audit findings. 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 previous audit findings concerning

- inadequate controls to prevent payments from exceeding the established limits in the Chafee Foster Care Independent Living program, and
- inadequate case file documentation for youth in the Chafee Foster Care Independent Living program, and
- an internal accounting and administration control report that was not submitted as required.

REPEATED AUDIT FINDINGS

The prior audit report also contained a finding concerning incomplete reconciliation of the Children's Trust Fund account to the State of Tennessee Accounting and Reporting System

(STARS) and untimely return of children’s money to the Social Security Administration. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CHILDREN’S TRUST FUND

As a representative payee on behalf of children in state custody, the department is entrusted to maintain accounting for each individual child’s money and to follow certain federal and state regulations. The Children’s Trust Fund consists of money received from the U.S. Social Security Administration for Social Security payments and Supplemental Security Income benefits; the U.S. Veterans Administration, Miners, and Railroad benefits; and child support payments from parents whose children are in custody. The money in each individual’s account may be used to reimburse the state for current and future expenditures made on behalf of the child. When a child leaves custody, it is the department’s responsibility to return the child’s surplus money to the Social Security Administration within 60 days.

Our primary objectives were to follow up on the prior audit finding concerning the lack of reconciliations relating to trust fund accounts and the untimely return of children’s remaining balances to the Social Security Administration, and to determine whether the department performed and maintained accurate individual monthly accountings for the children receiving benefits.

To accomplish our objectives, we made inquiries of management and interviewed key department personnel to document and evaluate the department’s controls over the children’s trust fund transactions. We reviewed documentation and made inquires of management to determine if the department had prepared a reconciliation between the total of the individual children’s trust funds and the total balance reported to the State of Tennessee Accounting and Reporting System (STARS), if the monthly accountings were performed and maintained, and if refunds to the Social Security Administration were made according to Chapter 0250-7-10-.11(5) of the department’s rules.

As a result of our inquiries, interviews, and reviews, we determined that the monthly accountings were performed and maintained. However, the department has not performed reconciliations between the total of the individual account balances comprising the Children’s Trust Fund and the total balance reported to the State of Tennessee Accounting and Reporting System, and the department did not always return children’s money to the Social Security Administration as required. See finding 1.

1. <u>The department continues to hold over $14 million for which the rightful owner is unknown and the department still does not return money to the Social Security Administration promptly for children no longer in state custody</u>

Finding

As noted in the prior seven audits, covering the period July 1, 1997, through February 28, 2004, the Department of Children's Services (DCS) has not reconciled the Children's Trust Fund balance reported in State of Tennessee Accounting and Reporting System (STARS) to the department's ledgers and has not always returned unused money to the Social Security Administration within 60 days for children no longer in state custody. The balance of the Children's Trust Fund in STARS is $17,083,763 and the balances in the department's ledgers that can be identified with children including dedicated amounts is $2,776,011. This means $14,307,752, is being held for which ownership is in question. The trust fund consists of money received from the U.S. Social Security Administration for Social Security payments and Supplemental Security Income benefits; the U.S. Veterans' Administration, Miners, and Railroad benefits; as well as child support payments from parents whose children are in custody. The money in each individual's account may be used to reimburse the state for current and future expenditures made on behalf of the child. When a child leaves custody, the state is required by the Social Security Administration to return the child's unused money, other than child support payments, to the Social Security Administration within 60 days. Management concurred with the prior audit finding and stated:

> Pending completion and implementation of the financial and eligibility segments of TNKids, the department will continue to identify and make improvements in the manual trust accountings process and implement the audit recommendations. Modifications to the existing subsystems will require development of business rules and prioritization for resources by the Core Leadership Team.
>
> The sequential implementation of the components involved in building a comprehensive DCS accounting system as described above must be in place before the trust fund accounting system will have the inter relational capabilities essential to develop a system that will produce accurate real-time trust fund information. Implementation and development of this system is the responsibility of the Executive Director of Finance and Program Support.

See the appendix titled "Management's Comments From Prior Audits" for management's comments to this condition in the previous audits.

We followed up on management's response to the prior year finding and noted through observations and inquiries of management that, as of March 31, 2006, there had been no progress in developing the automated system. The manual accounting for benefits received and amount deducted that affect the children's accounts continued to be used.

Management still had not reconciled the total trust fund amount reported in STARS to the department's ledgers. It was not until after repeated requests that, on April 5, 2006, management provided us with its first analysis of the trust fund balance recorded in STARS as of March 30, 2006. The analysis is presented and explained below:

Child Support	$7,116,731
Cumulative Interest Earnings	4,563,891
Trust Fund Unidentified	2,627,130
Trust Fund Identified	2,587,641
Dedicated Amount In Trust	188,370
Total as of March 30, 2006	$17,083,763

<u>Child Support:</u> DCS may use collections of child support to offset the department's expenses for the care of children. Generally, child support payments are less than the department's expenses. Therefore, the balance of child support in the trust fund at any time should be nominal. The accumulation of this large residual balance appears to be a result of management's failure to make timely transfers of such payments to the general fund.

<u>Cumulative Interest Earnings:</u> As a part of the monthly accountings, the department credits interest on the balances of children in custody. This amount appears to be accumulated interest that was generated over many years on the large residual balances that were not transferred from the trust fund to the general fund.

<u>Trust Fund Unidentified:</u> According to management, this is the remaining balance of the Children's Trust Fund transferred to the department from the Department of Human Services in 1996. This amount is not specifically identified with individuals and may represent amounts which were not transferred to offset expenses of the Department of Human Services before the transfer of responsibility to DCS or are amounts due to children who are no longer in state custody.

<u>Trust Fund Identified:</u> According to management, the trust fund identified amount represents the total balances for the children currently in state custody. The active current balance for the identified children is $2,587,641.14. This amount may be used for the care and maintenance of the children. Any remaining amount for a child is to be returned to the Social Security Administration when the child leaves custody.

<u>Dedicated Amounts in Trust:</u> The balance of the dedicated amounts is $188,369.76. The dedicated amounts are SSA benefits received for children that may not be used for the care and maintenance of the children, and any residual amount is to be returned to the Social Security Administration when the child leaves custody. The Social Security Administration forwards any balance due to the child or his/her representative payee.

Based on the aforementioned analysis, the actual active trust fund for the children currently in custody accounts for less than 25% of the total reported in STARS. It appears that for over nine years management has failed to make the appropriate transfers of funds to the state for care and maintenance of the children and timely transfers to the Social Security Administration for children leaving custody. This has lead to the accumulation of large balances in the Children's Trust Fund. Therefore, the trust fund total reported in STARS does not accurately reflect the actual trust fund balance.

We also noted that the amounts deducted from children's accounts for care and maintenance were not reconciled with the amounts paid by the state. Therefore, there was no assurance that all amounts transferred to the general fund were accurately deducted from the children's accounts.

Also, as a part of our examination of the Children's Trust Fund, we reviewed, for children who left state custody, a sample of 70 individual children's accountings for the period of March 1, 2004, through March 31, 2006. Results indicated that in 9 of 70 final accountings tested (13%) the money owed to the children, while returned during the audit period, was not returned to the Social Security Administration within 60 days, as required. In the department's rules, *Chapter 0250-7-10-.11 (5)* states, "Refund of unused balances to the funding source will be made in accordance with written regulations of the SSA not to exceed 60 days." Eight of the nine delinquent refunds were returned from 8 to 39 days after the 60 day limit. The refund for the remaining case should have been made more than 8 ½ years earlier. This unusual case was discovered by management during its most recent accumulation and review of documentation on old, inactive case files performed during the current audit period.

Based on the testwork performed as of March 31, 2006, it appears that the department has improved the timeliness in performing its monthly accountings and reduced the lag time in posting benefits received and expenses made for care and maintenance to the children's accounts. According to management, the department currently performs reconciliations to balance totals from automated clearinghouse (ACH) journal vouchers of benefits received from the Treasury Department to the total benefit amounts entered into the individual accounts. However, reconciliations of all transactions between the trust fund and the individual children's accounts are still not performed.

Recommendation

The Commissioner should consult with the Department of Finance and Administration, and others such as the Office of the Attorney General and/or the Social Security Administration if necessary, to determine the proper disposition of the approximately $14 million for which ownership is in question. If these funds cannot be identified with specific children and there are not other legal restrictions on these funds, the Department of Finance and Administration should transfer these funds to the State's general fund.

To prevent future accumulations of funds that cannot be identified with specific children in state custody, the Executive Director of Fiscal and Program Support should ensure that amounts deducted from children's accounts for care and maintenance are reconciled with the amounts paid by the state and that periodic reconciliations are performed to balance monthly account activity in STARS with the activity entered into the individual children's accounts.

The Executive Director of Fiscal and Program Support should also ensure that all unused balances are returned to the Social Security Administration within 60 days after children leave state custody.

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.

Managements' Comments

Department of Children's Services

We concur.

DCS has performed a review of balances for all trust accounts, the sources making up those balances as well as the respective rules and guidelines governing each. As a result, DCS worked through the Department of Finance and Administration and transferred in excess of $11 million of the $14 million cited by auditors above as having questionable ownership. It represented previously collected Child Support and its respective cumulative interest earnings. The balance of the Trust Fund at June 30, 2006 totaled $5.3 million. Of that amount, $2.6 million represents additional old balances originally inherited from DHS and that were still under investigation/review at June 30, 2006. DCS will complete that review and transfer funds accordingly before the end of fiscal year 2007. That should leave a balance in Trust of approximately $2.7 million.

With regard to reconciliations between STARS and individual child account records, the department will work to make improvements in both the timeliness and completeness of such reconciliations. The ultimate solution lies in new systems and both EDISON (state wide system) and a new SACWIS (DCS child specific system) will address this issue.

DCS will review processes involving closeout of final accounting with the goal of meeting the Social Security deadline of returning unused funds within 60 days.

Periodic reports of trusts and balances will be prepared and submitted for management review. These reports will help identify exceptions (to be acted upon) and ensure that individual accounts are being properly maintained and not accumulating unnecessarily.

Department of Finance and Administration

The department declined the opportunity to comment.

STATE-FUNDED FOSTER CARE

In addition to using federal funds to care for children in state custody, the department uses state funds to pay foster parents to care for the children. The department utilizes the Children's Plan Financial System to manage the foster care payments. Payments, through this system, are paid to foster parents who contracted with the department directly. These payments should be stopped when children leave state custody or age out of foster care at age 18 or 19 if the children are delinquent. Youth, if eligible, could continue to receive services from the department until their 23rd birthday.

Our primary objectives were to determine whether the department paid for services to or on behalf of eligible youth and whether the department transitioned youth to the appropriate programs or placements in a timely manner.

To accomplish our objectives, we made inquiries of management and interviewed key department personnel to document and evaluate the program's internal controls. We reviewed relevant written policies and procedures. We performed analytical procedures to determine if expenditures were paid to or on behalf of eligible youth. We reviewed certain case recordings in TNKids to determine if the department transitioned youth to appropriate placements or programs in a timely manner.

As a result of our inquiries, reviews, and testwork, we determined the department paid for the care of some youth who were not eligible to receive foster care services and did not always transition youth in foster care to appropriate placements or programs in a timely manner. See finding 2.

2. The department did not transition youth to adult services in a reasonable time and made improper payments of over $365,000 to or on behalf of individuals between 23 and 30 years old

Finding

The Department of Children's Services (DCS) did not transition youth to adult services in a reasonable time and paid over $365,000 from 1998 through 2006 to or on behalf of ineligible individuals between the ages of 23 and 30 years.

The department provides services to children in the state custody or to prevent children from coming into custody. In DCS Policy 16.51, "Provision of Post Custody Services to Young Adults Exiting Care at 18 or 19 Years of Age", the department's case manager is to discuss with the young adult the possibility and benefits of receiving voluntary services from the department after reaching the age of 18 or 19.

The post custody options young adults have are: 1) to refuse the voluntary services offered by the department, 2) to enter Independent Living, or 3) to transfer into an eligible adult program in another state department. For youth who refuse to receive services, the *Refusal of Post Custody Services Notification-Youth Leaving Services* form must be completed. Those who agree to receive services from the department are transitioned to the Independent Living program where, if eligible, they can continue to receive services until their 23rd birthday. Young adults, who are unable to function independently due to physical, cognitive, or emotional disabilities, can, by policy, continue to be supported by the department until transitioned into adult services, such as those offered by the Department of Mental Health and Developmental Disabilities or until they reach the age of 23 years. DCS policies 16.53; "Post Secondary Education", and 16.55; "Transitional Living Services", limit the age of the individual receiving services to under 23 years.

We reviewed the department's state-funded foster care program payment history to determine if payments were made to or on behalf of individuals over the age of 23 and obtained an explanation from management as to why these individuals continued to be the department's responsibility. The review covered only the department's direct payments to foster parents or individuals reported in the Children's Plan Financial System (ChiPFinS), and did not cover payments to other providers. As noted above, the department's transition of a child to adult services starts when the child reaches 18 or 19 years old. Transition could be to a residential facility through the Department of Mental Health and Developmental Disabilities or other proper placement.

Based on the computer-assisted auditing techniques performed related to state funded foster care as of January 31, 2006, the department paid $365,378 to or on behalf of 11 individuals who were over age 23 when the payments were made. Payments had been made to or on behalf of one individual who was 30 years old at the time of the audit totaling $276,858 over eight years. The remaining $88,520 had been paid over three years to or on behalf of ten individuals ranging in age from 23 to 25 years old at the time of the payments.

We requested documentation from management to justify the payments for these individuals. More than 2 months after our request, management's response for the individual who continued to receive DCS subsidies beyond the age of 30 years was a copy of a letter from the individual's caretaker (foster parent) to a former Commissioner dated November 7, 1997, and a copy of a letter from the former Commissioner dated November 18, 1997. In the correspondence, the former Commissioner sympathized with the caretaker's concerns. The former Commissioner assured the caretaker that a transition plan would be developed and implemented for the individual, that a petition for a conservator would be filed, and that there would be follow up with the Department of Mental Health.

At the time of these letters, this individual was 22 years old, and, during the following 8 years, the cost to the department was over $276,800. DCS management did not provide us with any documentation showing the effort of DCS staff to transition this individual to an appropriate placement, file a petition with the court, or follow up on this individual's application. However, we did obtain the case recordings from TNKids database for this individual for the period of May 9, 2001, through January 12, 2006. There were no case recordings prior to May 9, 2001. According to TNKids, there were no contacts between DCS case managers and this individual or caretaker (foster parent) from August 20, 2003, through June 29, 2004. Also, several other gaps of no contact with this individual were noted. Based on review of the case recordings, we did not find any adequate notes to explain or justify why this individual was not transitioned to an appropriate placement as instructed by the former Commissioner. We did find correspondence from December 2005, by the individual's case manager, indicating the case manager did not know why the individual was still receiving board payments from DCS. According to the correspondence, the case manager was told that the individual would receive board payment beyond the age limits, so the case manager continued to submit the board rate to a regional designee for approval.

Based on a review of the department's receipt data through ChiPFinS, we noted that the department had been receiving Supplemental Security Income (SSI) on this individual's behalf since 1994. Departmental correspondence revealed that as of April 2000 the individual was still receiving an SSI check, but the department had lost track of the individual. Although the SSI check had a residential address, the department did not know whether the individual resided there. The correspondence referred to the caretaker's concerns about the individual's proposed transition plan referred to in the former Commissioner's letter in November 1997, and that the issue was never resolved.

Management was unable to provide justification for continuing payments to the other individuals over age 23 other than to say that an Independent Living waiver was granted for one individual to permit graduation completion. Since management's response was limited, we reviewed three individual's case recordings. The recordings for the first individual, revealed a transition to DMRS, under the care of a foster parent, at the age of 25. The case recordings for the second individual had been closed, and the foster parent and the individual did not want to receive services from the Department of Mental Health and Developmental Disabilities. The third individual's case had been closed and the individual moved in with friends.

Based on review of the applicable DCS policies, procedures, and guidelines, we note no provisions for granting a waiver to individuals that would allow them to receive services from DCS beyond their 23rd birthday. The waiver granted was not in compliance with DCS rules that govern the payments to individuals in post custody or their foster parents.

Based on the aforementioned occurrences, it appears DCS staff does not always transition or start the transition process of individuals who are aging out of foster care or in post-custody to appropriate adult services or placements in a reasonable time, and does not document the reason or justification to continue paying foster parents to care for these individuals.

Recommendation

The Commissioner or designee should ensure that adequate controls are designed, implemented, and maintained to ensure that the youth aging out of foster care or in post-custody are transitioned out of DCS to adult services or appropriate placement in a timely manner. The Executive Director of Fiscal and Program Services, the Director of Foster Care and Adoption, and the Director of the Independent Living program should ensure that adequate controls are designed, implemented, and maintained to ensure that payments are being made to or on behalf of eligible individuals.

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

We concur.

The Department of Children's Services and the Division of Mental Retardation Services within the Department of Finance and Administration have been working jointly since 2004 to ensure that youth identified as mentally retarded and in the custody of DCS are placed on the waiting list for transition to DMRS for adult services by the specified age.

In September 2004, Commissioner Miller initiated discussions with Deputy Commissioner Stephen Norris, Division of Mental Retardation Services, regarding the need to coordinate services for youth aging out of DCS custody and who were in need of services offered by DMRS. The result of their initial discussions was the designation of a representative from DCS and DMRS. These individuals were charged with the responsibility for coordinating a transition process between the two agencies.

DCS and DMRS points of contact began weekly meetings to establish procedures for interagency transition of youth to the adult system of care. DCS began identification of DSC youth who appeared to be candidates for transition to DMRS. DMRS matched DCS information with DMRS waiting list and existing applications on file with DMRS. DMRS began to accept monthly transition referrals in October 2004. DCS designated a transition point person in each of the twelve regions to assist with intra-regional transition activities.

DCS and DMRS conducted joint training in November 2004 for regional DCS and DMRS staff. The purpose of the training was to introduce our staffs to the transition process and to begin to determine potential barriers to successful transitions. This session included representatives from the Social Security Administration and TennCare.

DCS and DMRS began weekly conference calls for staff in the East, Middle and West divisions of TN. The purpose of the weekly conference calls was to develop a working relationship with our respective agencies, to become knowledgeable of our respective systems, identify barriers to transition, and monitor transition activity. These weekly conference calls continue to be a part of this joint agency project.

Conservatorship for young adults was identified as a potential barrier to transition. DCS and DMRS Legal staff coordinated an informal agreement by which youth aging out of DCS custody would be provided with a conservator, when appropriate. It was agreed that DCS would complete a conservatorship application and forward the paperwork to DMRS. Legal proceedings and the appointment of a conservator would be handled by DMRS. This procedure continues to be utilized.

In 2005, DCS and DMRS developed an informal agreement which established a transition process for youth that would be initiated at age 17. This process is still in effect.

The next step that DCS is taking is to work with the Department of Mental Health and the Governor's Office of Care Coordination. We need to identify and develop solutions for individual youth with mental health needs to make the transition into the adult system. A workgroup has been established and at the Governor's Office of Care Coordination Steering Panel meeting these issues were highlighted at the October 2006 meeting. In addition, DCS is focusing on educating local case managers regarding the available services for this population at the community mental health centers. Those persons are being invited to attend the CFTM's related to the transition of youth to adult services.

Although much work is underway to make the transition of these difficult youth into adulthood, the reality is that many services are not available at this time for these youth. For example, housing for a mentally ill 20 year old is very difficult to arrange and the only other alternative is for these youth to be on the streets or in homeless shelters. Therefore, in some cases, it is in the youth's best interest to remain in the children's system until the transition can be completed without subjecting the youth to undue trauma. DCS is working diligently to plan for these youth during adolescence to reduce the time needed for the transition into adulthood to be completed.

In the case of the one young adult receiving independent living service, the department provided documentation as to the reason for the provision of service. This young adult attained the age of 23 during the final semester of his program of study. Policy has since been revised to allow the department to continue the provision of service for young adults in this situation, to ensure degree completion and support their attainment of economic self sufficiency.

Meetings between DCS Accounting staff, the Independent Living Program, Foster Care, Adoption, and Office of Information Systems have been held and are continuing to build a function into the Children's Plan Financial System (ChiPFinS) that automatically stops contract confirmation and payments on youth in the system when they reach the programmatically specified age. DCS expects to implement these changes by March 30, 2007.

CHAFEE FOSTER CARE INDEPENDENT LIVING

The Foster Care Independence Act of 1999 offers assistance to young adults transitioning out of foster care and into independent living. A significant portion of the Foster Care Independence Act deals with the creation of the John Chafee Foster Care Independence Program. The purpose of the Chafee Independent Living Program is the provision of more flexible funding to enable states to design and implement a variety of programs to assist children in the process of making the transition from foster care to independent living. The Department of Children's Services has designed its program for youth in foster care who are between the ages of 14 and 16 and who have the goal of a permanent living arrangement, and all youth age 16 and older are eligible for all needed services. The program also allows provisions for youth who were adopted at age 15 or afterwards and gives them access to developmentally appropriate services from the transitional independent living program.

For youth exiting state custody, the department may provide post-custody services to include room and board, case management, financial support for post-secondary education or job training, and other services deemed necessary to youth requesting voluntary services from the department. Some types of services available under the program are limited to monetary assistance for tuition, camps, room and board, books, and supplies to youth in state custody and those receiving voluntary post custody services as they pursue post-secondary education.

Our primary objectives were to follow up on the prior audit findings and to determine whether

- management had developed written policies and procedures;
- payments were made only to eligible youth;
- expenditure amounts did not exceed the established limits for financial assistance, and expenditures were only charged under the approved codes; and
- case managers made face-to face contact with the youth at least once every two months.

To accomplish our objectives, we made inquiries of management and interviewed key department personnel to document and evaluate the department's internal controls over the requirements of the program. We reviewed relevant written policies and procedures. We performed analytical procedures to determine if expenditures for the grant exceeded the established limits and to determine if expenditures were only charged under approved codes. In addition, we reviewed case files for youth participating in the post-secondary program to ensure application forms and service contracts (plans) were completed by youth in the program. We also reviewed TNKids to determine whether case managers contacted the youth at least once every two months to verify continuing school attendance. Case files were reviewed for transcripts to determine that the youth maintained sufficient grade point averages and attended school full-time when a waiver was not in place.

As a result of the interviews and the testwork performed, we determined that management had developed written policies and procedures, expenditures amounts did not exceed the established limits for financial assistance, and expenditures were charged under the approved codes. However, we determined the department paid for services for youth who were not eligible to receive services under the Independent Living program, and TNKids case recordings did not always indicate that face-to-face contacts were made every two months by case managers. See finding 3.

3. <u>The Department of Children's Services has violated its own eligibility requirements for the Independent Living program</u>

Finding

The Department of Children's Services (DCS) provided services for young adults in the Independent Living program who did not comply with its policies. Files for nine individuals in the Independent Living program were reviewed. Eight of those files contained one or more actions that violated the department's policies.

DCS Policy 16.53, D.3, "Post Secondary Education – Bright Futures Program Education and Training Vouchers (ETV)" states "the young adult must be enrolled in college . . . and attending as a full time student. Waivers for freshmen and sophomores will be granted for young adults who are working and attending school . . ." According to the transcripts reviewed for four of the nine (44%) Independent Living participants, the participants were not enrolled as full-time students. For two of the students, no waivers to allow their part-time enrollment were present, and the other two were not eligible to attend part-time since they were in their junior or senior year. The transcripts of the aforementioned students indicated no withdrawals from registered classes. Since the students enrolled as part-time students at the beginning of the term, the department should have been aware of the violations of its agreements with the students.

Policy 16.53, C.1, states ". . . Youth must remain Pell grant eligible to receive on-going grant assistance . . ." However, two of the nine participants (22%) tested were determined by their schools to be ineligible to receive Pell Grant funding and, therefore, were not eligible for services offered in the Independent Living program. Documentation in one participant's file stated that the participant was not eligible because her grades were insufficient, but no reason was given in the second participant's file for the ineligibility.

Policy 16.53, C.3, states "Personal Expense Grant is for young adults not receiving foster care board rates . . ." and the list of incentives, provided to us by the program director, states that this incentive is only available while school is in session. Two of the nine participants (22%) received the incentive and were not eligible. One of the students was receiving board payments when the incentive was received, and the other received the incentive while not in school.

Policy 16.53, B.4, states to retain eligibility young adults must ". . . continue to make satisfactory progress with a letter grade of C [2.0] . . ." Two of the nine participants (22%) who were in the Independent Living program were not making satisfactory grades. According to the Undergraduate Academic Record, one of the participants had a grade point average of 1.5 on a 4.0 scale for the fall 2004 semester and 1.0 on a 4.0 scale for the spring 2005 semester. The other participant had zero grade point averages for the fall semester of 2004 and the fall semester of 2005 according to her transcripts; no other transcripts were provided. The January 12, 2006, case recordings for the second participant state that she had not completed a semester of school and had withdrawn from her classes each semester since fall 2004.

During review of the participants' files, transcripts for many of the students could not be located. The transcript is used to determine that the student's grade point average and that the student has maintained sufficient hours to be considered a full time student. However for 5 of 9 participants (56%), their files did not have a transcript from their respective schools. Three of the participants did not have a transcript for the entire audit period, and for the other two, a transcript for one semester could not be located. Staff and management were unable to provide the transcripts when asked for them.

Policy 16.51, D.4, states that ". . . Face-to-face contact is required every other month. There should be regular telephone contact monthly . . ." Contacts were not made as required by policy. For seven of nine participants (78%), face-to-face contacts were not made within the required two month time period. The contacts were from several days late to more than ten months late. Also, it was noted that for three of these seven participants, monthly phone calls were not documented. The absence of required contacts to verify students' continuing school attendance and to provide any necessary supportive assistance was noted as a deficiency in a prior audit finding. That finding also reported the absence of service contract agreements, missing release of information forms, a missing case file, and an ineligible participant due to age requirements. None of these other deficiencies were noted in the current audit. In response to the absence of required contacts in the previous audit report management stated "We concur. . . . the department is working with the Regional Administrators to address issues regarding monthly contact and the proper documentation in TNKIDS . . ."

Management has policies in place for the Independent Living program and has sufficient personnel to administer the program. It seems that the department chooses not to follow the policies that it has put in place. By not following its policies, the department allows young adults to receive services for which they are not qualified, thereby using funds that could benefit young adults who are eligible for the services.

Recommendation

The program director should ensure that adequate controls are designed, implemented, and maintained to ensure that young adults receiving services through the Independent Living program are meeting the requirements set forth in DCS policies and monitor the participants to ensure that they are Pell Grant eligible, in college full-time unless a waiver is obtained, and maintain sufficient grades in order to receive services. The Commissioner or designee should ensure that a system is put in place to detect youth who fail to comply with their contractual obligations and should cease payments for those who do not follow the program's guidelines. Also, the Commissioner or designee should ensure that adequate controls are designed, implemented, and maintained to ensure young adults who move from foster care into independent living services receive the necessary case manager contacts and are provided sufficient support to enable a successful transition into adulthood.

Management should ensure that other risks of noncompliance, fraud, waste, or abuse 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

We concur.

Policy 16.53 Post-Secondary Education-Bright Futures Education and Training Vouchers (ETV) is being reviewed and updated to a) expand the parameters of eligibility for post-secondary students to attend school part-time, work part-time and maintain ETV, and b) expand the parameters of ETV eligibility for post-secondary students who may not access the Pell Grant for a legitimate reason. The plan for remediation includes ensuring that no ETV applications are processed without written waivers for students who must legitimately attend school part-time and work part-time.

Also, the plan for remediation includes ensuring that no ETV applications are processed without the previous semester or term's academic transcript information, and written waivers for students who fail to maintain adequate academic progress but qualify for a probationary term or semester.

ADMINISTRATIVE LEAVE

Our primary objective was to determine if approval was obtained from Department of Personnel (DOP) for employees on paid administrative leave for more than 30 calendar days.

We reviewed written policies and procedures and tested a sample of employees who were on administrative leave for more than 30 calendar days to ensure that the leave had been approved by DOP.

As a result of the interviews and testwork performed, we determined that the department allowed some employees to be on administrative leave with pay beyond 30 days without the approval of the Department of Personnel. See finding 4.

4. <u>The department did not obtain approval for discretionary leave with pay and did not mitigate the risk of payments for excessive or inappropriate leave</u>

Finding

The Department of Children's Services (DCS) did not obtain approval from the Department of Personal (DOP) for discretionary leave with pay that extended beyond 30 days.

Department of Personnel Policy, Chapter 3 states:

> Discretionary leave may be for reasons or situations where an employee is removed from normal duties with approval of the appointing authority or other authorized supervisor for a period of (30) calendar days or less when considered necessary for proper operation of the agency or welfare of the employee. Periods of discretionary leave with pay that exceed thirty (30) calendar days must be approved by the Commissioner of the Department of Personnel. . . .

Of the 31 employees who were on discretionary leave for more than 30 days during the year ended June 30, 2005, 13 employees did not have approval for that leave from the Commissioner of the Department of Personnel. The employees were placed on leave during official investigations for such matters as a child's death not being reported timely, the removal process of children from a foster home, and sexual harassment. Because of management's failure to follow the state's prescribed policy, the department did not have the necessary authorization to pay the discretionary leave for the portion of the leave that extended beyond 30 days. Unauthorized payments to these 13 employees totaled $132,116.

The Department of Children's Services added a new step to their Policy 4.26, effective March 1, 2005, that agrees with DOP policy and requires the approval of the DOP's Commissioner for discretionary leave that is paid beyond 30 calendar days. A form letter was developed by DCS and sent to field staff for requests for leave extensions over 30 days. According to Central Office management, the regions did not always complete documentation for discretionary leave or notify the Personnel Division when leave was extended beyond 30 calendar days. It appears there was a lack of communication between Central Office personnel and Regional personnel concerning employees on discretionary leave.

Recommendation

The Commissioner should take appropriate steps to make it clear to all staff that it is everyone's responsibility to ensure compliance with the policy on discretionary leave with pay. The Executive Director of Personnel should ensure that the department's Office of Human Resource Development obtains approval from the Department of Personnel for employees who are on discretionary leave beyond 30 calendar days. Paid discretionary leave should be closely monitored—including knowing when leave begins and ends and making certain DOP approval has been requested timely for leave expected to extend beyond 30 calendar days. An employee should be assigned to maintain a database to track employees on discretionary leave, and regional administrators should be required to perform a weekly update on the status of employees on discretionary leave.

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

We concur. As indicated in the finding, the Department previously revised DCS Policy 4.26 to comply with the DOP Policy and created and disseminated a form letter to be used by staff when requesting to extend discretionary leave with pay past 30 days. However, Departmental staff have not always complied with the requirements of the policy.

DCS Central Office Personnel has established a database to track employees on discretionary leave with pay and a staff person is assigned the duties of tracking all employees on discretionary leave with pay including when leave begins and ends along with DOP approval for leave exceeding 30 days so that immediate action can be taken when exceptions are discovered. The Department will take steps to implement the recommendations to require Regional Administrators, Youth Development Superintendents and Central Office managers to provide weekly updates on employees placed on discretionary leave with pay. Additionally, a review of DCS Policy 4.26 (and form letters relative to discretionary leave with pay) will be conducted to determine if additional changes are needed. The Department will also take steps to assure that this issue (as well as others) is identified and assessed as a part of our risk assessment activities so that we are building adequate internal controls to prevent, detect and deal with exceptions timely.

The Department will assure additional communication to staff regarding the importance of compliance with both DOP and DCS Policy 4.26 relative to discretionary leave with pay. These communications will include e-mails and memos to all leadership, supervisory and Human Resources staff from the Commissioner and the Executive Director of Human Resources explicitly restating the process requirements for approval of discretionary leave with pay and the required DOP approval process when the employee remains on that leave for 30 days or more.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether the department of Children's Service's June 30, 2004, and June 30, 2005, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated.*

We requested the June 30, 2004, and the June 30, 2005, responsibility letters to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letter was submitted for June 30, 2005, but not for June 30, 2004.

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

The 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 grant module to record the receipt and expenditure of all federal funds.

Our objectives were 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;

- the department followed the appropriate drawdown procedures;

- the department negotiated an 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.

To accomplish our objectives, we interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We reviewed supporting documentation and tested non-statistical 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 non-statistical sample of revenue and expenditure transactions was tested to determine if the transactions were coded properly. We also reviewed the department's cost allocation plan, 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.

As a result of our interviews, reviews, and testwork, we determined that 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. The department had fully utilized the STARS Grants Module to record the receipt and expenditure of all federal funds, 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.

OBSERVATIONS AND COMMENTS

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.

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.

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 each year. The Department of Children's Services filed its compliance reports and implementation plans on June 30, 2004, and June 30, 2005.

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. The Tennessee Title VI Compliance Commission is responsible for 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.

APPENDICES

MANAGEMENT'S COMMENTS FROM PRIOR AUDITS

Current Finding

The department continues to hold over $14 million for which the rightful owner is unknown and the department still does not return money to the Social Security Administration promptly for children no longer in state custody

Management's Comments

For the Year Ended June 30, 1997

We concur. When this project was first established, Children's Services and the Department of Finance and Administration worked together to develop a process to restate the Department of Human Services' records from 1987-1992. The project was started in 1995 under the supervision of the Department of Finance and Administration. Children's Services took over the supervision in February, 1996. No one knew how long the project would take because no one knew how to estimate the analysis time that would be involved for each of the 6,062 children's records.

Children's Services chose to contract for temporary services for the project because of the backlog of records while needing to maintain current trust accounting workload with state employees. A departmental fiscal employee supervises the project. It takes staff at least a week to explain the basics of the project, the ledgers and the computer system to each new temporary employee. Training is never completed because each of the children's records is unique and requires a new explanation for each circumstance.

The project is moving forward and nearing completion. All the children's records from 1987-1992 should be restated this summer. Fiscal staff and legal staff are meeting regularly to discuss the project and determine actions that will be taken. Actions taken to complete the project will also include the reconciliation of the trust fund accounts balances and STARS.

For the Year Ended June 30, 1998

We concur. The department contracted with the Public Consulting Group in March 1999 to (1) analyze all departmental policies and procedures related to Social Security, Veterans Affairs, Miner's and Railroad Benefits transactions; (2) compare current practices to SSA regulations and the Michael B. consent decree requirements in order to determine compliance issues; and (3) develop recommendations for enhancing the department's operations. The results of this study would be used to implement a plan and schedule that will facilitate and support the department's decision making process for appropriate corrective actions. The report from the above consultant group is due by the end of fiscal year 1999. Additionally and in conjunction with this effort, fiscal staff are reviewing the trust activities to develop controls and proper basic accounting techniques for all entries that affect individual accounts in the trust fund records.

For the Year Ended June 30, 1999

We concur. The department contracted with the Public Consulting Group (PCG) in 1998 to begin an analysis of all departmental policies and procedures related to Social Security, Veterans Affairs, Miner's and Railroad Benefits transactions and compare current practices to SSA regulations and the Michael B. consent decree requirements in order to determine compliance issues. A plan for corrective actions was submitted on June 22, 1999, for enhancing operations which will bring the department into compliance with the above regulations and consent decree. One recommendation made by PCG was for the trust fund staff to be increased by three employees. To fulfill this recommendation, the department used three of its improvement positions which were designated for the fiscal division in 1999's budget.

The PCG's analysis presented two options for the department to consider. In one option presented, the PCG would contract with DCS to perform the trust fund functions for the department. The second option, which was the one ultimately chosen, was that the PCG would develop a system in cooperation with DCS's Information Resources division to bring DCS into compliance with the Michael B. consent decree and all laws and regulations. DCS would operate all trust fund functions. The contract has been signed by DCS and the PCG for the development of the needed system in conjunction with the applicable policies and procedures. Upon completion of the approval process for this contract the consulting group will start operations on site at the department. Expected time for completion of this project is from ten to eighteen months.

For the Year Ended June 30, 2000

We concur. However, we do not agree that the department is not currently upholding its fiduciary duties. The department and our consultants, the Public Consulting Group (PCG), have developed and implemented a methodology in which to account for the trust funds in accordance with generally accepted accounting principles. However, during the audit period, this methodology had not been fully implemented.

The auditors note that despite DCS's contract with PCG, it has not corrected weaknesses in its accounting practices. While it is true that our accounting weaknesses were not corrected during the audit period, DCS submits that it has made substantial progress in resolving its accounting weaknesses. DCS further submits that it would have been imprudent for DCS to change its accounting processes significantly between PCG's initial analysis of the problems and its development of new accounting procedures designed to bring the department into compliance with the consent decree entered to resolve the Michael B. lawsuit. Such changes would have presented PCG with an impossible moving target as it attempted to correct procedures that would no longer be in place. For this reason, DCS does not address each weakness noted by the auditors.

Notwithstanding the ongoing weaknesses in DCS's accounting procedures, during the audit period, DCS laid the foundation for developing and implementing a strong accounting system, and has begun implementing corrective measures. First, on February 8, 2000, PCG began the process of correcting the problem areas in processing noted in the prior audits and to bring the department into compliance with the consent decree entered to resolve the Michael B. lawsuit. PCG began to identify all files transferred from the Department of Human Services and the status of each file. This was a monumental task involving analysis of 8,143 files, and was done concurrently with the development of accounting procedures to be used.

Second, PCG has developed procedural manuals, which DCS has distributed to each trust fund unit employee, and DCS and PCG have developed a communication plan. We anticipate that this plan will facilitate the accurate and timely communication of information concerning children's trust fund transactions among departmental staff and between departmental staff and the Social Security Administration (SSA) Nashville District Office.

Third, the Trust Fund Unit (TRU) of the Department of Children's Services applied accounting procedures developed by PCG pursuant to their contract beginning with the July 2000 accountings. The process is manual at this time but a computer system is being developed to automate the transactions. The completion of the automated system is in two phases. The first phase will be completed by June 30, 2001 and will include all accounting functions except the personal needs accounting ($30 monthly allowance for each child). The estimated date for completion of the second phase, including the personal needs accountings, is October 2001.

Finally, DCS has communicated with SSA concerning the refunds submitted by DCS in the amount of $139,345.53. DCS submitted these funds to the SSA Nashville Office in the past, but that office returned the funds to DCS. DCS has learned that the SSA office does not have a mechanism to accept a refund payment unless it has enough representative payee information about a child or that child's location if over 18. DCS has worked diligently with SSA to provide all the information the department could locate on these children. The only way to resolve this issue is through a continuing process in partnership with SSA. Movement is being made toward a total resolution, but the process is not complete at the time of this response.

One of the accounting problems noted in this finding is DCS's failure to account for approximately $1.7 million less than that reflected in STARS; when individual trust fund records were transferred from DHS to the Office of Children's Services Administration, and its inability to support the reduction in this balance on STARS to $1,586.86. The reduction of the $1.7 million to $1,586.86 transferred from the Department of Human Services was a problem inherited from that previous department. The Michael B. lawsuit necessitated what has become known as the "ledger project." This project was to determine actual balances of individual accounts from old handwritten ledgers transferred from DHS prior to 1992. There was and still is absolutely no supporting documentation other than the ledgers to verify the trust fund amounts. DCS has resolved this issue to the best of its ability, and can do nothing further for the reasons stated above.

For the Year Ended June 30, 2001

We concur. 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.

For the Year Ended June 30, 2002

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.

For the Period July 1, 2002, Through February 28, 2004

We concur. As noted in the audit finding, the department has made significant improvement in the manual accounting for the trust funds for the children in the department's custody. The trust function in the Department of Children's Services is a highly complex interdependency between various funding sources, including entitlements that impact a child's accounting for a given period of time. DCS is providing manual accountings for approximately 3,500 children for any given month. Because of the number and complexity of each accounting, full implementation of the audit recommendations will require the total automation of the accounting systems for the department.

The first step of the automation of the trust accounting function requires that all payments made for a child be processed in a single accounting system or implementation of a seamless interface between accounting subsystems maintained by the department. The department subsequent to the audit period has implemented the first phase of the financial segment of TNKIDS. This first phase deals with child specific payments for residential treatment facilities. This system will provide the foundation for automation of the trust accounting when all phases related to child specific payments are complete in TNKIDS.

The second step is the automation of child specific funding of each transaction paid for each child. Because of the interdependencies between eligibility for entitlements and trust funds, this is a complex project for the department. As often as not, changes in the eligibility status of a child must also trigger re-evaluation of previously funded transactions and facilitate adjustments in each child's account. The basis for such an intricate funding system must of necessity include the eligibility status for entitlements. The Departments of Children's Services and Human Services are currently developing business rules for a comprehensive eligibility system. This system through interfaces with other systems will link eligibility coverage for Title IV-E, TennCare, Families First, Day Care and Child Support. This project is in the early stages but will support the automation of the trust accounting area.

Pending completion and implementation of the financial and eligibility segments of TNKIDS, the department will continue to identify and make improvements in the manual trust accountings process and implement the audit recommendations. Modifications to the existing subsystems will require development of business rules and prioritization for resources by the Core Leadership Team.

The sequential implementation of the components involved in building a comprehensive DCS accounting system as described above must be in place before the trust fund accounting system will have the inter relational capabilities essential to develop a system that will produce accurate real-time trust fund information. Implementation and development of this system is the responsibility of the Executive Director of Finance and Program Support.

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
359.35	Needs Assessment
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
359.64	New Visions Youth Development Center
359.65	Community Treatment Facilities
359.70	Tennessee Preparatory School
359.80	Major Maintenance
359.90	Children in State Custody- Trust
359.95	Social Security Trust