

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF  
DEPARTMENT OF CHILD SERVICES  
STATE OF INDIANA  
March 1, 2008 to February 28, 2010



**FILED**  
07/15/2011



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AGENCY OFFICIALS

Office

Official

Term

Director, Department of  
Child Services

James W. Payne

01-10-05 to 01-14-13



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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DEPARTMENT OF CHILD SERVICES

We have reviewed the receipts, disbursements, and assets of the Department of Child Services for the period of March 1, 2008 to February 28, 2010. The Department of Child Services' management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Department of Child Services are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

July 6, 2010

DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 28, 2010

**STATE-WIDE SINGLE AUDIT**

In conjunction with our review of Indiana's Department of Child Services (DCS), we also tested compliance with federal regulations and grant agreements. Findings relating to the federal programs administered by DCS are included in the Indiana Statewide Single Audits.

**COUNTY OFFICES OF FAMILY AND CHILDREN - ACCOUNTING OPERATIONS**

As stated in our ten prior reports (most recently B33274 and B31277), we observed that the Department of Child Services (DCS) did not have an operations manual for the DCS County Offices of Family and Children (OFC), although periodic instructional memos are sent. As a result, the OFCs were not consistent in the manner in which they implemented their accounting operations. Some appear to be more accurate and efficient than others.

Each agency . . . should have internal controls in effect to provide reasonable assurance regarding the . . . effectiveness and efficiency of operations . . . (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

**COUNTY OFFICES OF FAMILY AND CHILDREN - CONTRACTS AND PROCUREMENT**

As stated in our six prior reports (most recently B33274 and B31277), we found that it was common practice at the County Offices of Family and Children not to utilize contracts when appropriate or to follow the State procurement process.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records. . . . Among other things . . . safeguarding controls over cash . . . are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

**CONTRACT APPROVALS**

During our review, we found Department of Child Services' (DCS) vendor contracts that did not include all the required approvals from the Indiana Department of Administration (IDOA), State Budget Agency, and Office of Attorney General (OAG) prior to the beginning of rendered services.

The State's internal Executive Document Summary (EDS) form attached to contracts may allow for services to begin prior to completion of the required approval signatures since an agency is not required to enter a reason for lateness in EDS box #39 unless the contract is received by IDOA more than 30 days after the contract inception date. Nevertheless, DCS should be cognizant that doing so may expose the State to a potential liability for payment of contractual services performed on a contract that was, subsequently, rejected by one of the approvers.

We found no payments to contractors prior to completion of the approval process. However, DCS should anticipate contractual services as early as possible and allow adequate time for completion of the contract process to obtain a fully executed contract before vendor services begin.

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(Continued)

Indiana Code 4-13-2-14.1(a) states in part: "A contract to which a state agency is a party must be approved by the following persons: (1) The commissioner of the Indiana department of administration. (2) The director of the budget agency . . . (3) The attorney general, as required by section 14.3 of this chapter."

The March 2010 Professional Services Contract Manual prepared by the OAG and IDOA states: "Sufficient lead-time should be given when preparing a contract so it can be reviewed and executed by the approving agencies. We suggest allowing 60 days for this process. IDOA tries to review each contract within five (5) working days of receipt, as does Budget. By statute, the Office of Attorney General is allowed forty-five (45) days to review a contract; however, the [OAG] Advisory Section tries to do all reviews within 10 business days of receipts."

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

***ATTENDANCE REPORTS - OVERTIME***

During our review of Department of Child Services, we discovered several attendance reports that did not match either the number of overtime hours reported by the employee on the Report of Overtime or the overtime hours for which the employee was paid. The attendance report represents the official claim of public funds and serves as the supporting documentation for the proper use of public funds.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

***SPECIAL DISBURSING OFFICER (SDO) ACCOUNT***

*SDO Advance*

The Special Disbursing Officer Fund (SDO) advance for the Department of Child Services (DCS) was not turned over, or reimbursed completely, for several months.

*SDO Fund Reconciliations*

The DCS did not perform reconciliations of its SDO advance in a timely manner.

If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4.10.6)

DEPARTMENT OF CHILD SERVICES  
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At least monthly, the following reconciliations must be performed for the SDO fund:

Reconciliation of the ENCOMPASS check register to the bank balance. Reconciliation of the SDO LPN advance to the ENCOMPASS check register balance. If manual SDO checks are used, reconciliation of the SDO manual check register balance to the ENCOMPASS check register balance. This reconciliation of the SDO advance must be formally documented at least monthly. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4.10.10.7 and 9)

***KIDTRAKS - INTERNAL CONTROLS***

During our review of the Department of Child Services (DCS), we found that DCS made overpayments, underpayments, and duplicate payments through the KidTraks system. The KidTraks system did not have adequate internal controls in place to detect, prevent, and correct overpayments and duplicate payments. Also, DCS did not have a process to track all overpayments, duplicate payments and underpayments as they were discovered. Because DCS did not track these errors, account receivables and payables were not properly set up for receiving overpayments or paying for underpayments. In addition, the KidTraks system could not generate a report listing the errors and overpayments and did not have a record of when overpayments occurred; typically errors were detected when clients reported such erroneous payments to DCS. Furthermore, DCS could not explain how errors and overpayments occurred, as well as whether the errors had been corrected and how they were corrected.

Each agency, department, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Organizational Overview, IV)

***CELLULAR PHONES***

During our review of the Department of Child Services (DCS), we found that the agency did not maintain a list of assigned cell phones to agency staff. DCS has a cell phone policy, however, the agency did not monitor to ensure that the policy was distributed to staff. In addition, DCS did not monitor cell phone usage. This is a control weakness.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

Officials and employees who are accountable for the expenditure of public funds must exercise due diligence to assure that all such payments are in the taxpayer's interest. The following is a list, not necessarily complete, of unacceptable payments from public funds.

DEPARTMENT OF CHILD SERVICES  
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Personal cellular telephone calls that cause the unit to maintain a calling plan in excess of business needs

Personal cellular calls not in compliance with the Information Resources Use Agreement, which provides for de-minimus personal use

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4.7.1)

DEPARTMENT OF CHILD SERVICES  
EXIT CONFERENCE

The contents of this report were discussed on January 12, 2011, with James W. Payne, Director, Department of Child Services. The official response has been made a part of this report and may be found on pages 9 through 11.



Mitchell E. Daniels, Jr., Governor  
James W. Payne, Director

**Indiana Department of Child Services**  
Room W392 - MS03  
402 W. Washington Street  
Indianapolis, Indiana 46204-2739

317-232-4705  
FAX: 317-232-4490

[www.in.gov/dcs](http://www.in.gov/dcs)

**Child Abuse and Neglect Hotline: 800-800-5556**

January 28, 2011

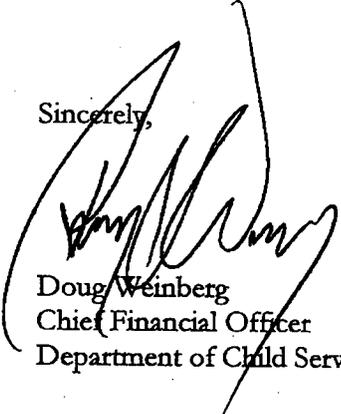
Bruce Hartman, State Examiner  
State Board of Accounts  
302 W. Washington St., E418  
Indianapolis, IN 46204

Dear Mr. Hartman,

This letter represents the Department of Child Services' response to outstanding issues noted in the review report. The matters discussed herein were brought to the attention of the appropriate staff. In addition, statuses of proposed corrective action plans are attached.

If you need anything else please let me know.

Sincerely,



Doug Weinberg  
Chief Financial Officer  
Department of Child Services



*Protecting our children, families and future*

Department of Child Services  
Review Comments Response  
January 27, 2011

The Department of Child Services (DCS) agrees with your findings and appreciates the opportunity to provide a response to each of the findings noted in the Exit Conference and report. Both planned and currently implemented corrective actions will be detailed for each the identified findings.

County Offices of Family and Children – Accounting Operations

DCS has not established fiscal operations manuals in excess of the State Board of Accounts Compliance Manual (i.e. State Bookkeeping manual) for its fiscal operations. As we implemented the transfer of fiscal responsibilities of the Family and Children Fund from the 92 Counties, we began to see that the distributed management of the Fiscal Operations would not be successful. To that end, DCS launched a Centralization effort in November of 2009 to move the accounting operations from Local Office to the State Central Offices. This project was completed July of 2010 and has been improving our ability to ensure compliance with the regulations outlined in the State Compliance Manual set in place by St. Bd. of Accounts. It is our belief that this will resolve this longstanding issue as noted in your review.

County Offices of Family and Children – Contracts and Procurement

As noted in the previous finding response above, the Centralization of Fiscal functions from the Local Offices to Central Office included duties of Contracting and several layers of the Procurement function. Today Local Offices participate in Supplies requisitioning and few Administrative commodities (postage, legal ads, and one time procurements), with these also receiving oversight and approvals from Central Office Management. Contracts are initiated and administered by Legal, Purchasing and Program staff in Central Office with recommendations and input provided by Local Offices and Regional Service Councils as stakeholders.

Contract Approvals

Again as noted above Contract responsibilities have shifted placing more responsibility and control in the hands of the Central Office to ensure timely and appropriate actions are taken to meet the regulations surrounding this function of State Government. DCS is actively working toward ensuring proper lead time is taken into consideration as new Contracts and Purchase Orders are started to ensure that these documents are fully executed with appropriate signatures prior to the initiation of the Contract term and work being started by Vendors.

Attendance Reports – Overtime

DCS will continue to reinforce the role of the Supervisor in the Time approval process to ensure that this condition is resolved. In April of 2010 DCS moved all of its employees to the PeopleSoft Time and Labor module to submit the A-4 and generate the Auditor of State Payroll file which creates payments of wages to employees. This action transitioned DCS from a legacy electronic database system that had points of potential discrepancies from the employees physical Timesheet and the wages paid by the Auditor of State.

### Special Disbursing Officer (SDO) Account

With the separation of DCS from the Family and Social Services Administration many aspects of daily business were difficult to successfully transfer. The SDO process and funded account was one such area. DCS took several months in justifying its ongoing need for this Procurement/Payment option with the regulatory bodies involved. Once approval was rendered, DCS took great lengths to establish policies surrounding how and when it might be used by Local Offices and would be accounted for in Central Office. For this reason the SDO Account remain un-utilized for an extended period. Once this option and process was deployed, staff were instructed that this payment method was to remain the last/emergency option for providing payments for services for our clients and would be heavily scrutinized when requested.

DCS also found that in the separation from FSSA that the employees with experience and understanding of the regulations surrounding the required reconciliation process were not present in the areas of DCS administering the Account. This has been rectified and reconciliations are being compliantly preformed, utilizing the Encompass system and other manual records retention.

### KidTraks – Internal Controls

As DCS has grown in its assumption of the Fiscal responsibilities of the Family and Children Fund, we have implemented several upgrades and enhancements to the KidTraks system where Child related data and Case specific invoice processing begins for the State. We have made several changes to the billing methods and policies that our vendors must adhere to in order for submitted invoices to be processed, including requiring key data elements such as Invoice Date and Service Dates for billed services by client, to enhance identification of duplicate billings within KidTraks. This is also benefiting the flow of data into the Encompass system to provide additional audit points to prevent overpayments to vendors.

Billing for recovery of overpayments and court ordered restitution functionality is planned to occur in a future release of KidTraks.

### Cellular Phones

Currently a full list of DCS employees assigned a Verizon cellular phone is available on the Verizon website, all other cellular phone assignments are maintained by the Indiana Office of Technology. DCS has accessed and compiled its agency data from the Verizon website for use by our monitoring staff and will work to maintain a consolidated listing, which will contain all this information. We anticipate this will be completed by the end of February 2011.

DCS does maintain a Cellular Phone policy for its employees. Currently this document is made available via the DCS website and is distributed to new employees at the point of initial employee orientation. DCS will institute a process of securing a signed certification that employees have received the policy and will maintain this document in their DCS HR file.

DCS will develop and implement a process for random audit of Cellular phone statements for the purpose of identifying excessive or inappropriate use of State Cellular telephones by employees. Anticipated completion date of this project is April 8<sup>th</sup>, 2011.