

**Department of Children's Services**

**For the Year Ended  
June 30, 1999**

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John G. Morgan  
Comptroller

May 22, 2000

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 of the Department of Children's Services for the year ended June 30, 1999.

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's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

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

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

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/dv  
99/107

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Children's Services**  
For the Year Ended June 30, 1999

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## AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, 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 information systems, trust funds, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

### **Children's Services Inappropriately Requested and Received Reimbursement From TennCare for Children Not Eligible for TennCare Services \*\***

As noted in the prior two audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, the current audit revealed that Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies

program; individuals over the age of 21; and children under the age of three (page 6).

### **Because Children's Services Does Not Have a Reasonable System to Determine Medical Treatment Costs Associated With Providing Services to Children in the State's Care, the State May Have Overbilled the TennCare Program for Treatment and Failed to Maximize Federal Dollars for Room and Board Costs in the Title IV-E Program \***

As noted in the prior audit, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care.

Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs (page 13).

**Since 1993, Children's Services Has Not Collected Overpayments; Uncollected Overpayments Totaling at Least \$1,195,745.66 Are Due From Foster Care and Adoption Assistance Parents \*\***

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. As of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,195,745.66, a decrease of only \$29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period (page 15).

**Controls Over Disbursements Were Still Weak \*\***

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation and insufficient approvals (page 17).

**Status Changes for Foster Children Are Still Not Processed Promptly \*\***

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, case managers did not update the Children's Plan Financial Information System (ChipFins) when changes in status for foster children occurred, resulting in overpayments (page 18).

**Case Files Do Not Contain Adequate Documentation Tracking the Services Provided, Progress, or Movement of the Child**

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. In seven of 60 case files tested (11.7%), there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 50 to 245 days. One case file did not contain case recordings from August 1998 to November 1998 and from January 1999 to May 1999 (page 21).

**The Department Does Not Have Adequate Property Management Controls**

The department did not perform a complete inventory to ensure that all equipment was properly accounted for during the fiscal year. The department did not maintain accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. In addition, the department did not report lost or stolen equipment to the Comptroller of the Treasury, and did not have the items removed from the inventory and accounting records (page 22).

**The Department Did Not Process Journal Vouchers Promptly, Resulting in Lost Interest on Amounts That Were Billed to the Federal Government \*\***

As noted in the prior three audits, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. The data the department uses to derive administration costs that it bills to TennCare is compiled from random moment sampling on a quarterly basis. Therefore, the department bills for administration costs on a quarterly basis. The state is losing interest income on and the use of state money used to fund federal expenditures (page 27).

**The Department Continues to Issue Duplicate Payments and Overpayments to vendors; \$181,025.12 Was Returned or Refunded Voluntarily by Vendors \*\***

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During the year ended June 30, 1999, vendors voluntarily made over 160 refunds totaling \$113,946.79 and returned 276 original checks totaling \$67,078.33 (page 28).

**The Department Committed Funds Without Approval**

Since July 1, 1999, the Department of Children's Services committed state and federal TennCare funds before it had a contract with the Department of Health, Bureau of TennCare, to provide services. This contract serves as the legal instrument governing the activities of the Department of Children's Services as they relate to TennCare and specifies the scope of services, grant terms, payment terms, and other conditions (page 30).

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

As noted in the prior audit, the Department of Children's Services has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Service Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. A report issued by the Child Welfare League of America stated that this practice does not work in some regions and that there is no guarantee that these relationships would continue if the current players leave either agency. These relationships also create inherent problems for the DCS supervisory personnel in that they have less direct control over the performance of CSA case managers (page 31).

**The Department Should Have an Exit Interview Policy**

The Department of Children's Services (DCS) does not have a policy to conduct exit interviews when employees leave the department. Not conducting exit interviews could result in employees not returning state identification badges, keys to office buildings, and sensitive equipment. Also, employee access to the state's accounting systems and to DCS's in-house information systems might not be cancelled promptly after termination (page 33).

**The Department Did Not Uphold Its Fiduciary Duty to Properly Administer and Account for the Trust Fund Accounts of Children Receiving Federal Benefits \***

As noted in the prior audit, the department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration (SSA) for supplemental income, as well as payments received from parents and from U.S. Veterans Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for expenditures made by the state on behalf of the child. Management received a report from the Public Consulting Group dated June 22, 1999, and was in the process of evaluating the recommendations it contained during the current audit. However, during the year ended June 30, 1999, these funds were still not being properly accounted for by the department (page 35).

**The Accounting for the Social Security Administration Trust Funds Is Not Done Monthly for Each Child \*\***

As noted in the prior two audits, covering the period July 1, 1996, through June 30, 1998, the accounting for the Social Security Administration trust funds is not done monthly for each child. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care (page 39).

**The CORS System Currently in Place and the New TnKids Computer System, Which Has Not Been Implemented as Scheduled, Do Not Ensure Data Integrity and User Accountability \*\***

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. Phase one of the TnKids computer system was not implemented until June 1999, and that was only in the Southeast Region. Furthermore, the review of the TnKids system disclosed that any user with update access can add, change, or delete client information across the state without any record of the change (page 40).

**Department Employees' Access to the State's Computer Accounting Systems Was Not Adequately Controlled**

The department did not promptly cancel terminated employees' access to the State of Tennessee Accounting and Reporting System (STARS). Twenty-nine of 312 people listed as having access to Children's Services' accounts in STARS (9%) were no longer employees of the department as of July 7, 1999. These persons had been terminated from employment or transferred to other departments from seven days to four years prior to the date of the listing. Two of the 312 people listed as having access to Children's Services' accounts in STARS (0.6%) have never worked for Children's Services but have worked for other departments, and 10 (4%) have neither worked for the department nor for the State of Tennessee. In addition, several instances were noted where employees were granted access to accounting systems and there were no security authorization forms on file (page 45).

**The Department Has Improperly Managed State Cash by Not Charging the Appropriate Federal Grant at the Time the Initial Expenditure Transaction Is Made \*\***

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditures to the appropriate federal grant(s), creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures (page 48).

- \* This finding is repeated from the prior audit.
- \*\* This finding is repeated from prior audits.

**The Department's Memphis Region Violated Policies and Procedures and Sound Internal Control Principles Relative to Daycare Placements**

Our review determined that the department's Memphis region violated policies and procedures and sound internal control principles relative to daycare placements. As a result, the state paid \$38,052.30 for daycare services provided to 17 ineligible recipients. Furthermore, daycare centers served an additional 35 ineligible recipients for eight weeks, resulting in a loss to the daycare centers of approximately \$20,160 (page 51).

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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, 1999**

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# **Department of Children's Services For the Year Ended June 30, 1999**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

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

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

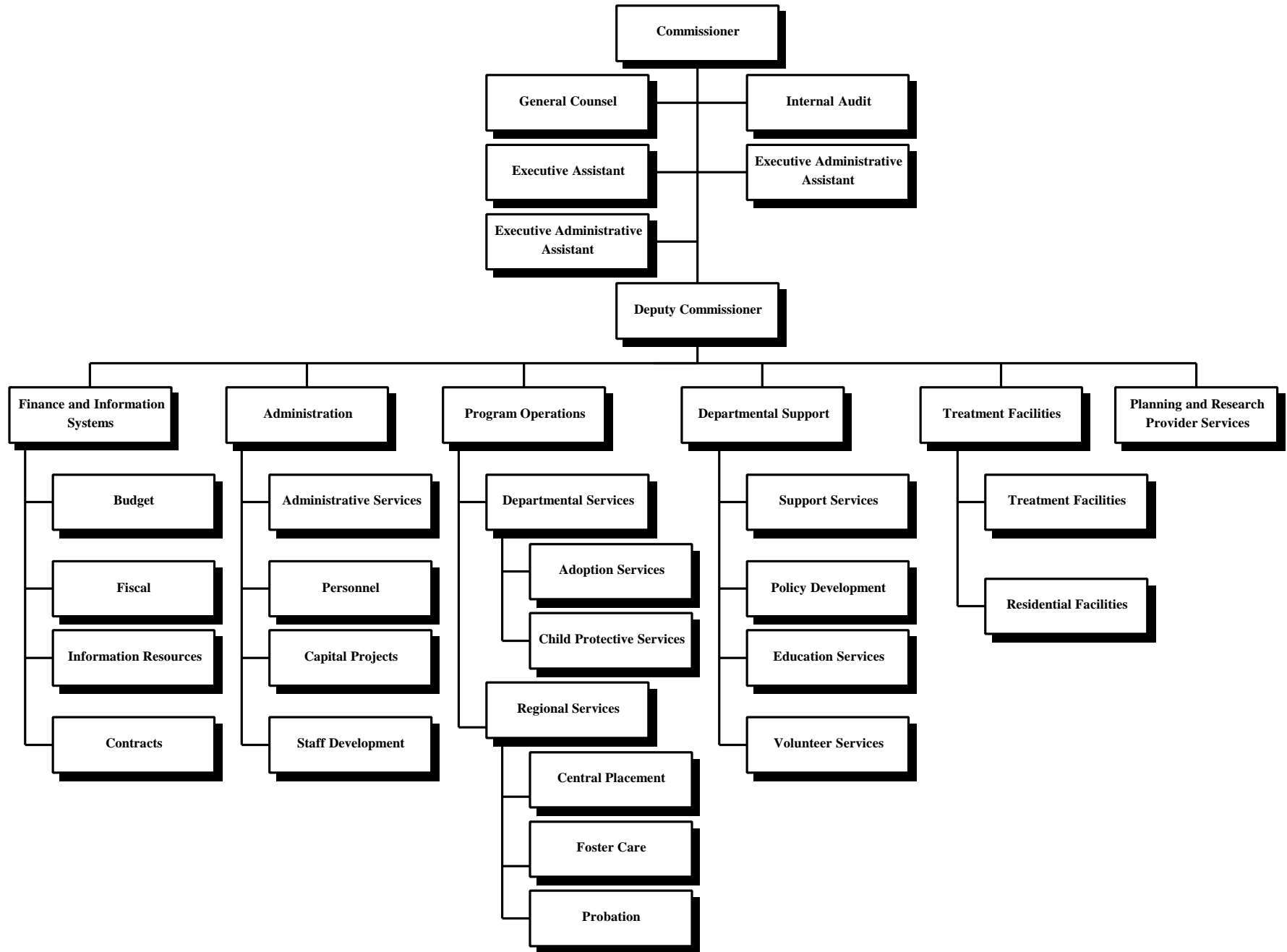
### **BACKGROUND**

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

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. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for children and families.

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

# Department of Children's Services



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## AUDIT SCOPE

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We have audited the Department of Children's Services for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, 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 information systems, trust funds, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

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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 December 27, 1999. A follow-up of all prior audit findings was conducted as part of the current audit.

## RESOLVED AUDIT FINDINGS

The two prior audits of the Department of Children's Services contained a finding that stated the overall accounting controls and procedures of the department needed significant improvement and that the Commissioner should determine if the leadership of the Fiscal and Information Systems Divisions is capable of correcting the many significant problems noted in the department's fiscal operations. In response to the last audit report, the department's organizational structure and the assignment of authority and responsibility in the Fiscal and Information Systems Divisions were changed significantly during the year ended June 30, 1999. It does appear that management has taken steps necessary to correct some of the previously noted findings; however, several problems noted in prior audits remain unresolved. We will continue to monitor the resolution of these issues in future audits.

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

- following federal guidelines when purchasing federal equipment,
- circumventing state purchasing policies and procedures,
- not reporting fraud to the Comptroller of the Treasury,

- failure to resolve disciplinary issues in a timely manner,
- inadequate subrecipient monitoring,
- inadequate controls over medical payments,
- locating case and eligibility files in a timely manner,
- untimely transfer of revenue from deferred revenue,
- signature authorization forms not properly approved,
- inadequate controls over computer programming, and
- inadequate disaster contingency planning.

### **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning

- inappropriate billings to TennCare for children in locked facilities,
- inadequate system to determine medical treatment costs billed to TennCare,
- lack of formal procedures for collecting overpayments,
- weak controls over disbursements,
- untimely processing of status changes for foster care children,
- prompt processing of journal vouchers,
- duplicate payments and overpayments to vendors,
- improper employer-employee relationships,
- incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records,
- accounting for the Social Security Administration trust funds not done monthly,
- inadequate data integrity and user accountability controls over the Client Operation and Review System, and
- appropriate grants not charged when initial transaction recorded.

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

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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 controls and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

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

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal controls to provide reasonable assurance that it is managing its major federal award 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: accounts receivable, contingent and deferred revenue, Social Services Block Grant (SSBG), Foster Care/Adoption Assistance (Title IV-E), and TennCare. The audit work for TennCare was done as a part of the Department of Health audit.

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

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 1999, includes our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

In addition to the findings, other minor weaknesses came to our attention that have been reported to management in a separate letter.



**1. Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services**

**Finding**

The Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 1999.

As noted in the prior two audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. DCS's previous responses indicated this situation would be corrected by a separate contract numbering sequence to be used for detention center contracts. However, no improvement has been made.

Per *Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009, delinquent children who are placed in correctional facilities or facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates. Children's Services is under contract with TennCare to determine the eligibility of children under its care. Children's Services has a responsibility not only to notify TennCare when these children are no longer eligible, but also to refrain from billing TennCare for services provided to ineligible children.

Using computer-assisted audit techniques, a search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least \$1,972,296.82 from July 1, 1998, to June 30, 1999, for juveniles in the youth development centers and detention centers. In addition, Children's Services did not fulfill its contractual responsibility to notify TennCare of children placed in youth development or detention centers. TennCare makes monthly capitation payments to Managed Care Organizations (MCOs) and to Behavioral Health Organizations (BHOs) to cover TennCare enrollees in these plans. Since TennCare was not aware of the ineligible status of the children in the youth development and detention centers, TennCare incorrectly made capitation payments to the MCOs and BHOs on their behalf.

In addition to billing TennCare for ineligible youth in locked facilities as noted in previous audits, the current audit revealed that Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies program; individuals over the age of 21; and children under the age of three.

Children's Services inappropriately billed and received payment from TennCare for children not in state custody. TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for

children not in state custody should be provided through the TennCare BHOs. Using computer-assisted audit techniques, auditors performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Client Operation and Review System (CORS). The results of the data match indicated that DCS had improperly billed TennCare \$4,647,493.79 from July 1, 1998, to June 30, 1999, for services to children who were not in the state's custody. TennCare also contracts with DCS to determine the eligibility of children under its care and should, but does not, notify TennCare of the custodial status of children.

Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare \$403,653.63 from July 1, 1998, to June 30, 1999, for services to children on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status.

Children's Services inappropriately billed and received payment from TennCare for services rendered to the Hometies program, which exists to prevent children from entering state custody. TennCare contracts with two BHOs to provide behavioral health services to its recipients. The BHOs are contractually responsible to provide all Hometies treatment. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare \$2,279,293.00 from July 1, 1998, to June 30, 1999, for Hometies services. The BHOs are contractually responsible to provide all services rendered to prevent children from entering state custody.

Children's Services inappropriately billed and received payment for individuals over the age of 21. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare \$77,347.00 from July 1, 1998, to June 30, 1999, for services to individuals who were over the age of 21. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for Medicaid services provided to recipients in its care who are 21 years or under.

The department has inappropriately billed and received payment from TennCare for behavioral health services provided to children under the age of three. Based on discussions with TennCare's medical staff, a child cannot be mentally evaluated until the age of three. Since these children cannot be mentally evaluated, it does not seem possible that these children received these types of Medicaid services. Management at Children's Services cited the following as possible reasons this occurred:

- Children's Services billed in the child's name for services actually rendered to the infant's mother. However, this is inappropriate because TennCare has not received approval from the Health Care Financing Administration (HCFA) to allow this type of indirect billing. By allowing this type of indirect billing, it is possible the service provider was paid twice for services provided to the mother.
- Children's Services billed for infants who are medically fragile. However, the MCOs are responsible for providing all medical treatment to all TennCare enrollees.

Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare \$1,673,100.41 from July 1, 1998, to June 30, 1999, for services to children who were under the age of three. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for children who receive Medicaid services.

In addition, testwork at the Department of Health, Bureau of TennCare, found that vendors were unable to provide documentation indicating the child received therapeutic treatment for 12 of 60 DCS billings sampled. These errors totaled \$2,838.05.

Questioned costs are reported in the Department of Health's audit report and in the TennCare findings in the Tennessee Single Audit report for the year ended June 30, 1999.

### **Recommendation**

The Commissioner should determine why Children's Services has not developed and implemented the procedures necessary to ensure that TennCare is not billed for medical expenses related to children in youth development and detention centers. The Commissioner should then see that corrective measures are immediately implemented. In addition, the Assistant Commissioner of Fiscal and Administrative Services should implement controls immediately to prevent the department from requesting reimbursement from TennCare for children who are not in custody, in the Hometies program, over the age of 21, under the age of three, or on runaway status. Management's top priority should be to bill TennCare only for allowable services provided to eligible children. In addition, Children's Services should provide TennCare information as to children that are in youth development and detention centers in order for TennCare to cease capitation payments made on behalf of these children.

### **Management's Comment**

We concur in part. The department did incorrectly bill and receive reimbursement from TennCare for children in locked facilities. The department has refunded to TennCare \$1,279,459.49 for children in locked facilities. In addition, the department has \$93,888.80 of partial (part of a month) refunds to be sent to TennCare when their system can be reconfigured to accept partial refunds. During the department's analysis of the TennCare questioned cost of

\$1,972,296.82 for incarcerated youth, stated in the finding, the department determined that \$598,948.53 of this amount was for children placed in residential and group homes facilities, not youth development centers and detention centers.

The department began developing a financial funding system in October 1999 which would be integrated into the TnKids system upon completion. The data available upon the completion of this project will identify children's placement status for billing purposes. This data would include, but not be limited to, children in locked facilities. This information would be utilized to insure the accuracy of billings submitted to TennCare. In addition, the department is currently developing a process which will result in the fiscal division receiving weekly reports from all Youth Development Centers operated by the department which will identify all children in the facilities until the funding project is completed. This report will be used to eliminate children in locked facilities from the monthly billings to TennCare. In addition, for approximately the last six months, the department has been sending monthly reports to TennCare so that TennCare may eliminate payments to DCS for these children.

The department will immediately terminate all billing to TennCare for youth in runaway status. A waiver request from HCFA for this status of child has been discussed with TennCare. This waiver, if granted by HCFA, would allow this population to be billed to TennCare. The department will not bill for this population unless the waiver is granted.

The department reviewed the listing provided to the auditors of children who were supposedly not in state custody. All of these children were either Child Protective Services (CPS) cases or were in the department's continuum program. When a child is removed from his/her home in an emergency, there is to be a hearing within 72 hours. Most of the courts adhere to the 72 hour requirement, but if the docket is full, the hearing may be delayed. The department has no control over when the court schedules the hearing. In addition, the department may not receive a written order at the conclusion of the hearing. Several days may pass before a written order is received by the department. The auditors used as the basis of their finding the date of legal custody which came from the CORS database. This legal custody date represents the date of the court hearing, not the date that the child came into the department's physical custody for protective, child safety reasons. Protective custody is a legal form of physical custody pending the court hearing in which the department is ensuring the child's safety. TennCare reimburses DCS for services to children in legal and physical custody.

The department is currently reviewing coverage issues and negotiating with TennCare regarding its children served in continuum contracts so that DCS may bill TennCare for children during the entire scope of their continuum contract. This is particularly important because two outside consulting groups, Child Welfare League of America, and the DeMuro Report on TennCare Services, cite continuum contracts as important initiatives in the department and recommend that they be expanded. The continuum model follows the child to reunification or permanency. Therefore, the contractor may provide services to the child after the child transitions home. The child remains in legal custody of the department during the receipt of these services. These services fall under the scope of enhanced services, as both residential services and

specialized outpatient and symptoms management. These enhanced services continue during the transition period and the BHO continues the basic benefit package.

*Tennessee Code Annotated 37-3-603(a)* states in part that “the department of children’s services shall develop, coordinate and implement a program to provide family services to each family with a child at imminent risk of placement...” The department provides Hometies services, which are family preservation services, to families that the department reasonably expects that the services will prevent out of home placement. The department provides this service as statutorily mandated and it is funded by Title XIX as part of enhanced services to a statutorily defined group of children/families for whom children have been identified as being at imminent risk of custody. This service was designed to meet the special need of this population, unlike BHO services, designed to meet the needs of TennCare enrollees. The Hometies population is a targeted population, and under the state’s Title V agreement, such services for targeted populations are appropriate for Title XIX funding. TennCare has appropriately paid these expenditures and the grant agreement is being modified to reflect this policy.

The department examined the listing of children over the age of 21 provided by the auditors. In each case, the child has been certified as having severe mental retardation and have been put into the permanent custody of the state. When a child who is mentally retarded reaches the age of 21, DCS seeks to transition them to the adult special services system in the Division of Mental Retardation (Home and Community Based Waiver services). However, in the case of these individuals, the Division of Mental Retardation did not have any resources available to serve these children. The Division of Mental Retardation currently has a waiting list for these services. The department has notified the Division of Mental Retardation of 79 individuals that need to be transitioned to adult services. Due to the high demand for adult mental retardation services, the department has not been assured that these placements can occur, but will continue to seek solutions in conjunction with the Division of Mental Retardation. The department cannot abandon these individuals who have been in permanent custody. The department will request that TennCare include language in future contracts which would allow the department to continue serving this population if services are not available at Mental Retardation.

Children under the age of three who come into the custody of the department and in need of out of home placement are not typical of children in the general population. Children who are under the age of three primarily enter custody due to serious physical abuse, sexual abuse (including child rape), and serious neglect. These children need and receive treatment in therapeutic foster care or in residential programs focusing on physiologically fragile young children. Often these very young children are at a high risk of attachment disorder and have serious developmental and psychological delays. While children this young do not respond to and cannot benefit from cognitive verbal focused therapy, they can benefit from therapy that focuses on the following: behavioral intervention, helping the traumatized child to feel safe, developing trust in adults, learning missed key developmental skills, and addressing other needs of the traumatized child.

The finding reads in part that “based on discussions with TennCare’s medical staff, a child cannot be mentally evaluated until the age of three.” However, in Attachment B to the BHO

Provider Risk Agreement, recommended models for children's behavioral services include family preservation, in-home crisis stabilization, day treatment, therapeutic nursery, and infant stimulation. By allowing the BHO to provide therapeutic nursery and infant stimulation, TennCare has taken the position that a child under three years of age can receive therapeutic services.

It should be noted that these models of therapeutic nursery and infant stimulation fall into the category of enhanced behavioral services under symptom management. The department is clearly entitled to receive reimbursement for enhanced behavioral services from TennCare, and TennCare has not excluded infants from this coverage. TennCare expected the department to provide these enhanced benefits, as needed, to the custody population. TennCare made no provision for these services to be provided by the BHO. These services clearly fall in the enhanced services category, which obligates DCS to provide them, and age should not exclude this coverage, particularly since such services to infants are accepted models of treatment.

## **Rebuttal**

### Incarcerated Youth

In October 1999, the Division of State Audit forwarded a list of incarcerated youth payments to the Department of Children's Services (Children's Services) management. Children's Services management had two months before the end of the audit field work in December 1999, to follow up on the incarcerated youth payments to ensure all information obtained from the CORS (Client Operation Review System) was correct. In February 2000, Children's Services management stated that \$598,948.53 of the incarcerated youth questioned cost was actually for children placed in residential and group home facilities, not youth development and detention centers; however, Children's Services management has not provided any documentation to support this claim.

### Children Not in State Custody

Children's Services management indicated that all the children identified in the custody data match were either Child Protective Services (CPS) cases or were in the Children's Services continuum program. For children in Child Protective Services, Children's Services management stated that several days might pass between the child entering physical custody and the department being granted legal custody. However, utilizing computer-assisted audit techniques, the auditors compared CORS custody dates and dates of services for children in this situation. The comparison revealed that only 2% of the amount questioned could possibly be attributed to such short delays. The majority of the cases involved months, not days, between the dates of services and the dates of custody. And, in some cases, there was no evidence the child was ever in custody.

Continuum services are similar to Hometies services except these services are provided for children leaving state custody instead of entering state custody. While the department contends that Children's Services should be allowed to bill TennCare for continuum services, auditors determined that for over 40% of the custody exceptions identified, the children had not been in custody for at least the past three years. Therefore, these children were not eligible for continuum services. Furthermore, all continuum services, as well as Hometies services, are covered by the BHOs and therefore Children's Services should not bill TennCare directly for such services.

### Hometies

Although *Tennessee Code Annotated 37-3-603(a)* gives Children's Services the authority to develop, coordinate, and implement a program to provide family services to each family with a child at imminent risk of placement, it does not give Children's Services the authority to charge the TennCare program for these services. For those children who are TennCare enrollees, TennCare makes monthly capitation payments to Behavioral Health Organizations (BHOs) to provide enrollees with services covered under the agreements between TennCare and the BHOs. These agreements require the BHOs to provide all services to prevent enrolled children from entering state custody. Therefore, it should be the BHOs' responsibility to provide whatever enhanced services are necessary to prevent these children from entering state custody under their agreements with TennCare.

Case managers should seek services for children who are in Hometies, Child Protective Services, or continuum services from the BHOs as opposed to contracting with vendors to provide them. Furthermore, all of the non-state vendors that the department contracts with to provide these services are also in the BHOs' provider networks. Therefore, the department has paid the same vendors (and billed TennCare) for services that the BHOs should have provided (and paid for) under their agreements with TennCare. Children's Services must ensure the case managers properly use the BHOs as opposed to incurring additional expenses by paying for these covered services and billing TennCare.

### Children Under Three Years of Age

Children's Services management indicated children who are under the age of three receive treatment in therapeutic foster care or in residential programs focusing on physiologically fragile young children. However, management of the Children's Services' providers stated that children at this age receive only medical treatment, not physiological treatment. In addition, Children's Services' management provided the auditors with case notes for some of the children under three that were listed in the CORS database. These case notes indicated that these children received only immunizations and physical examinations, services that are covered by the Managed Care Organizations (MCOs). These children are TennCare enrollees, and, as such, TennCare makes monthly capitation payments to MCOs to provide enrollees with services covered under the agreements between TennCare and the MCOs. Children's Services must ensure the case managers properly use the MCOs to provide medical treatment as opposed to incurring additional expenses by paying providers for these covered services and billing TennCare.

2. **Because Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program**

### **Finding**

As noted in the prior audit, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs.

In 1991-92, a cost analysis study of all the treatment facilities providing services to Children's Services was performed by an independent contractor. As a result of this study, a percentage rate, which supposedly represented the treatment portion of the service, was determined for each individual facility. According to management of the department, they questioned the validity of the cost study but decided to use these percentages to bill TennCare for the treatment portion. If a treatment facility was not included in the 1991-92 cost study, the department arbitrarily set a rate of 50% for the treatment portion of service. However, the percentage rates being used may not accurately reflect the portion of the total charge that is related to treatment. In performing the testwork on the billing procedures, we found that the department is not following its own arbitrary guidelines. In five of the ten billings tested (50%), the department had charged TennCare a larger percentage of the total amount paid to the provider than set by the department's guidelines. The department could not substantiate the rates being used. In many instances, the department was billing TennCare 90% to 100% of the total amount paid to the provider. However, the amount paid to the provider included room and board and education costs that should not be billed to TennCare. Management concurred in part with the prior finding and stated,

The department is . . . currently working on another cost and time study to develop more equitable and less complicated rates based on the recommendations made by the Comptroller's office. The new cost and time study (a similar study was performed in 1992) has been developed to mitigate the issues resulting from the first study and to address other inconsistencies.

It appears that the department has developed a new cost and time study; however, the department has yet to implement the study and bill TennCare based on the new rates.

Without a reliable system in place to identify medical treatment and room and board costs, the state may have overbilled the TennCare program for treatment and failed to maximize federal



dollars for room and board costs in the Title IV-E program.

### **Recommendation**

As stated in the prior audit, management should become familiar with TennCare guidelines addressing the issue of allowable treatment costs. The department needs to implement a system for billing TennCare that includes a standard rate based on the level of care being provided. The rate should fairly represent the actual treatment portion of the care allowable according to TennCare regulations. The recently developed cost and time study should be reviewed with TennCare officials and the resulting rates should be implemented upon approval by both parties.

### **Management's Comment**

We concur. For almost a year, the Department of Children's Services has been collecting information from vendors providing treatment services which are billed to TennCare. This information would allow the department to develop treatment rates that would be based on time and cost studies as well as audited financial information provided by the vendors. The information collected from the vendors was required to be reconciled to the audited financial statements submitted. This process of collecting the required information from vendors has taken significantly longer than planned. Five deadlines were set and passed with some vendors still not having submitted the required information to allow the department to develop more accurate rates for reimbursement. Additional deadlines were allowed in an effort to prevent the necessity of locating new treatment facilities for which new contracts would have to be developed and the relocation of many children to the new facilities. When the fifth deadline was set, the Commissioner and Deputy Commissioner personally called the vendors that had not complied to date and informed them that if compliance was not met by this deadline admissions would be frozen to the facility with the next alternative being cancellation of their contract. Admissions were frozen for short periods for several vendors; however, compliance has still not been met by one vendor whose admissions remain frozen. DCS staff worked closely with TennCare in reviewing the process used to collect the information and the methodology for establishing the new rates. Now that the required information has been received, TennCare will submit the methodology and results to HCFA for approval. If approved by HCFA, the methodology will become the basis for establishing treatment rates not only for existing programs, but also new programs. The rates are to be applied back to July 1, 1999 (for fiscal year 2000). A cost settlement will be done with TennCare upon the final determination of the rates for each level of care provided by DCS.

3. **Since 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,195,745.66 are due from foster care and adoption assistance parents**

**Finding**

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. Management concurred in part with the prior audit finding and stated,

The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies, by county, adjustments that result in overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment.

However, as of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,195,745.66, a decrease of only \$29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

When a child is removed from a foster home, the Department of Children's Services' case manager is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the case manager enters new foster home placement information. Therefore, 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 case manager of the overpayment. However, as noted in finding 5, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a receivable is established. In addition, subsequent payments to the parent are reduced up to 50% until the amount due from that individual foster parent is indicated to be zero. However, the department is not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children.

When overpayments to foster parents are noted, it is the department's policy to adjust subsequent requests for federal funds in order to eliminate federal participation in the overpayment. However, the ChipFins system does not automatically reverse the original overpayment. ChipFins allocates payments and adjustments to programs based on the child's eligibility at the date of the transaction. Therefore, if the child's eligibility changes between the

dates of payment and adjustment, the allocation of the adjustment will not agree to the allocation of the payment.

Because the adjustment process in the ChipFins system has attempted to remove federal participation in the overpayments, only a portion of the outstanding balance represents questioned costs owed to Title IV-E (Foster Care) as of June 30, 1999. These amounts represent the net of transactions not properly adjusted. The federal participation in these amounts is as follows: fiscal year 1997 and earlier, \$38,486.52; for fiscal year 1998, \$4,831.66; and for fiscal year 1999, \$11,810.91.

### **Recommendation**

In order to prevent or minimize future overpayments, it is imperative that case managers record status changes for foster children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should take the appropriate steps to ensure collection of existing and future overpayments. These steps should include such collection efforts as collection letters, telephone calls, collection agencies, and litigation.

### **Management's Comment**

We concur. As represented in the finding the department has attempted to adjust all federal reports so that any overpayment has been refunded to the federal government. The differences represented in the finding were correctly identified as a result of the ChipFins program's inability to make the needed adjustments based on the historical eligibility of the child at the time of the overpayment. Remittance notices are sent to every vendor with an overpayment indicated after each pay-run showing the balance due and requesting reimbursement to the department. An accounts receivable is set up prior to this notice in ChipFins. The department will continue its current efforts of collecting overpayments for accounts where no child remains in the home. The department will explore additional options for collecting these overpayments.

The department has completed the development of a ChipFins Prepayment Authorization system which will require each pay period the approval by all case managers for foster care children in their case load. Testing for this system has completed and training will begin shortly. The Prepayment Authorization system should be in full operation by the end of this fiscal year. In addition, the department is anticipating the development of a call-in phone system which will require the foster parents and adoption assistance parents to call in each pay period to enter information which will be verified and will result in the generation of their payment for the children currently in their home. This information and the information obtained from the case managers will be compared electronically for agreement. For data that does not agree, an error report will be generated. This error report will be sent to the Assistant Commissioner of Field Operations to verify the accuracy of the information. Once the information has been verified and

all needed corrections have been made, a payment will be generated. It is anticipated that the use of both of these systems will virtually eliminate ChipFins overpayments.

#### 4. Controls over disbursements were still weak

##### Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG)]. . . . The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are

- Lack of Supporting Documentation – The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (see finding 5). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced by the above errors, documentation for payments is not always present before payments are made. The errors noted above resulted in questioned costs of \$1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over \$5 million, we believe likely questioned costs associated with this condition could exceed \$10,000.
- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to

the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 3, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is 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 and supported. Management's responsibility for establishing effective internal control 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 services that were not received.

### **Recommendation**

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

### **Management's Comment**

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 3 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if not eliminate overpayments in the ChipFins program. Monitoring of case managers' approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

## **5. Status changes for foster children are still not processed promptly**

### **Finding**

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, status changes for foster children are not processed promptly, resulting in overpayments.

According to management, the Children's Plan Financial Information System (ChipFins) database should be updated by the case managers when a child's foster care placement changes. Until case managers enter these placement changes, payments are automatically made to the foster parents of record in the ChipFins database. In order to correct over/under payments, case managers must submit change-in-status adjustment forms to the central office. There is still a problem with case managers not entering status changes on ChipFins timely.

As indicated in management's comments to the prior audit finding, the department began preparing monthly reports that show the adjustment forms received and the number of changes by case manager. Starting in March 1998, the Fiscal Division started tracking the number of status changes submitted to that office from field staff. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address why the changes are not being made timely by the case managers. Internal Audit also prepares three-month trend analyses that are reported to the Director of Regional Services and the Deputy Commissioner.

Since the department started preparing, distributing, and reviewing the monthly reports, the number and dollar amount of adjustments do not indicate that management's actions have corrected the problem. Adjustment forms for the time period July 1998 through June 1999 show that 1,036 adjustments were made, totaling \$422,636.78 in overpayments and \$44,294.77 in underpayments. The department paid the total amount of underpayments to foster parents. However, Children's Services could not determine the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete.

Management stated in their response to the prior finding that each case manager has the responsibility of data entry for each child entering or exiting assigned homes. Management further stated, "It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry." However, based on a review of adjustment forms, it does not appear that case managers always enter their own status changes in ChipFins. Numerous instances were noted in which reasons for adjustments were due to "keyers" not entering information provided to them by case managers accurately or timely. Case managers not entering their own information in ChipFins provides a greater opportunity for errors and untimely input to occur and not be detected.

Furthermore, this monthly report of adjustments shows when status changes were made late but does nothing to determine if status changes should have been made but were not. A review of case files by case managers' supervisors would be necessary to ensure that the case managers are preparing status changes accurately and timely.

## **Recommendation**

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure case managers enter child placement information in ChipFins timely. These procedures should include a requirement that case managers' immediate supervisors examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against case managers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

## **Management's Comment**

We concur. The department has made progress in identifying problem areas concerning untimely status changes in ChipFins. Reports continue to be provided to Regional Administrators and disciplinary actions are taken when staff habitually miss cut off dates or when staff habitually fail to change the status of a child when they leave a foster home. In the case of the 1999 overpayments, nearly 10% of the total overpayments can be attributed to a single case manager. Needless to say, this case manager is no longer employed by the department. The department is committed to reducing overpayments and the number of ChipFins adjustments, as evidenced by the department's plans to develop the systems discussed below.

The department is anticipating the development of two systems, the Prepayment Authorization System and the phone-in system for foster and adoption assistance parents, which should resolve the ChipFins overpayment issue. These systems are more fully discussed in finding 3. Once these systems are operating in conjunction, the department will know before a payment is made that a status change was not entered timely. These new systems will allow the department to immediately identify case managers who are not entering status changes timely, as opposed to the current system, which may detect status change errors months after they have been made. This knowledge will allow the department to better determine the reasons for the untimely status changes and take appropriate action.

The Program Operations central office staff has investigated several reports of "keyers" being used in the regions. In the past, case managers gave keyers, who were not case managers, information to input into ChipFins. This practice was discontinued two years ago. The current practice is for each case manager to enter his/her own data into ChipFins. In each situation investigated, the use of "keyers" as they were defined in the past was not substantiated. When residential case managers are on annual or sick leave, or when a residential case manager position is vacant, the need for the entering of ChipFins data does not disappear. In each situation where it was alleged that a "keyer" was completing ChipFins data entry, we determined that a supervisor or other residential case manager was actually entering the data. The term "keyer" was used in these situations to denote that the normal case manager did not enter the information, but a backup staff member was responsible for completing ChipFins data entry when the assigned case

manager was not available to do so. The department realizes the necessity for data to be entered into ChipFins in a timely and accurate manner regardless of who is entering the data. Management will continue to emphasize the importance of this task to all staff who have this responsibility.

The department does not currently have a mechanism in place to structure a database to account for ChipFins collections from overpayments caused by untimely status changes. To build such a database would be labor intensive since all of the individual transactions would have to be manually keyed. The fiscal division does not have the staff to perform such a labor intensive activity. The department plans to address this issue in the financial phase of TNKIDS development.

**6. Case files do not contain adequate documentation tracking the services provided, progress, or movement of the child**

**Finding**

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. Department of Children's Services Policies 9.1, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 9.1, "Program Operations-Child Case Files," states,

This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family.

Problems were noted involving time lapses between case notes and the case manager's visits to the child.

Seven of 60 case files tested (11.7%) did not contain adequate documentation tracking the services provided, progress, or movement of the children. In all seven instances, there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 50 to 245 days. One case file did not contain case recordings from August 1998 to November 1998 and from January 1999 to May 1999. Complete records (as detailed in the department's policies and procedures) are essential if case managers are to appropriately assess and monitor the progress of children.



## **Recommendation**

The Assistant Commissioner of Program Operations should ensure that case managers are making the required contacts with children in state custody and documenting all contacts made. Proper case recordings documenting the progress of the child as described in the department's policies should be prepared in a reasonable time and placed in the child's case file.

## **Management's Comment**

We concur. Case file reviews conducted by central office staff from the Division of Program Operations documented similar findings. Historically, part of the documentation problem is related to the number of cases assigned to each case manager. During the past year, the department has hired 121 new case manager positions and 22 new supervisor positions. These recent improvements in staffing and subsequent reductions in caseloads are expected to result in improvement in the timeliness and completeness of case documentation. In the past, when case manager vacancies occurred, the department had problems ensuring that the terminating case manager's cases were being documented properly. When this occurs, the field has been directed to reassign cases to existing case managers or to team leaders who are to handle the cases. This is a stop gap measure that enables staff to deal with emergencies regarding a case and provide an appropriate level of documentation regarding significant events. The Division of Program will also modify policy 9.1, "Program Operations-Child Case Files" to establish a formal policy expectation regarding the timeliness of casework documentation.

### **7. The department does not have adequate property management controls**

#### **Finding**

The department did not perform a complete inventory to ensure that all equipment was properly accounted for during the fiscal year. The department did not maintain accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. In addition, the department did not report lost or stolen equipment to the Comptroller of the Treasury, and did not have the items removed from the inventory and accounting records.

The department did not complete the physical inventory process by year-end as required by the Department of General Services. The Property of State of Tennessee (POST) guidelines require an annual physical inventory prior to the close of the fiscal year. A memo from General Services regarding inventory for fiscal year 1999 requires that an annual physical count of fixed assets and sensitive items owned by the department be completed by June 1, 1999. After June 1, 1999, General Services will generate an exception report and the department should review the exception report and prepare a final update to the inventory list by June 30, 1999. All items not accounted for will be considered lost and a list of these items must be forwarded to the Comptroller of the Treasury.

The department's inventory exception report as of July 21, 1999, contained over 900 items that had not been inventoried for fiscal year 1999. Analytical procedures were performed on the inventory exception report in an attempt to determine possible causes for the large number of items not located. Three locations accounted for 466 items on the exception report (Tennessee Preparatory School, 193; Central Office, Cordell Hull Building, 167; and Local Government Data Processing Center, Columbia, 106). There were 14 additional locations that had from 10 to 67 items on the exception report. Based on this review, it appeared that many locations did not perform a complete inventory for fiscal year 1999 and management did not promptly follow up on the exception report.

Because of the large number of items management did not locate at year-end in the Central Office, the auditors attempted to locate the 37 laptop computers on the exception report whose assigned location was the Cordell Hull Building. This process produced the following results:

- Twenty-three of the laptops were located and confirmed by the auditors. These items should have been located through the regular inventory process, inventoried, and should not have been on the exception report.
- Three of the laptops were located but had the wrong location code on POST. POST records allow location information to be updated on-line; therefore, location information should have been updated immediately when equipment was moved. These items should have been inventoried, and they should not have been on the exception report.
- Eleven of the laptops could not be located by the auditors or management as of October 7, 1999. Since the department is not aware of the location of these laptops, this equipment should be reported to the Comptroller of the Treasury as lost or stolen and removed from the inventory records.

The department is not maintaining accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. The department relies on POST to keep track of all equipment, including these items. POST only provides the county and building location of equipment; therefore, additional subsidiary records are needed to account for portable items assigned to specific individuals. Administrative Services procures equipment and is responsible for maintaining inventory records on POST. Information Resources provides maintenance and supportive services for computers and peripheral equipment. In addition, they are responsible for assignment of computer equipment. Information Resources has a database of computer equipment purchased with Statewide Automated Child Welfare Information Systems (SACWIS) funds; however, this database has not been adequately updated or maintained. Three of the 37 laptop computers assigned to Information Resources Desktop Support inventory could not be located.

In addition, the auditors reviewed the database records from Information Resources to determine if an individual employee in the Department of Children's Services (DCS) was assigned more than one laptop computer or portable printer. According to the database, there were 22 individuals on the inventory report maintained by Information Resources who were assigned two

or more laptop computers/printers. The auditors attempted to locate these items, as well as items not assigned which were on the exception report. The total number of laptops/printers tested in this procedure was 108. As a result of this test, there were only a few persons who actually had custody of two or more laptop computers/printers, and all of these assignments appeared proper. The location and assignment of 37 items agreed with the database. However, the following problems were noted with the subsidiary inventory records maintained by Information Resources:

- Forty-five items were located, but they were not in the custody of the person indicated on the Information Resources database. These laptops/printers had been moved and exchanged for other units. Information Resources has not updated its database on portable computer equipment.
- One item was stolen in December 1997 but was still on the database and had not been removed from POST.
- Twenty-five items were not at the assigned location and DCS personnel could not locate this equipment as of October 7, 1999; however, this equipment still remains on POST and has not been reported as lost or stolen. Two of these 25 items were included in other testwork.

The exception report contained 374 computer equipment items that were purchased with Title IV-E (SACWIS) funds. Based on the inaccuracies noted in the department's records regarding location and assignment of this equipment, the department may not be complying with federal guidelines of the program regarding its usage. In addition, SACWIS regulations govern how this equipment should be used. U.S. Department of Health and Human Services, Administration for Children and Families, Action Transmittal No. ACF-O1SM-001, page 10, section B, states:

Equipment acquired solely to support the activities of State or contract staff administering the programs under the approved State plan under title IV-B or IV-E may be charged to title IV-E. Equipment, which is acquired to support other individuals or programs, must either be direct-charged to the other agency or program, or allocated among all appropriate funding sources, dependent upon whether the equipment is used partially for the programs under titles IV-E or IV-B.

The department does not report lost or stolen equipment to the Comptroller of the Treasury. In addition, they have not requested its removal from the POST records. The Department of General Services requires that the department submit a written request when asking that a stolen item be removed from POST. This request should include the description of the item, tag number, and serial number. In addition, a copy of the police report or security report, a copy of the letter to the Comptroller of the Treasury, and a signature of the department head should accompany this request.

Notwithstanding the fact that some of the items on the exception report were subsequently located as a result of the auditors' testwork, over 20% of the items tested still were not located by

management as of October 7, 1999. None of the items on the exception report were reported to the Comptroller of the Treasury as lost or stolen, or were removed from the POST records of fixed assets in the state's general fixed assets account group as of June 30, 1999. Furthermore, the department had knowledge of nine pieces of equipment that had been stolen from August 18, 1997, through December 12, 1998. These items were not reported to the Comptroller's office and requests were not made to General Services to remove them from POST.

Not maintaining adequate inventory records could result in management not detecting lost or stolen equipment timely. Since the department's inventory records were incomplete and were not updated, the department cannot provide accurate information on location and usage of equipment. Therefore, the department is unable to adequately document compliance with federal guidelines regarding the usage of federally funded equipment. In addition, not properly completing physical inventory procedures by year-end and not reporting necessary adjustments could result in the misstatement of fixed assets on the state's financial statements.

### **Recommendation**

The property officer should follow the Department of General Services' procedures to ensure that the department performs a complete physical inventory of equipment annually. All items not accounted for during the inventory should be researched thoroughly. The inventory exception report should not be considered a list of items to locate during the next inventory cycle. Rather, the department should promptly research all items on the exception report so that necessary adjustments to the inventory and accounting records can be made at year-end. All items which are not accounted for by year-end should be considered lost or stolen and should be reported to the Comptroller of the Treasury and removed from POST records. Inventory records should also be sufficient to document compliance with program guidelines for proper usage of equipment purchased with specific program funds.

Top management should ensure that the department establishes and maintains adequate subsidiary inventory records of portable computer equipment and other portable equipment. In addition to assigning recordkeeping responsibilities, it is imperative that management establish systems and procedures which clearly assign responsibilities to each division in order to ensure the timely reporting of information necessary to properly update all inventory records. The subsidiary inventory records should identify the person who has custody of the equipment, and POST records should be promptly adjusted to reflect any changes in equipment location.

## Management's Comment

We concur. The department's problems in this area were created in part by the process which was utilized in taking inventory for the state fiscal year ending 1999. During that process the various offices across the state were allowed to take their own inventory. The department is extremely decentralized with approximately 145 offices across the state. Each field office was to assign a person to complete the inventory process and submit the results to Administrative Services. Field offices across the state apparently did not put the appropriate emphasis on this process. With the change in the Assistant Commissioner position over the Administrative Services division, this practice has been terminated. One person will have the responsibility for conducting inventory in each region. The department will then be assured that only one person will be accountable for this process in each region. These individuals will be adequately trained to collect the necessary information from all departmental equipment required to be inventoried. This will also be helpful in the department's effort to be sure all information has been received timely.

In addition, the department will shortly be conducting a campaign to verify the location of all laptops assigned to its personnel. The maintenance of subsidiary records for these items will be maintained by the Administrative Services property officer with the Information Resources division tracking any moves or reassignment of all computer equipment. A tracking sheet has been developed and the responsibility assigned for the collection of information concerning reassignment, maintenance, surplusing, installation, etc. The flow of that information to the property officer has also been clearly identified. It has also been very clearly communicated to the property officer that records on POST are to be updated in a timely manner. This process is currently being put in policy.

The location of all equipment will be determined after completing the laptop exercise noted above. At that time, the department will also collect information concerning the function of every staff member that has been assigned the equipment to check for the appropriateness of its use as required by the SACWIS grant. This process will require a sufficient amount of time to visit each region in the state in order to collect the information, check the information collected against the department's current records, and do a follow-up on any discrepancies for verification of the correct location of the equipment. After that process has been completed, Internal Audit will periodically do inventory testwork on a sample of equipment to verify that the system developed is working adequately.

In addition, with improved procedures the department will ensure that property items which cannot be located or were reported as lost, stolen or damaged are properly reported to both the Comptroller of the Treasury and the Department of General Services and removed from inventory records.

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

**Finding**

As noted in the prior three audits, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. Management concurred with the finding and stated that policies and procedures were being developed to address Policy 18 compliance. These policies have been drafted but were not implemented during the audit period.

Six of 30 (20%) revenue voucher transactions (administration costs) were not processed promptly in accordance with Policy 18 because they were over \$2,500 and were billed quarterly instead of monthly. These revenue transactions are administration costs the department bills to TennCare. The data used to derive administration costs is compiled from random moment sampling on a quarterly basis; therefore, the department bills for administration costs on a quarterly basis.

According to Policy 18, revenue (billing) journal vouchers totaling \$2,500.01 to \$350,000.00 should be processed at least monthly, and those over \$350,000.00, within five working days after the expense/expenditure is incurred.

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

**Recommendation**

Since data used for determining administration costs is only compiled quarterly, the department should consider billing monthly estimates of administration costs. Monthly estimates should be based on the prior quarter's actual data, and the last payment in each quarter should be adjusted so that cumulative quarterly billings equal the quarter's data.

**Management's Comment**

We concur. As stated in the finding, data is only available from the random moment sample subsequent to the quarter being allocated. The department is in the process of revising the departmental cost allocation plan to allow the billing of administrative cost to TennCare and all other federal programs based on an estimated percentage derived from historical funding data for each allotment code and cost center included in the cost allocation plan. Transactions processed

through STARS each day will be charged to funding sources and drawn throughout the quarter based on these percentages. Subsequent to completion of the cost allocation process for a quarter, accounting records and federal draws will be adjusted to reflect actual charges to funding sources. The department will submit a copy of the section of the amended cost allocation plan to the Department of Finance and Administration prior to submission to the Department of Health and Human Services (DHHS) for review and comment. Subsequent to federal approval, the department will request a waiver for Policy 18 for billing of administrative cost in accordance with the cost allocation plan as approved by DHHS.

**9. The department continues to issue duplicate payments and overpayments to vendors; \$181,025.12 was returned or refunded voluntarily by vendors**

**Finding**

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During the year ended June 30, 1999, vendors voluntarily made over 160 refunds totaling \$113,946.79 and returned 276 original checks totaling \$67,078.33. These totals only represent the known overpayments due to vendors making refunds. Management concurred with the prior audit finding and stated that comprehensive reports concerning returns of original checks were provided to fiscal management starting in April 1999 in order to indicate the areas that should be targeted for improvement and the type of action that should be taken. Also, the department has started using a database program to help locate duplicate entries for TOPS/STARS invoices. However, it does not appear that the corrective action taken by the department was timely or completely effective. Compared to last year, the total dollar amount of duplicate payments and overpayments and the number of returned checks were nearly the same.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally 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 may each have submitted the claim, unaware the other party had already submitted the claim.

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

**Recommendation**

The Assistant Commissioner of Fiscal and Administrative Services should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and

overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for all expenditures.

### **Management's Comment**

We concur. However, the \$181,025 in overpayments noted in the finding represents only .0943 percent of the total expenditures in this category (\$192,123,149) for the fiscal year ending June 30, 1999. The overpayments noted in the finding represent a very small percentage of the total payments made for this category of expenditures; however, the department is committed to reducing any overpayments and has implemented controls which the department believes will reduce this amount even further.

In addition, \$43,080.75 of the above dollar amount was recovered through controls initiated by the department on April 8, 1999 through the end of the fiscal year. Through these controls the department identified \$50,523 in overpayments and recovered 85% of those funds. This was done by the department's use of the Standard Claim System which provides edit checks to determine overlapping service dates for all children for whom services have been provided and billed on a Standard Claim. If two or more vendors submit a claim for a child indicating services have been provided on overlapping dates during the billing period, the system will not allow payment of any claim after the initial payment. Since the first billing received will not indicate any overlaps, it is paid in full. Only when another vendor's billing is received can the system's edit checks be applied. When a claim is submitted for an overlapping service date, DCS staff determines the kind of services that were provided so that it can be determined if the overlap is appropriate. If not, staff then contacts all vendors billing during the overlapping period to determine which vendors should be paid for which dates. All approvers for the claims involved are alerted to look for the resubmittal of these claims for approval. Upon correction, any overpayment resulting from overlaps is recovered from the state contracted vendor during the next billing period. This procedure allows the department to control the number of duplicate payments for services submitted on Standard Claims. This process is similar to how any business would check billings submitted to verify that the bill is only for services provided. The department cannot verify vendors' invoices prior to their submittal to the department for payment.

The department began using a database program to log invoices for TOPS and STARS in May 1999. After fiscal's evaluation of the controls in this system, weaknesses were noted and an enhancement to this database program was made in August of 1999 to correct the problem. The effects of the controls within this program would not have been evident during the audit period. When an invoice is being logged into the database, the program will give a warning message that this is a duplicate invoice if the vendor and invoice number already exist in the log. The system will not accept a duplicate entry. A replica of this database has been requested from Information Resources for travel claims.



For Y2K compliance the department developed a new processing program for the medical claims. The department began using the new program December 18, 1999. The new medical program is written to mirror the Standard Claim Invoice system. There are edit checks to address duplicate payments in relation to child information, vendor information, NDC code (pharmacy codes), CPT codes (medical procedure codes), and hospital codes.

The department has been very proactive in its efforts to strengthen the controls over disbursements as evidenced by the corrective actions discussed above and will continue to explore additional ways to strengthen the effectiveness of its controls in all areas.

#### **10. The department committed funds without approval**

##### **Finding**

Since July 1, 1999, the Department of Children's Services committed state and federal TennCare funds before it had a contract with the Department of Health, Bureau of TennCare, to provide services. This contract serves as the legal instrument governing the activities of the Department of Children's Services as they relate to TennCare and specifies the scope of services, grant terms, payment terms, and other conditions. As of December 10, 1999, an interdepartmental grant agreement between the Department of Finance and Administration, Bureau of TennCare, and the Department of Children's Services had not been executed for the period July 1, 1999, through June 30, 2000. Executive order No. 23 transferred the TennCare program from the Department of Health to the Department of Finance and Administration effective October 19, 1999.

##### **Recommendation**

The Department of Children's Services and the Department of Finance and Administration, Bureau of TennCare, should ensure that a contract between the two departments is in place at the start of each fiscal year before services are provided.

##### **Management's Comment**

We concur. The department has been involved in meetings with TennCare to facilitate the contracting process. However, as the Grantor, it is TennCare's responsibility to draft the contract. After the contract is drafted, it is sent to DCS for review and approval. The department will continue to meet with personnel from TennCare and work to ensure that a contract between the two departments is in place at the start of the fiscal year.

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

**Finding**

As noted in the prior audit, the Department of Children’s Services has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Service Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. The CSA organizational charts at the department show that there are 218 CSA employees who report to Department of Children’s Services employees. Some of these CSA employees are secretaries for the department’s regional administrative staff. These contracts appear to create “employer-employee” relationships between the department and these individuals. Management did not concur with the prior audit finding, citing an Attorney General’s opinion that CSAs are state entities for the purpose of liability and provision of legal representation.

The practice of allowing employees of community services agencies to report directly to Department of Children’s Services officials/employees, in carrying out what can be construed as state programs, raises policy and legal issues, as well as questions of effectiveness. We do not believe that these situations should be accepted as a matter of policy. *Tennessee Code Annotated*, Section 37-5-314, considers CSA employees “state employees” for the purposes of negligent acts or omissions within the scope of their authority. However, *Tennessee Code Annotated*, Section 37-5-315(2), states: “This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors.” This legal concern arises from the legislative intent that the department not create an employer-employee relationship with community services agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include DCS’s ability to direct and control the work of CSA employees it supervises.

The Child Welfare League of America, in direct collaboration with the Department of Children’s Services, agreed to assess the current status of the foster care and adoption programs, to develop strategies for change, and to implement specific actions to strengthen the service delivery system. Their first report, dated April 6, 1999, contained the following findings:

- The present relationship between the DCS regional offices and the Community Services Agencies simply does not work in some regions. In others, it works only due to the personalities and commitment of the individuals involved. There is no guarantee that these relationships would continue if the current players leave either agency.
- Significant energy is consumed at DCS and the CSAs in trying to make the current arrangements work and in dealing with staff concerns about what is not working well. This energy needs to be expended in working with children and families.
- The current arrangements in which some of the CSA case managers report to DCS team leaders for a portion of their supervision creates an appearance of an employer-

employee relationship. For all practical purposes, these CSA case managers function as DCS employees.

These relationships also create inherent problems for the DCS supervisory personnel in that they have less direct control over the performance of CSA case managers.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer, and costs of travel, supplies, and equipment used by the administrative staff.

### **Recommendation**

The Department of Children's Services should not contract with community services agencies to establish what are, in effect, employer-employee relationships. The department should consider the Child Welfare League of America's findings and recommendations for strengthening the service delivery system. The Department of Children's Services should consult with the Office of the Attorney General concerning the legal ramifications of such employer-employee relationships between the department and the CSAs.

### **Management's Comment**

We do not concur. The Attorney General expressed an Opinion No. 97-092 dated June 26, 1997. This opinion was requested by the department and a copy has been furnished to the Comptroller's office. We have determined that CSAs are state entities for the purposes of liability and provision of legal representation because of: (1) the clear legislative intent to regard Community Services Agencies as state agencies or instrumentalities; and (2) because they are operated by state government, receive appropriations from the state, and serve as a "conduit through which the state acts" to carry out public functions, citing *Hastings v. South Central Human Resources Agency*, 829 S.W. 2d 679, 682 (Tenn. App. 1991).

The opinion states that members of the CSA board are appointed pursuant to T.C.A. 37-5-305 to exercise important public functions, and accordingly are "state officials and thus state employees" for the purposes of the immunity provisions of T.C.A. 9-8-307(h). State employee is also defined to include the employees of the CSA pursuant to the purpose of providing legal representation (T.C.A. 8-42-101[3][A]). The General Assembly has specifically provided the employees of the CSAs are state employees for purposes of the Claims Commission legislation. The four urban and eight rural Community Services Agencies are political subdivisions and instrumentalities of the state and are deemed to be "acting in all respects for the benefit of the people of the state in the performance of essential public functions" (AG Opinion No. 97-092, June 26, 1997, citing T.C.A. 37-5-304(d)).

While it is true that the department contracted with the Child Welfare League of America (CWLA) to assess the current status of the foster care and adoption programs, their recommendations are not enforceable on the department. The department has the option of implementing or not implementing the recommendations of CWLA. At this time, the department does not foresee changes to the relationship between the department and the CSAs.

### **Rebuttal**

The Attorney General's opinion cited in the response does not address the legal issues relative to the legislative intent that the department not create an employer-employee relationship with community services agencies. Furthermore, management's comments do not address the inherent organizational problems with the current arrangement as noted by the auditors and the consultants hired by the department.

## **12. The department should have an exit interview policy**

### **Finding**

The Department of Children's Services (DCS) does not have a policy to conduct exit interviews when employees leave the department. Not conducting exit interviews could result in

- Employees not returning state identification badges – If an employee does not return state badges, security could be undermined and unauthorized entry could be gained into most state buildings. All identification badges should be returned upon termination and responsible personnel should sign for the receipt of the badges.
- Employees not returning keys to office building(s) – Employees not returning keys could undermine building security. All keys assigned to an employee should be returned and responsible personnel should sign for receipt of the keys.
- Employees not returning sensitive equipment (laptops, printers) – If laptops and printers are not returned by an employee before leaving employment with the department, equipment could be lost or stolen. Responsible personnel should be assigned to collect this equipment and should sign for receipt of the equipment. During testwork of the Information Resources original database inventory of Statewide Automated Child Welfare Information Systems (SACWIS) equipment, it was noted that one person (contract employee for Desktop Support) left employment at DCS on April 14, 1999, but the listing still indicates that he is assigned a laptop computer. As of October 7, 1999, DCS could not locate this computer.
- Access to the state's accounting systems and to DCS's in-house information systems not being cancelled promptly – Employees' access to these systems not being cancelled promptly after termination of employment could result in unauthorized

access to these systems. There is no centralized division that is responsible for ensuring access to these systems is terminated. See finding 16.

In addition, an employee's final leave balances should be discussed with the employee, and insurance issues, including any remaining coverage period should be explained to the employee upon termination. Retirement information for vested employees as well as deferred compensation and flexible benefits issues should also be discussed with terminating employees. A checklist documenting these discussions should be maintained in the department's personnel division.

### **Recommendation**

The department should design and implement written policies and procedures for conducting exit interviews. The department should develop a checklist of all pertinent information to be discussed with the exiting employee. The checklist should also list all state property the employee is responsible for and what is being turned in. This should include pagers, laptops, and other such equipment; and ID badges, ID cards, keys, and other items regarding access to state office buildings. Any other discussions with the employee such as leave balances, insurance information, or retirement issues should be documented on the checklist. In addition, the checklist should also include space to list all systems and networks to which the employee has access, so that all access can be promptly cancelled. The employee and the supervisor should sign the checklist and a copy should be maintained in the department's personnel division.

### **Management's Comment**

We concur. The department is currently in the process of developing a policy and a checklist to address this finding. The department is decentralized with offices covering the entire state. Personnel in the field offices do not have knowledge of a terminating employee's insurance coverage, retirement information, deferred compensation, or flexible benefits. However, during orientation, employees are given a listing of people to contact and corresponding phone numbers if they have questions concerning the above mentioned items. The checklist will have a benefits section on it which will list all benefits the employee could have been receiving and will instruct the employee to contact their personnel officer if they have any questions concerning these benefits.

The responsibility for ensuring that employees return state identification badges, keys to office buildings, and equipment has always been that of the employee's supervisor. It will continue to be the supervisor's responsibility. However, a checklist documenting that these items have been returned will be maintained in a file in the personnel section. In addition, the department is currently examining the best way to route a request for discontinuing an employee's access to computer systems in order to ensure the appropriate parties are notified. It is anticipated that this also will be included in a checklist form and maintained in the same file.

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## TRUST FUNDS

Our objectives in reviewing trust fund controls and procedures were to determine whether

- the department upheld its fiduciary duty to properly administer and account for trust funds held for children in state custody by ensuring expenditures were properly supported and revenues were credited to the trust fund accounts;
- trust fund transactions were properly recorded in the individual child's account;
- an accounting was performed for each child on a monthly basis;
- refunds due to the Social Security Administration were returned in a timely manner; and
- the department has resolved the unreconciled \$1.7 million difference between the 1992 DHS trust fund subsidiary records and the 1992 STARS balance (the date the funds were transferred from the Department of Human Services).

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over trust fund transactions for children in state custody. We reviewed supporting documentation and tested samples of trust fund transactions.

We determined that the department did not uphold its fiduciary duty to account properly for individual children's trust funds. In addition, the department did not perform an accounting monthly for each child, nor did it make refunds to the Social Security Administration in a timely manner.

In addition to the findings, a minor weakness came to our attention which has been reported to management in a separate letter.

### **13. The department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits**

#### **Finding**

As noted in the prior audit, the department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration (SSA) for supplemental income, as well as payments received from parents and from U.S. Veterans Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for expenditures made by the state on behalf of the child.

Management concurred with the prior audit finding and stated that it had contracted with the Public Consulting Group in March 1999 to analyze departmental policies and procedures,

determine compliance issues, and develop recommendations for enhancing the department's operations relative to these issues.

Management received a report from the Public Consulting Group dated June 22, 1999, and was in the process of evaluating the recommendations it contained during the current audit. However, during the year ended June 30, 1999, these funds were still not being properly accounted for by the department as evidenced by the following weaknesses:

- Management had not instituted formal written policies and procedures governing trust fund accounting. The current policies and procedures consist of informal memoranda that provide little guidance on accounting for trust funds; this has contributed to the many problems noted in the accounts.
- Management in the fiscal office did not perform reviews of trust fund accountings performed by trust fund accountants to ensure that the accountings were being performed properly. This lack of adequate oversight has also contributed to the many errors noted in the accounts.
- Management did not require the use of basic accounting principles in preparation of trust fund accountings. The method used to record transactions was not always consistent. Some transactions were recorded individually and others were improperly grouped together and recorded as one transaction. For example, individual transactions appearing in the State of Tennessee Accounting and Reporting System (STARS) may actually be the sum of several transactions that took place over a period of time, including transactions that occurred over more than one fiscal year. Grouping transactions together makes tracing a single transaction very difficult, makes misstatements more likely, and does not provide an adequate audit trail.
- Reconciliations were not performed between the total of the individual trust fund accounts and the total balance on STARS. This could not be done because monthly trust fund accountings for each child were not being performed by the department. Similarly, no reconciliation was performed to balance totals from automated clearinghouse (ACH) journal vouchers to the amounts keyed into the individual trust funds accounts. Therefore, there was no assurance that all the revenue received, in total, had been properly credited to the children's trust fund accounts.
- Individual trust fund accountings were not performed on a monthly basis as noted in finding 14.
- U.S. Veterans Administration, Miners, or Railroad benefits that were received by the department for specific children were not recorded in individual trust fund accounts. Therefore, the department has no record of what Veterans Administration, Miners, or Railroad benefits it has received or for which children the benefits were received. When a child leaves state custody, he/she would not get any of the unspent Veterans Administration, Miners, or Railroad benefits since these benefits were never recorded in the individual accounts. In addition, the department does not charge expenditures to Veterans Administration, Miners, and Railroad benefits because it does not record the benefits received for a particular child in that child's trust fund.

- 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 Office of Children’s Services Administration, then located in the Department of Finance and Administration. When DHS records were reconciled at June 30, 1992, the total of the individual trust fund accounts was approximately \$1.7 million less than the balance on STARS. For the last five years, Children’s Services has been entering the old manual DHS trust fund records into the computer database. As of October 16, 1998, management believed that the department had resolved the difference between DHS records and the balance on STARS to \$1,586.86. However, no supporting documentation exists to give validity to this claim. As required by SSA regulations, the department made refunds to the SSA for benefits received on behalf of children who were no longer in state custody. However, it was noted that 75 of the refunds made by the department to the SSA, totaling \$139,345.53, were returned because the department did not furnish the appropriate information to SSA. Because of the lack of supporting documentation to substantiate the claim of the reduction, it cannot be determined whether the department has resolved the June 30, 1992, difference between DHS records and STARS.

According to management, there was no change in the way trust funds were accounted for during fiscal year 1999; therefore, detailed trust fund testwork was not performed as a part of the current audit. The testwork performed during the prior audit on a sample of trust fund accountings noted the following weaknesses:

- Individual trust fund accountings did not reflect the return of funds to the SSA for 86.2% of the trust fund accountings tested.
- The department did not refund money due to the SSA in a timely manner when children left state custody. The department returned funds to SSA more than 60 days after the children left state custody for 58.6% of the children tested. The Michael B. court settlement, Section III, part 8(b), states in part that the Social Security Administration is “to require state defendants to provide a final accounting and return any excess benefits received on a child’s behalf to SSA within 60 days of the child’s release from state custody without the necessity of a prior request for such action by SSA.”
- When a child’s trust fund accounting is performed, an accountant begins with the ending balance of the previous accounting for that child. However, the department does not maintain a master file, either on paper or in computer form, of the individual accountings. We noted that there were paper copies and numerous computer files of individual accountings, with no procedures to indicate which is the master file. In addition, changes made to a child’s previous accounting were not communicated to all people who have copies of the accounting. Sometimes the changes are made to the paper copy of the accounting and not made to the computer files. Therefore, when the next accounting is performed, an inaccurate ending balance from the previous accounting may be used as the beginning balance of the current accounting. By having numerous copies of accountings for each child, the risk of an error occurring in the



accounting greatly increases, because the person doing the accounting cannot be sure the copy of the prior accounting being used is the most current.

- Entries made to trust fund accountings contained errors in 40% of the trust fund accountings tested.
- Trust fund transactions were not properly accounted for in the child's trust accounting records for 18% of the trust fund transactions tested.

### **Recommendation**

The Commissioner should ensure that the benefits received by the state for children in state custody are handled and accounted for properly. The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should ensure that formal written procedures are developed to facilitate the proper accounting for benefits received for children. Reviews of trust fund accountings should be performed to ensure the accountings are consistent, timely, and properly prepared. Reconciliations should be performed to balance totals from ACH journal vouchers to the amounts keyed into the individual trust fund accountings. In addition, a reconciliation should be performed to balance the total individual trust accountings to STARS. Income received from all sources, not just from the SSA, should be included in the children's accountings. When children leave state custody, the department should refund any funds due to the SSA within 60 days. Continuous accountings should be performed and all changes should be made to the master file. When a new accounting is started, the master file should be used to obtain the beginning balance of the trust fund. Basic accounting principles should be used to ensure that all entries that affect an individual accounting are made appropriately in the accounting records.

### **Management's Comment**

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.

**14. The accounting for the Social Security Administration trust funds is not done monthly for each child**

**Finding**

As noted in the prior two audits, covering the period July 1, 1996, through June 30, 1998, the accounting for the Social Security Administration trust funds is not done monthly for each child. Children's Services receives the Supplemental Security Income (SSI) benefits on behalf of children in state custody. These funds are held in trust for the children and can be used by the state to pay for "current and future" care of the child if the balance in the child's account (the child's available resources) does not exceed \$2,000. When a child's balance exceeds \$2,000, any subsequent SSI payments are required to be returned to the Social Security Administration (SSA). The SSI payments received and the expenses paid by the state for the care of the child are not recorded in each child's trust fund account monthly. Instead, the department only prepares an accounting when one is requested by a third party or when a child leaves state custody.

Management concurred with the prior audit finding and stated that recording receipts and expenses to each child's trust fund account and using available SSI funds on a monthly basis is desirable. Information Resources has indicated that staff would be available in May 1999 to begin an analysis of a fiscal funding project. The funding project is to target the development of a funding and trust system which will combine these two functions. Management has subsequently stated that trust fund accounting changes will be made after the evaluation of recommendations of an independent review of trust funds by a consulting firm. The consulting firm issued its report on June 22, 1999.

An accounting shows the SSI payments received, expenses made for a child's care, and the cumulative monthly balance. The Social Security Administration usually requests an accounting once every 12 months. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use SSI funds to pay for expenses of the child's care and funds are not returned to the SSA timely.

**Recommendation**

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should immediately ensure that receipts, interest, and expenses are recorded in each child's trust fund account monthly. Also, each month the department should review the account of each child receiving SSI payments to ensure that the state uses available SSI funds,

instead of state funded programs, to pay for the child's care. This review could save the state from unnecessarily using state funds, and these savings could possibly pay for the additional staff necessary to perform the monthly review.

### **Management's Comment**

We concur. Management feels that the contract with Public Consulting Group concerning the development of the trust fund system will also address the problems noted in this finding. This contract and corrective action taken are discussed in detail in finding 13.

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## **INFORMATION SYSTEMS**

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

We interviewed key department personnel to obtain an understanding of the controls over the various computer programs and systems used by the department. In addition, our interviews included discussions regarding the department's plans for future applications and systems development relative to the TnKids system. We reviewed supporting documentation for existing and planned systems, and tested samples related to employees' access to the state's computer systems.

We determined that the new TnKids computer system has not been implemented as scheduled, that the Client Operation and Review System did not ensure data integrity and user accountability, and that the department's employees' access to the state's computer accounting systems was not adequately controlled.

In addition to the findings, a minor weakness came to our attention which has been reported to management in a separate letter.

**15. The CORS system currently in place and the new TnKids computer system, which has not been implemented as scheduled, do not ensure data integrity and user accountability**

### **Finding**

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. CORS contains information such as the child's placement history, family

information, permanency plan, and assigned case manager; and is used to monitor the status of children and to identify those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial Information System (ChipFins).

Management partially concurred with the prior finding and stated that the CORS system was not capable of supporting the control issues noted in the prior audit, was no longer supported by the vendor, and cannot be upgraded within the CORS programming structure. Management further stated that the TnKids Data Conversion Plan required trial conversions of actual data from CORS prior to the implementation of TnKids Release 2.1 (the first phase in development of the system) in each region. The scheduled implementation date for the first phase of TnKids was March 1999. However, phase one of TnKids was not implemented until June 1999, and that was only in the Southeast Region.

Subsequent to management not meeting its initial projection and due to the CORS system not being year 2000 compliant, management prepared a TnKids Y2K Contingency Plan which projects TnKids to be in place in all regions by November of 1999. According to this plan, each region will have a central site for TnKids data entry, which will prevent individual case managers from updating information in the system. The site personnel will enter input for each region based on information supplied by case managers. Since case managers will not enter information directly and are unable to access and review data in the system for accuracy, this method provides greater opportunity for errors and untimely input to occur and not be detected.

Management's response to the prior finding also stated that this phase of TnKids would permit only authorized users to add, change, or delete client information and that it would provide a system log to record user activity and serve as an audit trail. However, our review of this phase of TnKids revealed the following weaknesses:

- The planned "restricted access" part of TnKids, which will prevent users from accessing certain sensitive records, has not been implemented. In addition, there are no plans to incorporate regional access limitations into TnKids. Without such limitations, any user with update access can change any record in the state.
- The system does not track all of the changes that are made to a given record. Rather than tracking all changes to records, the system only documents the last date and user that changed a particular record. Therefore, inappropriate information may be input to a record and a subsequent entry to that record will remove evidence as to who entered any previous information. This system control does not provide an adequate audit trail to trace all changes to a particular child's record in TnKids.

The fact that these system controls are not incorporated in the TnKids system results in a severe lack of accountability since any user with update access can add, change, or delete client information across the state without any record of the change. Because the aforementioned weaknesses existed in the CORS system and presently exist in the TnKids system, other previously noted CORS control weaknesses may exist in the TnKids system.

Our review of CORS revealed that the following weaknesses continue:

- 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 a duplicate entry, results in a matching new entry to ChipFins.
- Any user, including community services agency employees, could add, change, or delete information on any client.
- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.
- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.
- CORS does not maintain sufficient information for proper foster care semiannual reporting, as required by the federal Department of Health and Human Services. Therefore, the Department of Children's Services has chosen to take a penalty each time the report is submitted without the required data rather than spend the time and money to gather the necessary foster care data required. Because the department has decided it is not cost effective to gather the information, the department paid a penalty on the September 1998 reports totaling approximately \$82,685.00. The March 1999 report was submitted with all required information and no penalty was incurred.
- Problems noted with data integrity cause concern because data from CORS is being transferred to TnKids, the new system on which the department is relying to correct many of the department's existing problems. If the information is not accurate or in some cases nonexistent in CORS, it will not be accurate in TnKids. The department has undertaken data cleanup efforts that consisted of case managers manually comparing CORS information to the documentation maintained in the child's case file. In addition, reports were generated to search for missing information in CORS in order to add any missing data prior to conversion to TnKids. It is not determinable at this time whether these cleanup efforts will significantly reduce inaccurate data within the CORS system due to the lack of control that still allows invalid and inaccurate data to be entered into the system.

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

## **Recommendation**

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TnKids computer system has the following capabilities:

- has edits for 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; and
- requires periodic password changes to reduce the risk of unauthorized access.

The Assistant Commissioner for Support Services should monitor the implementation of the new system to ensure that the above controls are built into the system. In the meantime, the department should continue to ensure the accuracy of information in CORS before it is transferred into the new TnKids system.

## **Management's Comment**

We concur. The CORS system was replaced in the Southeast region in June 1999 and in all other regions by November 1999. Though it is accurate that not all case managers currently have access to TNKIDS, selected staff in each region were extensively trained to use the system and case managers are submitting case information to those selected staff. Part of the delay in the deployment of TNKIDS to all case managers is due to management's commitment to understanding and following federal guidelines as they pertain to the SACWIS grant. Management wanted to ensure that the department's process for procurement and installation of the equipment was in compliance with federal and state laws. The department has developed a federally approved process for the procurement and installation of the new desktop computers. The computers were purchased in early January with installation beginning January 31, 2000.

When the department was planning the conversion of CORS data into TNKIDS, the department fully recognized that there were problems with the data quality in CORS. The department took three steps to minimize the risk of converting inaccurate and incomplete data into TNKIDS. First, data was converted from CORS to TNKIDS through a series of conversion activities developed by the department and reviewed and monitored by the Department of Finance and Administration's Office of Information Resources. These activities were to provide a certain level of assurance that data would be converted in a complete manner from CORS into TNKIDS. Second, in April 1999, the department created a Data Quality Unit to be housed in the division of Policy, Planning and Research. This unit was charged with the ongoing mission of assisting the regions and central office with improving and monitoring the reliability and accuracy of TNKIDS data. In order to ensure that this mission is carried out, the unit has initiated a scheduled data review process. The Data Quality Unit is working closely with Information Resources, Program Operations, and regional staff to verify and correct as needed, inaccurate, missing and duplicated data through consultation via face-to-face meetings, telephone conversations and e-mail contacts.

Third, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before new records are created or information is added to an established record to minimize duplication.

The finding suggests that access to TNKIDS cases needs to be more restricted by incorporating regional access limitations into the system. Because of the way the department is forced to conduct business, limiting case access regionally is not practical. Case managers and administrative staff anywhere in the state need the ability to update a case when relevant activity occurs. For example, a child protective services referral could occur in one region then the family moves to another region, the case managers in both regions would need to have the ability to access the case concurrently. In fact, the regional limitation in CORS caused many difficulties in regional operations. The TNKIDS security model was carefully reviewed and approved by field staff, the TNKIDS Project Steering Committee and the Management Advisory Committee. In order to put controls in TNKIDS that would ensure data integrity without limiting the case managers' ability to enter timely data, the department is developing an enhanced system log (i.e., audit trail) on pertinent data that will serve as a compensating control to having restricted regional access. A work group has been formed to address this issue. While it is true that restricted access, which will prevent users from accessing certain sensitive records, has not yet been implemented, a work group has been formed to finalize the requirements for the restricted access function of TNKIDS. Implementation for this restricted access is tentatively scheduled for August 2000. Until the restricted access component for sensitive cases is implemented, these cases are not being entered into TNKIDS.

TNKIDS captures the ID of the user who created each record and the user who last changed the record along with date and time the record was changed. In addition, the case narrative section captures and displays each user who entered case notes on a given record. The department recognizes that this tracking system is not adequate and, as mentioned earlier, has formed a work group to develop a system log for pertinent data in TNKIDS.

The finding recommendation states that TNKIDS should have "edits for duplicate and invalid data." As stated above, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before records are added to minimize duplication. The finding recommendation also states that TNKIDS should require "periodic password changes to reduce the risk of unauthorized access." The feature was developed as a part of TNKIDS 2.1, but did not function properly due to a known bug in the ORACLE database. The company has provided a patch, which is scheduled to be implemented in the next TNKIDS release.

**16. Department employees' access to the state's computer accounting systems was not adequately controlled**

**Finding**

The department did not promptly cancel terminated employees' access to the State of Tennessee Accounting and Reporting System (STARS). Twenty-nine of 312 people listed as having access to Children's Services' accounts in STARS (9%) were no longer employees of the department as of July 7, 1999. These persons had been terminated from employment or transferred to other departments from seven days to four years prior to the date of the listing. Six of these 29 employees updated their STARS password from one month to four years after leaving the department. This indicates that these persons accessed STARS after termination. Two of the 312 people listed as having access to Children's Services' accounts in STARS (0.6%) have never worked for Children's Services but have worked for other departments. In addition, 10 of the 312 people listed as having access to Children's Services' accounts in STARS (4%) have neither worked for the department nor for the State of Tennessee.

In addition to the problems with persons having access to STARS without being employed by the department, the access to STARS and other state systems was not always properly authorized. Information Systems Security Authorization forms are used to authorize and document each user's approved access to the state's accounting systems. However, several instances were noted where access was granted and there were no security authorization forms on file.

- State of Tennessee Accounting and Reporting System (STARS) – for 2 of 25 persons tested who have access to STARS (8%) there was no form on file that authorized employee access to STARS.
- Tennessee Online Purchasing System (TOPS) – for 6 of 25 persons tested who have access to TOPS (24%) there was no form on file that authorized employee access to TOPS.
- Property of the State of Tennessee (POST) – for 6 of 13 persons tested who have access to POST (46%) there was no form on file that authorized employee access to POST.

Not promptly canceling access to these important accounting systems in addition to not having adequate documentation of approval for setting up access increases the possibility of unauthorized changes and decreases assurances of the systems' integrity.

**Recommendation**

The Assistant Commissioner of Support Services should ensure that security authorization forms are completed for all persons given access to the state's accounting systems. Each user's access should be properly authorized and approved and the access given should agree with the



security authorization form. A checklist should be made to ensure that the department is aware of all systems for which the employee has access. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should ensure that all access is promptly cancelled when a person leaves employment. The department should establish a policy setting up a formal exit interview when an employee resigns or is terminated. See finding 12 for more information regarding exit interviews.

### **Management's Comment**

We concur. When the department was formed in 1996, employees from six departments came together. A number of these employees had active, authorized access to the state's accounting systems under the system security structures of their respective agencies. In cooperation with Department of Finance and Administration's Office of Information Resource's (OIR) security division and security agents from other departments, system access for these employees was transferred "en masse" from the user ID's of their former departments to Department Children's Services user ID's. However, the security authorization forms were not transferred to Children's Services. The department is currently reviewing its files for the noted systems and collecting updated and signed authorization forms.

Efforts are being taken to check all access now assigned to TOPS, STARS, and POST for departmental staff. Previously, security authorization forms for access to STARS were completed and approved only by a Fiscal Director or designee. Access for updating STARS has only been given to fiscal office personnel. Other classifications of staff have been given inquiry only access. It has been determined that a larger than necessary number of program staff have been given inquiry access. The department has developed a spreadsheet listing all staff requesting access to STARS. The name of the staff member requesting access to STARS is added to the spreadsheet listing the person's name, social security number and division/allotment and type of access. The forms will be filed alphabetically and will be locked in a file in the Fiscal Director III's office. The spreadsheet will be put on the server so that it can be shared with the Division of Personnel. This information will be used by the Division of Personnel as part of their exit interview process (see finding 12). This information will be immediately provided to the Division of Accounts at the Department of Finance and Administration for the cancellation of STARS access.

An additional security control was implemented in October 1999. OIR provides the department's Information Resources unit with a monthly list of system users who have not logged on to the network in 30 days or more. These lists are worked with the authorizing authorities throughout the department to identify users who need to be removed from the network. The security team deletes access for those users identified during this process.

Information Resources uses a security database to record and track user ID assignments. The database is being enhanced to record and track employee access to individual systems. They are developing a review routine to verify system security access. This routine will include collecting signed security authorization forms where the department does not have them on file. The security team has scheduled a review of TOPS security in March, to be followed immediately by a review of POST. The team will also work with the department's fiscal division and the

Department of Finance and Administration to improve the timeliness of the STARS security process.

The department's division of information resources researched the problems noted in the finding. Of the 29 STARS users noted as having left the department prior to July 7, 1999, 23 have been deleted from the Network/RACF. Fourteen of these 23 were deleted during the audit period of July 1, 1998 to June 30, 1999. According to the STARS security administrator, this action effectively prevents the user from accessing STARS. Of the 13 people noted with access to STARS who have never worked for the department or the state, six were CSA employees under contract with the department and one was an independent contractor with the department. Of the two employees noted who had never worked for the department, one was a contract employee with the department's legal division and the other was a CSA employee.

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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 award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We reviewed supporting documentation and tested samples of revenue and expenditure transactions. We also reviewed the Schedule of Expenditures of Federal Awards.

We determined that the department has improperly managed state cash by not charging the federal grant at the time the initial expenditure transactions are made.

In addition to the finding, a minor weakness came to our attention which has been reported to management in a separate letter.

**17. The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made**

**Finding**

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditures to the appropriate federal grant(s), creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures.

Management concurred with the prior audit finding and stated that staff would be available in May 1999 to begin the analysis for the fiscal funding project which would greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program. Management further stated that it is a priority for fiscal policies and procedures to be developed which will include cash management activities. Despite management's responses, no significant improvements were made to the cash management process.

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

However, during testwork on the department's two major federal programs, the following was noted:

- Title IV-E – All 60 expenditures tested were charged to the federal grant an average of 35 days after the initial transaction was paid with state dollars.
- SSBG – Thirty of 40 expenditure items tested (75%) were charged to the federal grant an average of 24 days after the initial transaction was paid with state dollars.

The reason for the aforementioned delays in charging the federal grants is due to management's method of allocation to grants. The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. Because the department charges eligible children to Title IV-E and then charges those not eligible for Title IV-E to the SSBG grant, the applicable grants are not charged until the eligibility of the child is known. Presently, the eligibility of children is only updated every six months. Therefore, up to six months may pass before a transaction paid with state dollars is appropriately charged to federal programs. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn cause improper management of the state's cash.

## **Recommendation**

The Assistant Commissioner for Fiscal and Administrative Services should ensure policies and procedures are developed and implemented to improve the department's cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded, as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TnKids has no implementation timeline, the department should implement changes in its current funding process immediately to better manage the state's cash.

## **Management's Comment**

We concur. During the current fiscal year, DCS fiscal staff has met twice each week with Information Resources staff to develop a comprehensive funding and accounts receivable process to facilitate the proper management of state cash prior to development and implementation of the financial segment of the TNKIDS system. The complexity and magnitude of this project is difficult to convey due to the intricate funding relationships between Titles IVE (Foster Care and Adoptions), IVD (Child Support) and SSI funding sources. It should be stated, however, that this project is a long term commitment and will not be fully implemented within the next fiscal year. In order for the department to carefully consider all business requirements necessary to properly account for the multitude of programs and federal funding the department will take the time required for analysis.

Historically, the department will process in excess of 260,000 expenditure transactions each year on STARS for which funding must be determined as a direct charge to a grant or charged to a grant through a federally approved cost allocation process.

While the work on this project is incomplete, improvements are being implemented as work progresses. Contracts for the fiscal year 2001 will have the specific federal grant award year identified at the time the contract is recorded on STARS for contracts that are funded with grants that are not child eligibility dependent. This information will be provided to the Accounts Payable staff for the cost of these contracts to be appropriately charged to the grant when the expenditure transaction is processed on STARS.

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## **SPECIAL INVESTIGATIONS**

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### **Improper Authorization of Daycare Services by a Clerk in the Memphis Region**

On April 30, 1999, the Department of Children's Services Assistant Commissioner for Fiscal Services notified the Division of State Audit of allegations that a clerk in the department's Memphis region had improperly requested \$125 from a daycare operator in return for authorizing

daycare placements. Children reported to the department as being abused or neglected may be assessed by a department caseworker as being eligible for daycare services. The clerk's responsibilities with the department included processing daycare referral forms approved by a caseworker and forwarding documentation to the regional brokerage organization to initiate the daycare services. In instances where the parent or guardian did not personally select a daycare center, the clerk had the responsibility of selecting a daycare center from a list of licensed facilities.

On April 29, 1999, the Department of Children's Services Director of Internal Affairs interviewed the clerk at the department's Memphis region's office. In a signed written statement dated April 29, 1999, the clerk admitted improperly requesting and obtaining \$125 from the daycare operator as noted above. The clerk also admitted requesting and accepting money from another daycare operator and parents/guardians of daycare recipients. She further admitted placing approximately 50 to 100 ineligible recipients in various daycare centers.

On April 29, 1999, the clerk submitted her written resignation to department officials. The Department of Children's Services Commissioner accepted her resignation by letter. His letter stated that, according to the provisions of the Department of Personnel Rules and Regulations 1120-2-.14, the clerk's personnel file would reflect that she was not recommended for rehire with the State of Tennessee. At the time of her resignation, the clerk had no accrued annual leave. Thus, she was not paid for any accrued annual leave.

The objectives of the review were to determine the nature and extent of any impropriety relating to daycare services provided by the department's Memphis region, and to examine the department's internal control over the daycare placement process.

Our review included interviews with relevant staff of the Department of Children's Services, the Department of Human Services, and Cherokee Children and Family Services (the child care brokerage organization for the Memphis region). We also interviewed some of the parents and daycare operators identified by the clerk as improperly paying her for daycare placements.

We reviewed case file information relating to 40 daycare recipients specifically identified by the clerk as being ineligible. We also reviewed records pertaining to 38 daycare recipients reported to the department by two daycare operators as having been referred to them by the clerk but for whom payment had not been received. We traced the 78 daycare recipients to the department's two computerized intake tracking systems (the Social Services Management System and the Client Operations Review System) to determine if the recipients had ever been legitimately referred to the department for assessment. When no case file or intake record could be located, the daycare recipient was considered ineligible for services. We traced these recipients to the computerized daycare tracking and payment system (the Tennessee Child Care Management System) to determine the amount improperly paid for ineligible daycare recipients.

After developing this methodology to review recipient eligibility, in a June 21, 1999, memorandum to the department's Assistant Commissioner of Field Operations, we requested an eligibility review of all Memphis region daycare recipients. According to the computerized Tennessee Child Care Management System, at the time of our request, 737 children were either receiving daycare services from the department's Memphis region or had received daycare services during the past two years. On December 7, 1999 (five and a half months after our request), department staff in the Memphis region provided us with information relative to a review of only 530 of the 737 recipients. Furthermore, the information provided did not address the relevant eligibility issues stated in our formal request. In a December 7, 1999, meeting with the department's Director of Internal Audit, we discussed the deficiencies of the department's review and again requested that department officials conduct the previously requested review of all 737 daycare recipients in the Memphis Region for propriety pursuant to the methodology discussed above.

The former clerk cancelled an interview with us scheduled for July 19, 1999. We will attempt to reschedule the interview upon completion of the department's review.

**18. The department's Memphis region violated policies and procedures and sound internal control principles relative to daycare placements**

Our review determined that the department's Memphis region violated policies and procedures and sound internal control principles relative to daycare placements as follows:

- We determined that 52 of the 78 recipients we traced to supporting records were ineligible for daycare services. Of these 52 recipients, 17 were ineligible because the department had no record (other than documentation created by the former clerk) of ever receiving a complaint of abuse or neglect regarding the children, of investigating a complaint of abuse or neglect regarding the children, or of authorizing the children for daycare services. Based solely on false documentation the clerk prepared and submitted to the daycare brokerage organization (contracted by the state to facilitate payment for daycare services), the state paid \$38,052.30 for daycare services provided to these 17 ineligible recipients.
- The remaining 35 recipients were ineligible because neither the department nor the brokerage organization had any record that the services had been authorized. For these 35 recipients, the clerk personally provided the daycare center operators documentation listing the names of children that would be attending their daycare centers without submitting documentation to the brokerage organization to initiate payment for the services. For 24 of the 35 recipients, the department had no record (other than documentation created and provided to the daycare centers by the former clerk) of ever receiving a complaint of abuse or neglect regarding the children, of investigating a complaint of abuse or neglect regarding the children, or of authorizing the children for daycare services. While case files existed for the remaining 11 recipients (indicating a report of abuse or neglect was received by the department and

investigated), the department had no record of ever authorizing the recipient for daycare services.

Recipient approval and payment authorization is communicated to the daycare centers by a certificate that is sent to the centers by the brokerage organization. Since the brokerage organization never received documentation from the Department of Children's Services authorizing payment for these 35 recipients, no authorization certificates were sent to the centers. Under these circumstances, staff of the daycare centers should not have accepted these 35 recipients for services until the appropriate authorization certificates had been obtained. However, the daycare centers provided services to these 35 recipients (based solely on the former clerk's representation that they would be attending) without obtaining the appropriate authorization certificates. The centers provided daycare services for approximately two months before contacting the department to inquire about payment, becoming aware of the recipients' ineligibility, and terminating their services. The daycare centers did not receive payments from the state for the services. At the center reimbursement rate of \$72 per week per child over two years of age, the approximate loss to these centers for providing services to the 35 ineligible recipients for eight weeks totaled \$20,160.

- Of the daycare operators we interviewed, three acknowledged paying an estimated \$1,035 to the clerk after she had personally provided them documentation listing the names of children that would be attending their daycare centers and requested money. Two of the daycare operators could not recall the specific names of children referred to their centers by the former clerk in the manner discussed above. Thus, we could not determine their eligibility for the services. The other daycare operator provided us names of the children referred to her center by the former clerk for which payments were made to the clerk. Of these 13 children, we determined that eight appeared to be eligible for daycare services while the remaining five were not eligible for daycare services. One of the daycare center operators characterized the payments as a "quid pro quo" for daycare referrals from the clerk. The other two daycare center operators said the payments were loans unrelated to daycare referrals from the clerk.
- One parent and one guardian of daycare recipients acknowledged paying the clerk \$50 each (\$100 total) to authorize daycare services for their children. They both stated that they considered the payment to the former clerk as a required one-time fee for daycare services and that they were unaware that the clerk's request for the payment was improper. We determined that three of these four children were not eligible for daycare services.

The clerk was able to make these improper placements because she was given sole responsibility for handling the processing of daycare referrals for the region with little or no oversight. After receiving documentation authorizing daycare services from the applicable caseworker, the clerk prepared another form and submitted it to the brokerage organization for the purpose of initiating payment. This other form was controlled solely by the clerk without independent management review and approval or reconciliation to the caseworker-prepared approval form. This process to communicate recipient approval to the brokerage organization diminished the significance of the approval documentation prepared by the caseworker.

Furthermore, the process violated the department's policies and procedures in effect (requiring the caseworker-prepared and supervisor-approved daycare approval form to be submitted to the brokerage organization), failed to adhere to sound internal control principles, and allowed the clerk's inappropriate activities to continue undetected.

Upon completion, the details of our review of this matter will be released in a Special Report. On December 21, 1999, we submitted a preliminary summary of our review to the Office of the District Attorney General, Thirtieth Judicial District (Memphis), and the Office of the State Attorney General.

#### Action Taken by Department Officials

Written procedures developed and implemented by Memphis regional staff in May 1999 require all daycare approval forms to be completed by the caseworker and approved by the assigned supervisors. While the Memphis region continues to use the two forms to authorize daycare services, these procedures require a monthly reconciliation by an administrative assistant (independent of the referral process) of the caseworker-prepared approval form to a listing of approved daycare recipients obtained from the brokerage organization. This reconciliation, if properly conducted, should detect the submission of any bogus approval forms to the brokerage agency.

Furthermore, the Acting Director of the department's Memphis region designated the region's Adolescent and Parenting Unit as the agency to monitor and reevaluate daycare and other services authorized by the caseworkers in response to deficiencies in properly monitoring services authorized by the region's caseworkers. The acting director stated that this unit would provide better monitoring of service programs and allow caseworkers to focus on responding to investigative responsibilities.

### **Recommendation**

Our review resulted in the following recommendations:

The department's Assistant Commissioner of Field Operations should ensure eligibility of all 737 children in the Memphis region who are currently receiving daycare services or who had received daycare services since July 1997 by conducting the procedures detailed in our June 21, 1999, memorandum to her. These procedures include tracing daycare recipients to the department's two computerized intake tracking systems (the Social Services Management System and the Client Operations Review System) and departmental case files. When no case file, approval documentation, or intake record can be located, the daycare recipient would not be eligible for services.

Policies and Procedures relative to the Child Protective Services daycare programs should be developed and disseminated to all applicable department staff. These procedures should



specifically address eligibility criteria, authorization procedures and documentation, re-assessment procedures and documentation, term limits, and case file management. At no time should a single individual be allowed to prepare and submit authorization documentation to a brokerage organization without appropriate independent approvals.

The department's Memphis Region Director should continually monitor the effectiveness of the newly designated follow-up unit to ensure timely and appropriate monitoring and reevaluation of daycare and other services authorized by department caseworkers.

The department's Memphis Region Director should consider consolidating the information contained on the two forms used to authorize daycare placement (the form prepared by the caseworker approving services and the form submitted to the brokerage organization to initiate services and payment). Memphis region staff should continue the independent monthly reconciliation process discussed above and also consider replacing this manual reconciliation with an automated comparison of the department's computerized intake system (listing the names of children reported to the department for investigative review) and the computerized Tennessee Child Care Management System (listing the names of children receiving daycare services). This reconciliation should be documented and maintained by the Memphis Region.

Memphis regional management (the director and Child Protective Services unit team leaders) should continue to monitor the implementation of corrective actions to ensure adequate monitoring and compliance with established criteria.

### **Management's Comment**

We concur. The department is currently in the process of conducting the procedures as outlined in the memorandum from the Comptroller's Office on all 737 children noted in this memorandum to be reviewed. The anticipated date for completing this project is March 1, 2000. The department is also developing policies and procedures relative to daycare services being provided to children in state custody and those at risk of coming into state custody. These policies and procedures will disseminate to all applicable department staff once they are completed. The department's Memphis Regional Administrator will continually monitor the effectiveness of the newly designated follow-up unit designed to oversee the eligibility and authorization of DCS children receiving daycare services. The department's Memphis Regional Administrator will consider consolidating the information on the forms used to authorize daycare placement and automating the comparison of the department's computerized intake system. The reconciliation will be documented and maintained by the Memphis Region.

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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, 1999, the Department of Children's Services filed its compliance report and implementation plan on June 30, 1999.

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

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

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

### **TITLE IX OF THE EDUCATION AMENDMENTS OF 1972**

*Tennessee Code Annotated*, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Children's Services did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity, is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the department is not in compliance with the federal law.

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## APPENDIX

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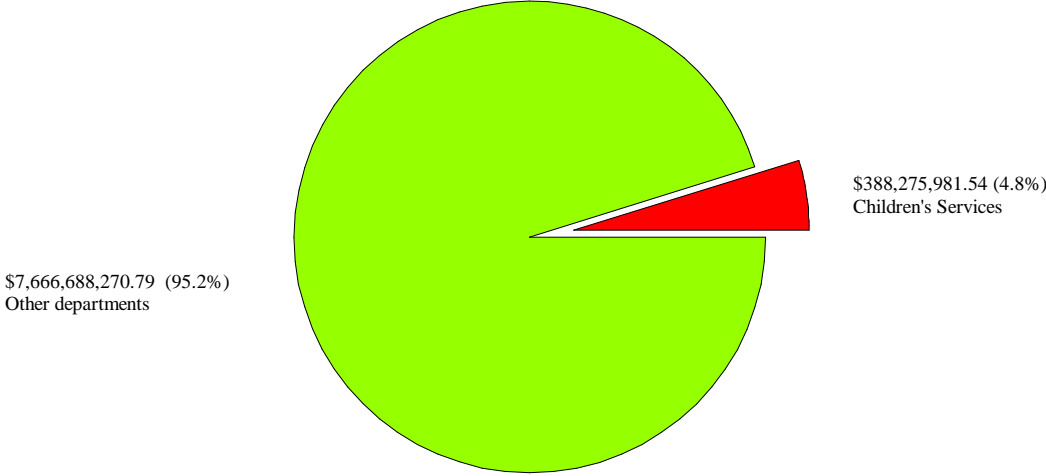
### DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

- 359.10 Administration
- 359.20 Family Support Services
- 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

# General Fund Expenditures

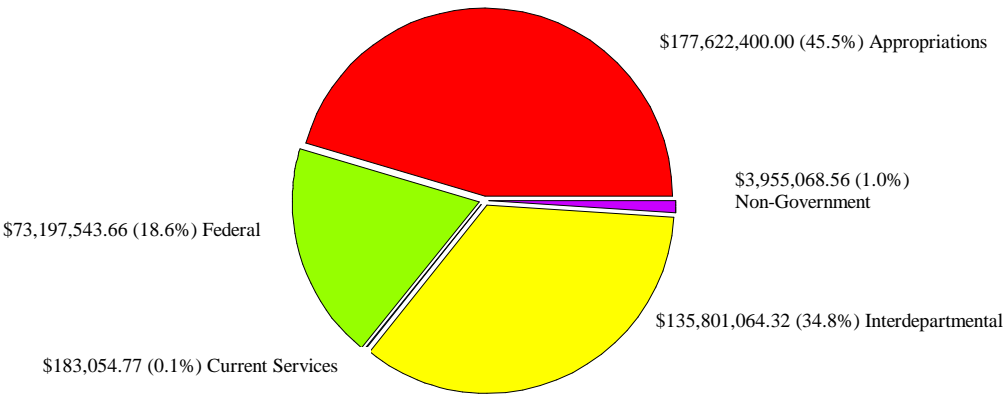
Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Children's Services

# Funding Sources

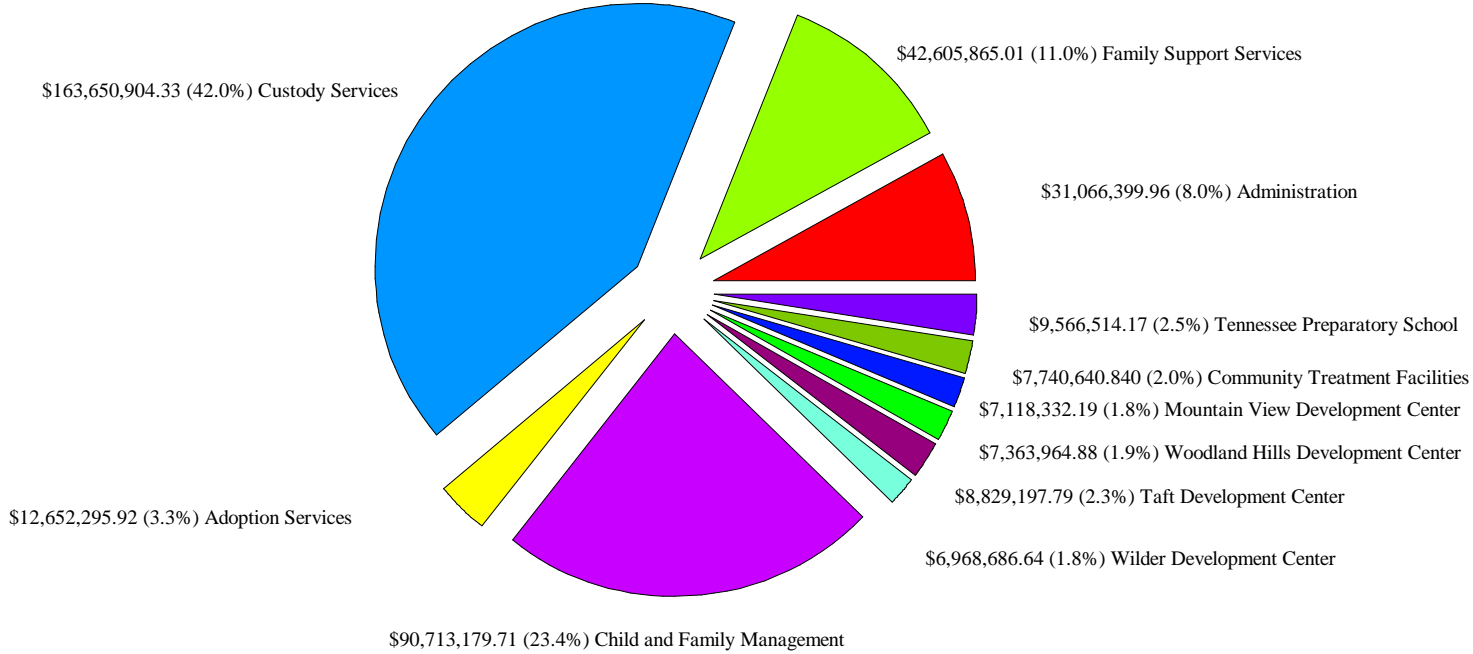
Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Children's Services

# Expenditures by Allotment and Division

Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Children's Services