

## **Department of Children's Services**

formerly the Department of Finance and Administration's Office of  
Children's Services Administration, the Department of Youth Development,  
and certain functions transferred from the Department of Health and the  
Department of Human Services

**For the Year Ended  
June 30, 1996**

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July 1, 1997

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable George Hattaway, Commissioner  
Department of Children's Services  
Cordell Hull Building, Seventh Floor  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities which included the former Department of Finance and Administration's Office of Children's Services Administration, the Department of Youth Development, and certain functions of the Departments of Human Services and Health that transferred to the Department of Children's Services for the year ended June 30, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Children's Services' compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

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

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

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

## **Department of Children's Services**

formerly the Department of Finance and Administration's Office of Children's Services Administration, the Department of Youth Development, and certain functions transferred from the Department of Health and the Department of Human Services

For the Year Ended June 30, 1996

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### **AUDIT SCOPE**

We have audited various programs and activities that transferred to the Department of Children's Services for the period July 1, 1995, through June 30, 1996. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1996, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of deferred and contingent revenue, computer programming, and recording of federal grant expenditures and revenues (Department of Finance and Administration's Policy 20). The audit was conducted in accordance with generally accepted government auditing standards.

### **AUDIT FINDINGS**

#### **Duplicate Payments of Approximately \$2.1 Million Made to Vendors\*\***

The department issued many duplicate payments and overpayments to vendors for goods and services provided to children's plan recipients. Vendors voluntarily made over 718 refunds totaling approximately \$2 million and returned over 247 original checks totaling approximately \$130,000 (page 5).

### **No Formal Procedures for Identifying and Collecting Overpayments to Foster Care and Adoption Assistance Parents and to Vendors**

When the department is notified of an overpayment, subsequent payments to that vendor are reduced to collect the overpayment. However, no procedures are in place to collect overpayments if subsequent payments are not made or to promptly collect from adoption assistance and foster care parents (page 6).

### **Controls Over Processing of Medical Payments Are Inadequate\*\***

Invoices were not reviewed for appropriateness or checked for previous submission prior to payment, and payments to vendors for medical services were not appropriately authorized by a state official (page 8).

### **Untimely Federal Reporting\***

The Department of Children's Services did not always provide the Department of Human Services with the information necessary to prepare the Title IV-E Foster Care Quarterly Report in a timely manner (page 9).

### **Controls Over Disbursements Were Weak\*\***

The department did not have sufficient controls to ensure the proper processing of disbursements. Among the many problems in the Children's Services' disbursements process were lack of supporting documentation, late payments, insufficient approval, and failure to follow standard processing procedures (page 10).

### **Status Changes for Foster Children Are Not Processed Timely\*\***

Former Department of Human Services caseworkers did not notify Children's Services central office personnel of changes in placement status for foster care children in a timely manner (page 12).

### **Procedures Related to Funding Payments With Title IV-E Grant Funds Need Improvement\***

The procedures used by Children's Services to determine which payments made on behalf of Children's Plan recipients can be funded with federal Title IV-E Foster Care funds need improvement (page 13).

### **Untimely Journal Voucher Processing**

The department prepares journal vouchers to record expenditure and revenue transactions between other state agencies and departments. However, the department did not always process these journal vouchers promptly (page 14).

### **Social Security Administration Trust Fund Accounts Should Be Reconciled With Accounting Records Promptly\*\***

The department has not resolved and corrected the \$1.7 million difference that accumulated between the social security trust fund account balances and STARS from 1987 to 1992. For the last two years, Children's Services has been working on this problem, but as of December 1996, it has not been remedied (page 16).

### **Untimely Transfer of Deferred Revenue**

The Department is not researching and transferring some items from the deferred revenue account in a timely manner. Three of ten items were not transferred until 14 months after receipt. Seven of the ten had not been transferred as of December 1996, but had been received between October 1995 and June 1996 (page 17).

### **Controls Over Computer Programming and Payment Processing Are Not Adequate\*\***

Controls associated with the payment system and computer programming are not adequate. Until the Comprehensive Children's Services Information System is designed and implemented, current programs used by the department will allow a single user to modify the program, manipulate files, enter data, and prepare reports (page 19).

### **The Client Operation and Review System Does Not Ensure Data Integrity and User Accountability\***

Procedures have not been implemented to detect duplicate, incorrect, or invalid data. The ability to add, change, or delete client information is not appropriately limited to ensure only authorized changes are made. In addition, periodic password changes are not required to reduce the risk of unauthorized access (page 20).

### **Children's Services Should Improve Disaster Contingency Planning\***

Children's Services does not have a contingency plan to provide continuity of administrative, clerical, and operational functions in case its office and related work areas are damaged or destroyed (page 21).

\* This finding is repeated from the prior Department of Finance and Administration audit.

\*\* This finding is repeated from prior Department of Finance and Administration audits.

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

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report**  
**Department of Children's Services**  
**For the Year Ended June 30, 1996**

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# Department of Children's Services For the Year Ended June 30, 1996

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## INTRODUCTION

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### POST-AUDIT AUTHORITY

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

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

### BACKGROUND

The Department of Children's Services was created by 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.

The mission of the Department of Children's Services is to provide services to children who are unruly, delinquent, dependent, and neglected and to their respective families, as well as to provide services to children who are at imminent risk and in need of services to prevent entry into state custody, who are in state custody pending family reunification or other permanent placement, or who otherwise may require services pursuant to state law. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. For the children it serves, the Department of Children's Services shall strive (1) to protect children from abuse, mistreatment, or neglect; (2) to provide prevention, early intervention, and rehabilitative and educational services; (3) to pursue appropriate and effective behavioral and mental health treatment; and (4) to ensure that health care needs, both preventive and practical, are met. The department works to combat delinquency and other social ills

concerning young people and to continuously improve the management and coordination of services for the children and families.

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

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## **AUDIT SCOPE**

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We have audited the Department of Children's Services for the period July 1, 1995, through June 30, 1996. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1996, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of deferred and contingent revenue, computer programming, and recording of federal grant expenditures and revenues (Department of Finance and Administration's Policy 20). The audit was conducted in accordance with generally accepted government auditing standards.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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

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

Our audit of the Department of Children's Services is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act of 1984. The Single Audit Act requires us to determine whether

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



We determined the following areas within the Department of Children's Services were material to the CAFR and to the Single Audit Report: Rehabilitations Services, Social Services Block Grant (SSBG), Foster Care (Title IV-E), Family Support Payments to states, School Breakfast Program, School Lunch Program, Vocational Education, Special Education, and Block Grants for Prevention and Treatment of Substance Abuse.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these nine major federal financial assistance programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions, as appropriate.

We have issued an unqualified opinion on the general-purpose financial statements of the State of Tennessee in our Independent Auditor's Report dated December 20, 1996, which is included in the CAFR for the year ended June 30, 1996. The Tennessee Single Audit Report for the year ended June 30, 1996, will include our reports on the Schedule of Federal Financial Assistance, internal control structure, and compliance with laws and regulations.

We determined the following: the department made duplicate and overpayments of approximately \$2.1 million to vendors; the department lacks formal procedures for identifying and collecting overpayments to foster care and adoption assistance parents; controls over processing medical payments are inadequate; federal reporting was untimely; controls over disbursements were weak; status changes for foster children are not processed timely; procedures related to funding payments with title IV-E grant funds need improvement; and journal vouchers were not processed promptly.

Findings identified as noted in previous audits were reported in the 1995 and 1994 Department of Finance and Administration audit reports. The Department of Children's Services was created on May 21, 1996.

**1. Duplicate payments and overpayments of approximately \$2.1 million were made to vendors**

**Finding**

As noted in two previous audits, Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children's plan recipients. During fiscal year 1996, vendors voluntarily made over 718 refunds totaling approximately \$2 million and returned 247 original checks totaling approximately \$130,000. Although the payment function was transferred from the Department of Finance and Administration to the Department of Children's Services, the staff responsible for administering this function was essentially unchanged.

The duplicate invoices for goods or services could not be explained. Vendors may have intentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child (e.g., caseworkers from the Department of Human Services and community services agency Assessment and Care Coordination Teams) may have each submitted the claim unaware that the other party had already submitted the claim.

During fiscal year 1996, Children's Services updated its computer programs to check for duplicate billings before processing payments. Invoices are checked by computer against a file of previous payments to determine whether Children's Services had already paid the bill. For most claims, these programs pick up duplicate checks based on the child's social security number, name, and dates of service. However, the programs for medical claims base the duplicate check search on the dates of service and the child's name, which can have spelling variations. Thus, a child's bill could be repaid if the name is misspelled, and the computer program would not pick up the duplicate payment. Currently, system programmers for Children's Services are attempting to revise this program so that it includes the child's social security number in the duplicate payment search. Additional procedures are needed to eliminate duplicate payments and overpayments for all other types of expenditures.

Implementing good computer system internal controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and canceled warrants.

## Recommendation

The assistant commissioner of Fiscal and Information Systems should take appropriate measures to establish an adequate internal control structure that will eliminate duplicate payments. The structure should include ongoing procedures and processes to monitor the effectiveness of the controls and to assure appropriate compliance with control procedures, including follow-up on reported instances of noncompliance. The Director of Information Systems should take all appropriate steps to implement the controls. The director should promptly complete the revision of the duplicate payment search program to include the child's social security number.

## Management's Comment

We concur. As you noted in the finding, duplicate payments and overpayments were made to vendors, yet the department received refunds without the loss of state funds. System edit changes have now been made in the residential, prevention and wraparound system programs to check for duplicate payments. In addition, these programs have now been rewritten to create a single claim form and operating system. After a detailed review by our Information Resources staff, it was determined that a medical program could not be part of the single claim form and operating system because of the three distinct claim forms used in the medical program. Deficiencies noted regarding medical claims will be addressed in the development and implementation of the fiscal component of the Comprehensive Children's Information System (CCIS). Target dates for this implementation will be established by the department's Management Advisory Committee (MAC). The department is continuing our effort to modify the medical program and establish appropriate protocols to avoid duplicate or overpayments.

- 2. The department has no formal procedures to identify and collect overpayments—uncollected overpayments which total at least \$805,097.62 are due from foster care and adoption assistance parents, and overpayments to other vendors are not determinable**

## Finding

As noted in two previous audits, Children's Services still has no formal procedures for identifying and collecting overpayments to foster care and adoption assistance parents and to vendors.

Throughout the audit period, Children's Services overpaid foster care and adoption assistance parents. As of December 1996, the department's records indicated an outstanding accounts receivable balance for these parents of \$805,097.62. This balance increased from \$581,873 since August 1995. Of this amount, \$471,093.51 is for current foster care and adoption assistance parents who still receive monthly payments; however, the department does not reduce subsequent payments to these parents to collect the overpayments. In addition, there is nothing on the remit-

tance advice informing the foster care or adoption assistance parent of the accounts receivable balance and when and to whom it should be remitted.

Some procedures have been implemented to help identify overpayments made to foster parents. When a child is removed from a foster home, Department of Human Services caseworkers are supposed to enter this status change directly into the Children's Plan Financial Information System (CHIPFINS) foster care payment processing system. However, if the information is not entered, payments will continue until the caseworker tries to input new foster home placement information into the system because the system will not allow a child to have multiple placements in the same time period (see finding 6). However, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or caseworker of the overpayment.

In addition to parents, vendors were also overpaid (see finding 1). Many overpayments were collected only because the vendor returned the original check or sent a refund to the state. The department's method of collecting unrefunded overpayments is to reduce subsequent payments to the vendor until the balance is recovered. However, if the vendor does not receive subsequent payments, the department has no procedures in place to collect the overpayments. The accounts receivable balance for overpayments made to vendors could not be determined because complete information was not available from Children's Services' computer systems.

### **Recommendation**

The assistant commissioner for Fiscal and Information Systems should determine the accounts receivable due from all vendors. The commissioner should develop adequate collection procedures and determine how the collection of outstanding balances resulting from overpayments to foster care and adoption assistance parents will be pursued.

### **Management's Comment**

We concur. An accountant was hired the latter part of 1996 calendar year to work with the accounts receivable project. The department is developing procedures to collect overpayments made to foster parents in the CITS system as of June 30, 1996. We have been working with General Counsel to develop procedures to notify people who received overpayments in the CITS system as to how the department plans to collect these overpayments and provide an appeal process. Letters should be sent to the people who received the CITS overpayments in the early part of fiscal year 1997-98. We will then begin addressing the collection process for the overpayments in the ChipFins system that were identified in December, 1996. ChipFins currently has the capability to withhold overpayments for active foster care parents in ChipFins. When a case manager initiates an adjustment form for the overpayment, the system will incorporate, document and withhold the overpayment from the current foster care payment until the full amount is

withheld. Information Resources staff have been asked to determine what would be involved in modifying the ChipFins remittance advice.

The commissioner has approved a reorganization of the fiscal unit into three sections: (1) Payables, (2) Receivables and (3) Accounting. The directors of each section will be working together with management to develop procedures to ensure that accounts receivable are identified, that vendors are notified if there is a receivable balance, and that repayment of the receivable is monitored and properly recorded.

### **3. Controls over processing of medical payments are inadequate**

#### **Finding**

As noted in two previous audits, Children's Services did not adequately review invoices and properly process medical payments. Invoices were not reviewed for appropriateness, and payments to vendors for medical services were not appropriately authorized by a state official.

None of the invoices for medical services that were received and paid during the audit period contained evidence of approval by a state official or a recipient, and none contained certification that services had been requested or provided. The only signature on an invoice was generally that of the physician, counselor, clinic, or hospital providing the service.

The federal government will reimburse payments made on behalf of children who are eligible for Medicaid/TennCare. Before TennCare was implemented, invoices received from Medicaid providers were normally subjected to various computer edit checks such as eligibility and rate and provider authorization prior to payment. However, the medical invoices Children's Services paid were not subjected to the edit checks until after the vendor was paid to determine federal reimbursement.

If internal controls are in place to ensure that only appropriately supported and authorized payments are processed, Children's Services can better prevent payments to vendors for ineligible children or for services never provided.

#### **Recommendation**

Management of the department should require an independent verification by a parent, legal guardian, or caseworker that a child received medical services before invoices are paid. Children's Services fiscal office staff or knowledgeable program staff should review and approve invoices prior to payment to determine if the child receiving the services is eligible to receive assistance from the state.

## Management's Comment

We concur in part. Medical services that are paid by the department fall into two broad categories: (1) those of certain Non-TennCare eligible children and (2) those of children served under one of four medical contracts with the department. We concur with the recommendation pertaining to the first category while we do not concur with the recommendation pertaining to the second category.

Category 1 - In fiscal year 1995-96 notifications were sent to departmental staff and medical providers that medical costs for TennCare eligible children in fiscal year 1996-97 must follow TennCare medical necessity criteria. The department would not pay in addition to or instead of TennCare. Effective July 1, 1996, any medical services in category 1 were required to be accompanied by a Medical Services Form for Certain Non-TennCare Children. Included on that form is a section indicating why the child is not TennCare eligible. There are also sections for signatures of the departmental case manager and the departmental approving supervisor. Beginning in the spring of 1997, a central office employee determines why a child is Non-TennCare eligible before a claim form is approved for payment. This does not apply to children in DCS hardware secure institutions since they are not eligible for TennCare.

Category 2 - Historically, Children's Services has been responsible for paying for services provided by four providers to certain medically fragile children who are not in state custody. These children are not case managed by departmental staff. The department pays for services according to the terms of the contracts with those four providers.

## Rebuttal

**With regard to the category 2 type medical expenditures, we believe that as long as the medically fragile children are served under the four Department of Children's Services contracts, the children should be case managed by the department, and the invoices from the contractors should be reviewed and approved by a knowledgeable person prior to payment.**

### **4. Children's Services should ensure timely federal reporting for the Title IV-E Foster Care Program**

## Finding

As noted in the two previous audits, the Department of Children's Services staff has not always provided the necessary information to the Department of Human Services for them to prepare the Title IV-E Foster Care Quarterly Reports of Expenditures and Estimates by the federal report due date, which is 30 days after the end of the quarter. During the audit period, Children's

Services submitted pertinent information to the Department of Human Services up to five days after the reports were due. Because information was received late, the Department of Human Services submitted the quarterly reports two to 22 days late.

During fiscal year 1996, the Department of Human Services was ultimately responsible for the Title IV-E Foster Care Program. However, the responsibility for the Title IV-E Foster Care Program will transfer to the Department of Children's Services in fiscal year 1997. At that point, staff within the Department of Children's Services will be responsible for quarterly reporting.

### **Recommendation**

The fiscal director should develop procedures to ensure that information related to the Title IV-E Foster Care Program is promptly compiled and submitted to the federal government. The fiscal director should follow-up to ensure that staff is promptly submitting the reports to the federal government. If the reports are not being submitted promptly, the fiscal director should take appropriate action to correct the situation.

### **Management's Comment**

We concur. We will continue working toward developing timelines and calendars for all fiscal functions including federal reporting. The reorganization of the fiscal section as detailed in number 2 will strengthen this process.

## **5. Controls over disbursements were weak**

### **Finding**

As noted in two previous audits, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation, late payments, insufficient approval, and failure to follow standard processing procedures. Examples are described below:

Lack of Supporting Documentation – Because Children's Services elected not to maintain copies of residential placement and termination forms, staff could not verify the allowability of payments made on behalf of children in residential facilities. We did, however, find all of the forms at other locations, including Community Services Agency offices, Department of Human Services regional offices, and vendors' offices.

Late Payments – Twenty-five payments were not processed timely. The payments ranged from four to 93 days late. Section 12-4-703, *Tennessee Code Annotated*, states:

An agency which acquires property or services pursuant to a contract with a business shall pay for each completed delivered item of property or service in accordance with the provisions of the contract between the business and agency or, if no date or other provision for payment is specified by contract, within forty-five (45) days after receipt of the invoice covering the delivered items or services.

Insufficient Approval – A caseworker or other knowledgeable party did not verify that goods or services had been provided Children’s Plan participants before payments were made for 188 expenditure transactions. Thirty-one of these items were for medical payments. (See finding 3 concerning the inadequacy of medical payment approval.)

Failure to Follow Standard Processing Procedures – Nine of the ten contracts selected for detailed review (90%) were signed from 14 to 274 days after the effective date of the contract.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized, supported, and processed. Management’s responsibility for establishing an effective internal control structure includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for unallowable or unreasonable goods and services. The lack of internal controls has also contributed to the numerous overpayments made to vendors, as noted in finding 1.

### **Recommendation**

Children’s Services’ fiscal director should take appropriate measures to strengthen the controls over the processing of disbursements. Supporting documentation should be examined before payments are made to determine if the transactions are allowable under contract terms or state guidelines. The fiscal director should also ensure that all standard processing procedures are followed and proper approvals are obtained to minimize the likelihood of mistakes in transaction processing. Also, documentation should be maintained for all transactions processed, and payments should be issued timely.

### **Management’s Comment**

We concur. However, we do not believe that maintaining copies of residential placement and termination forms in the fiscal office would ensure the allowability of payments made on behalf of children in residential facilities. There would be thousands of placement and termination forms that would have to be manually tracked before any payments could be made for each month. Once the regional program delivery design is implemented, there will be departmental residential case managers assigned to approve the accuracy of the monthly residential claim forms

before they are sent to the fiscal office for processing. Children who appear on the monthly residential claim forms are in state custody and are assigned to departmental case managers.

Staff have been assigned to ensure there is a review process before payments are processed and issued. Supervisory reviews are also conducted to ensure standard processing procedures are followed. Staff have also been informed of the importance of knowing the location of documentation for all transactions processed. Additional fiscal staff have been hired this year to help process payments in a more timely manner. A calendar for 1997-98 contracts has been established with the goal of all contracts being signed before the effective date of the contract.

There are children who are not in state custody and are not case managed by departmental staff but receive services through prevention contracts with third-party vendors. We will continue to review the best way to validate those types of claims while continuing to pay for these prevention services according to the terms of the contracts with those vendors. See the response for finding 3 on the payment review process for medical claims. We do feel this is an area the departmental internal audit director can assist us with when that position is filled.

**6. Status changes for foster children are not processed timely**

**Finding**

As noted in two previous audits, former Department of Human Services caseworkers did not provide changes in placement status for foster care children to Children's Services central office personnel. In fiscal year 1996, caseworkers again did not submit change forms to the central office personnel within a reasonable time for 25 of 27 change forms tested (93%). (A reasonable time period for each transaction was estimated at 15 days, which would allow Children's Services to be notified and make the changes in the child's status within a month.) The 25 change forms were submitted from seven to 309 days late. Sample testwork indicated that Children's Services central office personnel made the changes to CHIPFINS within a reasonable time after receiving the change forms from caseworkers.

The untimely notification of placement changes creates the potential for excessive overpayments and underpayments to foster parents. For the 25 change forms, \$10,268.68 was overpaid to foster parents, and \$102.16 was underpaid. Of the overpayment amount, \$6,002.91 has not been paid back to Children's Services, and the underpayments have since been paid to the foster parents.

**Recommendation**

The assistant commissioner for Program Operations should establish formal timeliness standards for the submission of status change forms by the caseworkers and the keying of the change information by the central office personnel. Management should also implement proce-

dures to adequately monitor department personnel's compliance with those standards and take appropriate action to correct any future deficiencies in this area.

### **Management's Comment**

We concur. Field staff have been sent notices about the importance of promptly updating any changes impacting foster care and the need to quickly send changes to the central office when necessary. Employees in the fiscal office have been instructed to key changes into ChipFins within 15 days of receiving the date stamped change form. Documentation is to be maintained if there are problems with the form that prevent it from being keyed within 15 days. One file for change forms is to be kept in a central fiscal location. A copy of each incorrect form with explanations written on each form including the keyed date will be maintained in the file. Some of the common problems on the change forms will be shared with the ChipFins trainers, program staff and field staff so future improvements can be made. A three day training session for the ChipFins training staff was conducted by fiscal and program staff this past Spring. The staff that was trained as trainers will continue to work with the field staff to improve the quality and timeliness of data in ChipFins.

### **7. Procedures related to funding payments with Title IV-E grant funds need improvement**

#### **Finding**

As noted in the prior audit, Children's Services needs to improve procedures used to determine which payments made on behalf of Children's Plan recipients can be funded with federal Title IV-E Foster Care funds.

Children's Services purchases goods and services (such as room and board, clothing, medical treatment, etc.) for children participating in the Children's Plan. Payments are initially funded with state funds but are reallocated to various federal programs as the expenditures are verified as having been made for eligible children.

A child's eligibility for the Title IV-E Foster Care Program is determined by a Child Welfare Benefits Counselor (CWBC) stationed at a regional community services agency (CSA) office. When a child is brought into the state's custody through a CSA, the CWBC completes an Eligibility/Reimbursability form (FA-0846) which is submitted to Children's Services. This form contains the child's general information (such as name, social security number, date of birth, etc.), the child's legal status, the child's eligibility for Title IV-E, and the child's reimbursability for Title IV-E (which is determined on a monthly basis). The child's eligibility and reimbursability are redetermined every six months, and an updated form is sent to Children's Services indicating which of the prior six months the child was eligible for reimbursement.

Because the department reallocates funding to various federal programs for payments made with state funds immediately, the funding is usually based upon an estimate taken from the initial application or the prior six months' redetermination form. However, Children's Services never compares the estimated and actual eligibility/reimbursability status of the child or adjusts the previously funded payments to reflect the appropriate funding when actual information is received.

Since no adjustments are made when actual information is received, Children's Services may inappropriately fund payments with federal dollars for ineligible children or fund federally eligible expenditures with state dollars. Of the 203 expenditures tested, 37 were funded with Title IV-E funds. Seven of these payments (19%) were made on behalf of children ineligible for the program. These payments, totaling \$1,400.12, are included in the Schedule of Noncompliance and Questioned Costs in the Single Audit Report for year ended June 30, 1996.

### **Recommendation**

Children's Services fiscal director should take steps to ensure that the fiscal office compares actual eligibility/reimbursability information with estimated information on a timely basis to assure the accuracy of the information used to fund payments made on behalf of Children's Plan participants. Also, a system should be developed that assures that federal drawdowns are adjusted on a timely basis for any inappropriately funded payments.

### **Management's Comment**

We concur. An on-line screen in ChipFins has been developed for the eligibility counselors to use to enter IV-E eligibility data beginning in early March 1997. This functionality includes both initial determinations and re-determinations. As part of the state revenue maximization contract with Maximus, they will review the accuracy of the department's historical IV-E eligibility data and make recommendations for any necessary adjustments to establish a comprehensive data base on IV-E eligibility. In May 1997 a project was initiated for fiscal and information resources staff to change funding from post-payment processing to funding at the time payments are made. The estimated completion date is by the end of this calendar year.

## **8. The department did not process journal vouchers promptly**

### **Finding**

The department has not always processed journal vouchers promptly. The department prepares journal vouchers to record expenditure and revenue transactions between other state departments. According to Department of Finance and Administration Policy 18, expenditure and revenue journal vouchers which total \$2,500.01 to \$350,000.00 should be processed within five

working days after the expenditure is incurred or within five working days of the receipt of the journal voucher. However, 26 of the 63 expenditure transactions on four journal vouchers examined (41%) were not processed in accordance with Policy 18. Five of the journal vouchers containing 17 of the 63 expenditure transactions (27%) did not have a stamp indicating when the journal voucher was received by the department; therefore, compliance with the policy could not be determined. Also, 20 of 97 revenue transactions on four journal vouchers examined (20%) were not processed in accordance with Policy 18. Nine journal vouchers containing 17 of the 97 revenue transactions (17%) did not have a stamp indicating when the journal voucher was received by the department; therefore, compliance with policy 18 could not be determined.

If revenue and expenditure journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

### **Recommendation**

The fiscal director should establish procedures to ensure that journal vouchers are processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18. The procedures should also provide for regular monitoring of the journal voucher processing and corrective action should be taken whenever the time requirements are not met.

### **Management's Comment**

We concur. We are taking steps to make sure all journal vouchers are date stamped when received in the fiscal section mail room. The four expenditure and revenue journal vouchers mentioned did not have enough supporting information from the Department of Human Services in order to be processed by our staff within the timeframes required by Policy 18. Several employees in the Department of Human Services had to be contacted in order to identify the funding sources and the correct cost centers. Cash management was not impacted because the funds had already been drawn by the Department of Human Services and were being transferred to the Department of Children's Services. A journal voucher delay form is attached to file copies of the journal voucher to indicate the circumstances that caused a delay in the journal voucher processing. Accounting supervisory staff review the journal voucher delay forms and the journal voucher to determine the timeliness of each journal voucher when the document is signed. Efforts are being made to ensure that journal vouchers are recorded in compliance with Policy 18. In the future fiscal staff will notify the Assistant Director and the Director of Fiscal Services if journal vouchers cannot be processed within the time requirements of Policy 18 due to information needed outside the fiscal section.

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## CONTINGENT AND DEFERRED REVENUE

Our objectives in reviewing contingent and deferred revenue controls and procedures were to determine whether

- contingent and deferred revenue accounts were used for their intended purposes,
- transactions were properly supported,
- only applicable items were recorded as contingent or deferred revenue and in the proper amounts,
- revenue was transferred from contingent and deferred to earned revenue in a timely manner, and
- the department had complied with applicable federal rules, regulations, and guidelines when federal funds were involved.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over contingent and deferred revenue transactions. We reviewed supporting documentation and tested nonstatistical samples of transactions.

We determined that the Social Security Administration trust fund accounts were not reconciled with accounting records promptly and revenue is not researched and transferred from deferred revenue in a timely manner.

### **9. Social Security Administration trust fund accounts should be reconciled with accounting records promptly**

#### **Finding**

Children's Services receives the Social Security Administration (SSA) and Supplemental Security Income (SSI) benefits on behalf of children in state custody. These funds are held in trust for the children and are used to supplement the cost of caring for them. These funds are accounted for by recording payments received in the individual trust fund account for each child.

As noted in the prior audit of the Children's Services Administration, the total of the individual trust fund accounts is approximately \$1.7 million less than the balance on STARS. When the Children's Plan was formed in 1992, the individual trust fund records were transferred from the Department of Human Services (DHS) to the Children's Services staff, then located in the Department of Finance and Administration. A Children's Services reconciliation of the DHS re-

cords as of June 30, 1992, revealed that the total of the individual trust fund accounts was approximately \$1 million less than the balance on STARS.

For the last two years, Children's Services has been entering the old manual DHS trust fund records into a computer data base. The data base should aide them in resolving the \$1.7 million difference and the lack of any interest that should have been credited to each child's account. However, this process had not been completed as of December 1996 and, therefore, the difference has not been reconciled.

### **Recommendation**

The Assistant Commissioner for Fiscal and Information Systems should ensure that the conversion of the records is completed and, upon completion, ensure that the \$1.7 million difference that has accumulated between the individual trust fund account balances and STARS is resolved and corrected.

### **Management's Comment**

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 through 1992. The project was begun 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. The department chose to contract for temporary services because of the backlog of records while needing to maintain current workload with state personnel. 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 successfully and upon completion of the project, the department will reconcile the trust fund accounts balances and STARS as reported.

## **10. Revenue should be researched and transferred from deferred revenue in a timely manner**

### **Finding**

Controls over the processing of deferred revenue should be implemented to ensure timely research and transfer of funds to the appropriate accounts. When some cash receipts are received, they are initially recorded in deferred revenue and noted as "need to research." Children's Services personnel must then identify the purpose of the receipt and determine the proper accounting.

However, the department is not researching and transferring these funds from deferred revenue in a timely manner. Of the ten “need to research” items tested, none (0%) were researched and transferred in a timely manner. Three of the ten “need to research” items tested were not transferred to the appropriate accounts until 14 months after receipt. Seven of the ten items tested were received between October 1995 and June 1996, and as of December 1996 had not yet been identified and transferred to the appropriate accounts.

### **Recommendation**

Procedures and controls should be developed by the fiscal director and implemented to ensure that deferred revenue is researched and transferred to the appropriate accounts in a timely manner. The research and transfer activities should be monitored to assure timely performance. Corrective action should be taken if the performance of these duties is not timely.

### **Management’s Comment**

We concur. Accounting staff have referred items that need to be researched to payables staff. Accounting staff have been assigned to prepare H journal vouchers as information is received. The Director of the Payables section will include the status on the research in her weekly report to the Assistant Director and Director of Fiscal Services.

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## **COMPUTER PROGRAMMING**

Our review of computer programming included a follow-up of prior audit findings to determine whether they have been resolved. The objective of this review was to determine the controls over various computer programs used by the department to accumulate information regarding children served and payments made for children.

We determined that controls over computer programming and payment processing are not adequate, the Client Operation and Review System does not ensure data integrity and user accountability, and the department should improve its disaster contingency planning.

**11. Controls over computer programming used for payment processing are not adequate**

**Finding**

As noted in the previous audit, computer programming controls associated with the payment system are not adequate. Management concurred and stated that a new system would be designed and implemented to establish adequate controls.

However, not all prior year recommendations have been implemented. The design and implementation of the Comprehensive Children's Services Information System was started on January 17, 1997, and is estimated to be completed April 23, 1998. Until the Comprehensive Children's Services Information System is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increases the risk that employees will be able to inappropriately manipulate data.

**Recommendation**

The Assistant Commissioner for Fiscal and Information Systems should ensure that controls over computer programming used for payment processing are adequate. Also, the Commissioner should continue to work with the Office for Information Resources to ensure that the design and implementation deadlines of the Comprehensive Children's Services Information System are met.

**Management's Comment**

Children's Services: We concur. The new Standard Claim Invoice System has been implemented for former claim-types 11, 12, and 13. Each of the control issues cited have been addressed with this system. This system was implemented with a high priority given that the fiscal component of the Comprehensive Children's Information System (CCIS) will not be part of the first phase (2.1) of CCIS implementation.

Department of Finance and Administration, Office for Information Resources: We concur. The new system is being developed and implemented with proper controls on programming and version control.

## **12. The Client Operation and Review System does not ensure data integrity and user accountability**

### **Finding**

As noted in the previous audit, the Client Operation and Review System (CORS) records the profiles of children in state custody and matches these with the facilities providing care. CORS monitors the status of children and identifies those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial System (CHIPFINS). Our review of CORS revealed that the following weaknesses continue:

1. A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even duplicate entries, results in a matching new entry to CHIPFINS.
2. Although access was generally limited to community services agencies (CSAs), any user at a CSA could add, change, or delete clients or information on clients.
3. The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.
4. Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective management controls require either manual or automated procedures to prevent duplication of data and to reduce the risk of incorrect or invalid data. In addition, these management controls require appropriate access restrictions to client records and an audit trail of changes to client information. Also, periodic password changes decrease the risk of unauthorized access to the system.

### **Recommendation**

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new Comprehensive Children's Information System has the following capabilities:

- Detects duplicate or invalid data
- Permits only authorized users to add, change, or delete client information
- Provides a system log to record user activity and serve as an audit trail

In addition, the new system should require periodic password changes to reduce the risk of unauthorized access. The Assistant Commissioner for Fiscal and Information Systems should monitor the implementation of the new system to ensure that the above controls are built into the system.

### **Management's Comment**

Children's Services: We concur. However, no automated information system can absolutely detect all duplicate or invalid data. The Comprehensive Children's Information System (CCIS) design will incorporate edits using state-of-the-art database software to detect the possibility of such problem data. User training will also address these issues. CCIS will allow the control of authorized users to add, change, or delete client information. Also provided will be a system log of user activities which will serve as an audit trail. The latter two capabilities will be implemented as a part of CCIS Phase 2.1, presently scheduled for implementation in early 1998. Within the current CORS application, a system feature automatically forcing current users to change their passwords at least every 90 days has not been instituted. This can be done upon request from the system sponsor.

Department of Finance and Administration, Office for Information Resources: We concur in part. Appropriate controls over data accuracy, access with change authority, and audit log functions are part of systems and will be part of this system. However, to suggest that a system can be developed and implemented that detects all incorrect data would not be possible or feasible.

### **13. Children's Services should improve disaster contingency planning**

#### **Finding**

As noted in the prior audit, Children's Services does not have a contingency plan to provide continuity of administrative, clerical, and operational functions in case its office and related work areas are damaged or destroyed. In addition, the department had not participated in disaster recovery testing at the Office for Information Resources' (OIR's) central data center to ensure mainframe-based computer applications can be restored. Furthermore, Children's Services did not store network backup files at an appropriate offsite location. The potential for interrupted service and lost data increases significantly without an adequate contingency plan. In the event of an emergency or disaster, Children's Services would not be equipped to carry out day-to-day operations. No plans have been made for an alternate facility for communication, or for computer system back-up.

## **Recommendation**

The Commissioner of the Department of Children’s Services should ensure that the department develops and tests a contingency plan that includes, but is not limited to, relocation to a temporary site, provision for telephone and communications, and acquisition of office equipment, furniture, supplies, and forms necessary to carry out operations. The Director of Information Systems should ensure that the department also participates in disaster recovery testing at the OIR data center and establishes an offsite storage location for backup network files.

## **Management’s Comment**

We concur. All Department of Children’s Services mainframe functions are included in any OIR disaster recovery testing. In addition, OIR will be assuming responsibility for Local Area Network (LAN) management early in the coming fiscal year. A standard off-site storage strategy will be a part of this implementation. Prior to this implementation, the department will be using the existing state off-site storage contract (Iron Mountain) for off-site storage of back-up media.

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

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

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

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Department of Finance and Administration Policy 20. We reviewed supporting documentation and tested nonstatistical samples of revenue and expenditure transactions. We also reviewed the Supplemental Schedule of Federal Financial Assistance.

As a result of our work, we had no findings related to Department of Finance and Administration Policy 20.

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## **PRIOR AUDIT FINDINGS**

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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 January 28, 1997. A follow-up of all prior audit findings in the Department of Finance and Administration report related to functions of the Department of Children's Services and the Department of Youth Development was conducted as part of the current audit of the Department of Children's Services.

## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Department of Children's Services has corrected previous audit findings in the Department of Finance and Administration report concerning compliance with its Medicaid/Title V agreement, weak controls over contracts, the use and necessity of the Department of Human Services advances, and excessive access to the local area network. Also, the Department of Children's Services has corrected previous audit findings reported in the Department of Youth Development report concerning inadequate accounting practices for student trust funds and noncompliance with payroll and personnel policies and procedures.

## **REPEATED AUDIT FINDINGS**

The prior audit report of the Department of Finance and Administration also contained findings concerning duplicate payments to vendors, lack of formal procedures for collecting overpayments, inadequate controls over medical payments, untimely federal reporting, weak controls over disbursements, untimely processing of status changes for foster care children, inadequate procedures related to funding payments with Title IV-E foster care grant funds, incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records, inadequate controls over computer programming and payment processing functions, inadequate data integrity and user accountability controls over the Client Operation and Review System, and inadequate disaster contingency planning. These findings have not been resolved and are repeated in the applicable sections of this report.

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## OBSERVATIONS AND COMMENTS

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### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1996, the Department of Children's Services filed its compliance report and implementation plan on June 28, 1996.

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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

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.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

359.10	Administration
359.20	Family Support Services (Non-Custodial)
359.30	Custody Services
359.50	Child and Family Management
359.60	Wilder Youth Development Center
359.61	Taft Youth Development Center
359.62	Woodland Hills Youth Development Center
359.63	Mountain View Youth Development Center
359.65	Department of Children's Services Group Homes
359.70	Tennessee Preparatory School



