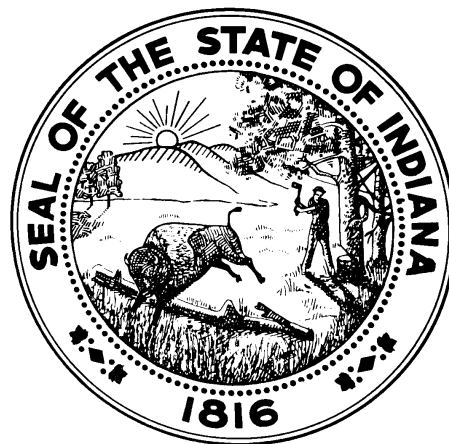


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
STATE OF INDIANA

March 1, 2007 to February 29, 2008



**FILED**  
11/17/2008



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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary, Family and Social Services Administration	E. Mitchell Roob, Jr.	01-10-05 to 01-11-09
Director, Department of Child Services	James W. Payne	01-10-05 to 01-11-09



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND THE DEPARTMENT OF CHILD SERVICES

We have reviewed the receipts, disbursements, and assets of the Family and Social Services Administration and the Department of Child Services for the period of March 1, 2007 to February 29, 2008. The Family and Social Services Administration and Department of Child Services' management are 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 Family and Social Services Administration and 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 Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

August 21, 2008

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008

STATE-WIDE SINGLE AUDIT

In conjunction with our review of Indiana's Family and Social Services Administration and the Department of Child Services, we also tested compliance with federal regulations and grant agreements. Findings relating to the federal programs administered by both agencies are included in the Indiana State-wide Single Audits.

COMBINED REPORT

The Department of Child Services (DCS) was created by Executive Order 05-15 on January 11, 2005, and then by Indiana Code 31-25-1 effective July 1, 2005. Multiple programs that were the responsibility of the Family and Social Services Administration (FSSA) prior to January 11, 2005, were transferred to DCS upon its creation. Effective upon DCS's creation and throughout our review period, the administrative program responsibilities were handled by DCS. However, the accounting functions for those same DCS programs continued to be handled dually by FSSA and DCS. As a result, both agencies were included within the scope of this review.

INCONSISTENT PROCEDURES

Family and Social Services Administration (FSSA) and the Department of Child Services (DCS) are made up of various divisions. We stated in our 11 prior reports (most recently B27892 and B31277) that these various divisions' policies and procedures in accounting activity were inconsistent and incompatible within the present structure. We noted during our prior audits that progress had been made through the implementation of standardized processes, communication through manuals and memos, etc. However, there are still various accounting software systems in use. Due to the size and diversity of the agencies' accounting operations, the lack of a standardized system reduces management's control over the accounting operations and the ability to quickly and consistently correct deficiencies and weaknesses when identified.

An agency's accounting responsibilities must include an effective accounting system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

COUNTY OFFICES OF FAMILY AND CHILDREN - ACCOUNTING OPERATIONS

As stated in our nine prior reports (most recently B27892 and B31277), we observed that the County Offices of Family and Children were not consistent in the manner in which they implemented their accounting operations. Some appear to be more accurate and efficient than others. Through further inquiry we found that there is not an operations manual for these offices, though periodic memos are sent.

Subsequent to our review period we noted that a manual had been developed and distributed for the Counties' use. Also, evidence was provided that basic training had begun.

An agency must have internal controls that provide reasonable assurance for the effectiveness and efficiency of operations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1) Formal procedures in writing help to facilitate this goal.

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008  
(Continued)

COUNTY OFFICES OF FAMILY AND CHILDREN - CONTRACTS AND PROCUREMENT

As stated in our five prior reports (most recently B27892 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, institution or office should have internal controls in effect which 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 Agencies, Chapter 1)

CONTRACT APPROVALS

As stated in our two prior Reports B27892 and B31277, we found that FSSA made payments to vendors under contracts for professional services. These contracts were in effect prior to approval by the proper officials. Internal controls are weakened when a contract is put into effect before proper approval. In previous Statewide Single audits, FSSA had a federal finding in their audit reports for each state fiscal year from 1997 to 2002 whereby contracts were in effect prior to approval by the proper officials.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

INACTIVE FUND/CENTER

As stated in our two prior Reports B27892 and B31277, we found that fund center 6000/120800 had no activity for over 2 years.

If a fund/center has been inactive for a period of two or more years, the agency should contact the State Budget Agency as to the continued need for any inactive funds on hand. If the fund/center contains federal funds, the grantor must be contacted regarding a balance owed. When a fund/center is no longer necessary, the agency's Budget Analyst should be contacted concerning elimination of the remaining balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 2)

CASH MANAGEMENT LATE DRAWS

As stated in our two prior Reports B27892 and B31277, we found several federal draws that did not follow the check clearance pattern templates as prescribed under the Cash Management Improvement Act. These draws were drawn late and as a result the State lost interest on the draws.

Each agency, department, institution or office should have internal controls in effect which 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 Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008  
(Continued)

RECONCILIATION OF REPAYMENT SCHEDULES TO ICES

As stated in our prior Report B31277, during our review of FSSA and DCS, we found that actual welfare revenue recoveries are not reconciled to the Indiana Client Eligibility computer System (ICES). Revenue recoveries are received from welfare recipients for overpayments for welfare programs such as TANF, Food Stamps, and Medicaid. The ICES system is considered to be the official record for the reporting of revenue recoveries for each welfare recipient's case. Without a reconciliation process in place it cannot be determined if the values recorded in ICES are correct.

At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If the reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. Additionally, audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

LACK OF BOND COVERAGE

During our review of the Family and Social Services Administration (FSSA) and the Department of Child Services (DCS), we found that FSSA and DCS did not carry the required bond coverage for superintendents of institutions, the head and the assistant supervisor of the Bureau of Family Independence, and the county directors.

Indiana Code 4-24-6-9 states: "(d) No other bond except the general performance blanket bond given by the superintendent or warden of any institution, or by an officer or employee of the institution, shall be required. A general blanket performance bond or crime insurance policy endorsed to include faithful performance that is obtained under IC 5-4-1-15.1 shall cover any misfeasance or nonfeasance in the administration of sections 6 and 7 of this chapter on the part of any superintendent, warden, officer, or employee of the institution."

Indiana Code 12-13-6-2 states: "Bureau head and assistant supervisor; bond and oath; bureau of family independence responsibilities (3) Before entering upon the discharge of an official duty, the bureau head and assistant supervisor shall execute a bond payable to the state in an amount and with sureties approved by the governor that is conditioned on the faithful discharge of official duties."

Indiana Code 12-13-2-2 states: "(a) Before the director begins official duties, the director must do the following: (1) Execute a bond payable to the state in an amount and with sureties as approved by the secretary that is conditioned on the faithful discharge of the director's duties."

Indiana Code 12-19-1-6 states: "Before beginning the discharge of the county director's official duties, a county director must do the following: (1) Execute a bond payable to the state. The following apply to a bond executed under this section: (A) The bond must be conditioned on the faithful discharge of the county director's official duties. (B) The bond must be executed in an amount determined under rules adopted by the division."

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008  
(Continued)

MISSING PAYROLL DOCUMENTATION

Several payroll disbursements were observed which did not contain adequate supporting documentation. Attendance reports with documentation supporting overtime paid was requested for eight employees. An attendance report was not received for one of the eight employees requested. Documentation was requested for 20 employee checks over \$5,000. No documentation was received for two of these 20 checks. Documentation for five positive adjustments to gross was requested. No documentation was received for three of these five adjustments to gross requested. Due to the lack of supporting information, the validity and accountability for these payroll disbursements could not be established.

Agencies have the responsibility to maintain and make available for audit documentation supporting the validity and accountability of monies received or disbursed. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

ATTENDANCE REPORTS - OVERTIME

During our review of Family and Social Services Administration, 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, institution or office should have internal controls in effect which 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, Chapter 1)

SDO ADVANCE

The Special Disbursing Officer Fund (SDO) advance for the Family and Social Services Administration was not turned over, or reimbursed completely, for several months.

If a SDO advance is not used within one or two months then the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Page 7:9)

SDO FUND RECONCILIATIONS

Family and Social Services Administration (FSSA) has not performed reconciliations of its Special Disbursing Officer (SDO) advance. The SDO could not be reconciled because the FSSA did not maintain a check register balance.

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008  
(Continued)

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Page 7:1)

At all times, the unreimbursed disbursements plus any advances to office cash or subsidiary checking accounts plus the SDO checking account balance must equal the local purchase advance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Page 7:22)

The Special Disbursing Officer is accountable at all times for all sums advanced. The SDO officer may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Page 7:1)

DCS - TAKE HOME VEHICLE

During our review of Department of Child Services, we found that employees with take home vehicles did not have their reported gross pay increased by the Internal Revenue Service (IRS) required amount for commuting.

The Internal Revenue Service has established that the commuting use is taxable income to the employee. The value of each one way commuting use of the state provided vehicle is \$1.50. Employees are required to maintain records and report on the number of one way (or round trip) commutes between the employee's home and place of work for each payroll period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

Under circumstances where commuting is permitted, the form "Employee Statement of Employer Provided Vehicle Use" should be completed by the employee. The number of one-way commutes times \$1.50 equals the value of the benefit provided. This amount is computed and reported for each pay period by submitting the completed form to the payroll clerk. An increase is made to gross pay and a corresponding deduction is made in the same amount. This increases taxable income but does not increase the employee's pay. Taxes are deducted for the fringe benefit provided. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

FSSA - MOTOR POOL LOGS AND TAKE HOME VEHICLE

During our review of Family and Social Services Administration, motor pool logs requested for audit were not provided. As a result we could not determine which employees took vehicles home and thus, had their reported gross pay increased by the Internal Revenue Service (IRS) required amount for commuting.

In order for an agency and Motor Pool to monitor vehicle use, the driver must complete the Report of Vehicle Mileage and Cost, also known as the Motor Pool log. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008  
(Continued)

The Internal Revenue Service has established that the commuting use is taxable income to the employee. The value of each one way commuting use of the state provided vehicle is \$1.50. Employees are required to maintain records and report on the number of one way (or round trip) commutes between the employee's home and place of work for each payroll period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

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DMHA - LACK OF ACTUARIAL STUDY

During our review of the Family and Social Services Administration (FSSA) Division of Mental Health and Addiction (DMHA), we found that for our review period that DMHA did not have a current actuarial analysis in place. The last actuarial analysis for adults was dated May, 2002, and expired in 2006. The law requires an actuarial analysis be conducted every four years. The actuarial analysis is to be utilized in determining appropriate payment rates for mental health services.

Indiana Code 12-21-5-1.5(9) states: "The division shall do the following: (9) Conduct an actuarial analysis every four (4) years beginning July 1, 2000."

DMHA - LACK OF CONTRACTUAL PAYMENT TERMS

During our review of the Family and Social Services Administration (FSSA) Division of Mental Health and Addiction (DMHA), we were unable to verify that Community Mental Health Center (CMHC) vendors were paid in accordance with contract payment terms. FSSA-DMHA contracts with the CMHCs lacked a specific rate by unit of service, thus preventing us from verifying the validity of all disbursements under these contracts.

Each agency, department, quasi, institution or office should have internal controls in effect which 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 Agencies, Chapter 1)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
REVIEW COMMENTS  
February 29, 2008  
(Continued)

DMHA - LACK OF AUDIT TRAIL SUPPORTING ACTUARIAL STUDY

During our review of the Family and Social Services Administration (FSSA) Division of Mental Health and Addiction (DMHA), we were unable to verify that the disbursements made to Community Mental Health Center (CMHC) vendors were calculated from the statutorily required actuarial analysis. This prevented us from verifying the validity of disbursements made under these contracts. Audit trail documentation did not exist to support that actuarial analysis rates were used in support of actual rates paid to CMHCs.

Each agency, department, quasi, institution or office should have internal controls in effect which 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 Agencies, Chapter 1)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2008, with John Parks, Chief Financial Officer, Family and Social Services Administration (FSSA); and Roger Booth, Director of Internal Audit, FSSA. The official response has been made a part of this report and may be found on pages 12 through 21.

The contents of this report were discussed on September 18, 2008, with Mike Ashley, Deputy Director, Department of Child Services (DCS); and Mary Edmonds, Controller, DCS. The official response has been made a part of this report and may be found on pages 22 through 26.



*"People  
helping people  
help  
themselves"*

Mitchell E. Daniels, Jr., Governor  
State of Indiana

**Indiana Family and Social Services Administration**  
402 W. WASHINGTON STREET, P.O. BOX 7083  
INDIANAPOLIS, IN 46207-7083

September 30, 2008

Bruce Hartman, SBOA State Examiner  
Indiana State Board of Accounts  
200 W. Washington St. Rm. 212 State House  
Indianapolis, IN 46204

Dear Mr. Hartman:

Attached please find FSSA response updated 9/2008 for the Compliance review conducted by SBOA. If you have any questions, please feel free to contact Kathleen Troiani, Audit Manager, FSSA Audit Services @ (317)-232-1219

Sincerely:



John Parks  
Chief Financial Officer  
FSSA Administration

cc: John Jacob, SBOA  
Roger A. Booth, FSSA Audit Services  
Kathleen Troiani, FSSA Audit Services



**INCONSISTENT PROCEDURES**

Contact Person: John Parks  
Title of Contact: Chief Financial Officer - FSSA  
Phone: (317) 233-4451

**Corrective Action Plan – September 2008:**

FSSA must continue to operate with inconsistent procedures and practices until full implementation of ENCOMPASS (PeopleSoft) is completed. There is a renewed commitment to reconcile account balances to assure that transactions are properly posted to all the multiple accounting systems.

Current status: unresolved

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

Contact Person: Mary Edmonds  
Title of Contact: Deputy Director of Administrative Services, DCS  
Phone Number: (317) 232-4758

**Corrective Action Plan – September 2008:**

Response to be submitted by Department of Child Services

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

Contact Person: Celia Leaird  
Title of Contact: Manager of Prevention Services  
Phone Number: (317) 232-4497

**Corrective Action Plan – September 2008:**

Response to be submitted by Department of Child Services

**CONTRACT APPROVALS**

Contact Person: Greg McAloon  
Title of Contact: Director – Contracts (FSSA)  
Phone: (317) 234-4690

**Corrective Action Plan – September 2008:**

FSSA has processes and controls in place which prevent payments to any contractor until the contract has been fully approved and activated in the automated Contract Management System (CMS).

At times, a new initiative or the continuation of a service is deemed so critical that the contractor begins or continues work while the contract approval process is underway. While it is undeniably the better practice to obtain a fully executed contract prior to commencement of work by the Contractor, when the Contractor works "at risk," he is fully aware that he is working at his risk that he will not be compensated for work done if no contract is approved. It is certainly not the practice to mislead a Contractor into thinking that the risk does not exist. Absent such intentional deception, or a pattern of accepting services in reckless disregard of the likelihood of full-execution of a contract, the State's legal position is believed to be strong.

Current status: Resolved

**INACTIVE FUND CENTER**

Contact Person: Michael Silberstein  
Title of Contact: Agency Controller - FSSA  
Phone: (317) 233-3045

**Corrective Action Plan – September 2008:**

There were appropriate expenses charged against the referenced fund center in SFY08. Further properly approved expenses will continue to be processed in this account until the funds are depleted.

Current status: Resolved

**CASH MANAGEMENT LATE DRAWS**

Contact Person: David Nelson  
Title of Contact: Director of Federal Funding  
Phone: (317) 232-7088

**Corrective Action Plan – September 2008:**

The check clearance pattern (CCP) is entered annually into Federal Expense Tracking System (FETS) to delay payments until the average check clearance time has elapsed. The finding resulted from the CCP not having been updated for SFY08. The CCP for SFY 2009 currently in FETS has been verified against Exhibit II: List of Clearance Times in the Cash Management Improvement Act Agreement for SFY 2009. Calendar reminders have been set for all members of Cash Management as a reminder to update the CCP at the end of June each year.

Current status: Resolved

**RECONCILIATION OF REPAYMENT SCHEDULES TO ICES**

Contact Person: Krishna Heyward  
Title of Contact: Controller, DFR  
Phone: (317) 233-1925

**Corrective Action Plan – September 2008:**

The Department of Family Resources is developing the procedures to reconcile actual welfare revenue recoveries to the Indiana Client Eligibility System (ICES). This process is made more difficult by the number of data systems that carry accounting data. (See comment on inconsistent procedures above.)

Current Status: Unresolved

**LACK OF BOND COVERAGE**

Contact Person: Michael Silberstein  
Title of Contact: Agency Controller - FSSA  
Phone: (317) 233-3045

**Corrective Action Plan – September 2008:**

FSSA understands and agrees that it is not meeting the Indiana Code guidelines requiring a minimum amount of employee dishonesty bond coverage. It should be known that the coverage that is required by Indiana Code is only for employee dishonesty and does not cover:

- forgery or alteration
- theft, disappearance, or destruction
- robbery and safe burglary coverage
- premises burglary coverage
- other

The maximum coverage that FSSA will insure per incident is only \$20,000 per covered person (other than State Operated Facility Superintendents which is \$50,000). FSSA Legal believes that this coverage is more of an administrative chore, rather than protection of malfeasance to the Indiana taxpayers. Additionally, most of the staff previously covered by this policy were in County offices. The staff in DFR County offices no longer handle cash/checks of any kind. The nature of DFR's model has changed and the Indiana Code has not changed to match our current business processes.

Though FSSA does not believe that these Indiana Code regulations fit the nature of our business, FSSA will obtain coverage for State employees according to the Code within the next 30 days.

Current Status: Unresolved

**MISSING PAYROLL DOCUMENTATION**

Contact Person: Scott Blake  
Title of Contact: Director of Administrative Services  
Phone: (317) 234-1488

**Corrective Action Plan September 2008:**

FSSA has taken the following steps in regards to maintaining payroll documentation:

1. All payroll files have been moved to a controlled access environment and are kept in locked file cabinets.
2. Only Payroll personnel and immediate Managers are allowed access to the files.
3. A leadership change has occurred and the new Payroll Manager is required to review the Accounting and Uniform Compliance Guidelines the requirements for the Payroll personnel on a semi annual basis.
4. FSSA is developing a Payroll intranet site to communicate with agency personnel the documentation requirements that must be submitted with their attendance reports. This site will be the repository for Payroll related information.

Current Status: Unresolved

**ATTENDANCE REPORTS - OVERTIME**

Contact Person: Scott Blake  
Title of Contact: Director of Administrative Services  
Phone: (317) 234-1488

**Corrective Action Plan September 2008:**

FSSA has taken the following steps in regards to maintaining payroll documentation:

1. A leadership change has occurred and the new Payroll Manager is required to review the Accounting and Uniform Compliance Guidelines the requirements for the Payroll personnel on a semi annual basis.
2. FSSA is preparing written documentation on a reconciliation process to validate overtime hours submitted on an employee's attendance report.

Current Status: Unresolved

**SDO ADVANCE**

Contact Person: Scott Blake  
Title of Contact: Director of Administrative Services  
Phone: (317) 234-1488

**Corrective Action Plan September 2008:**

The balance in the SDO account will be reduced from \$2,000 to \$250. Only two payments (for \$139 each) have been made in calendar year 2008.

Current Status: Unresolved

**SDO FUND RECONCILIATIONS**

Contact Person: Scott Blake  
Title of Contact: Director of Administrative Services  
Phone: (317) 234-1488

**Corrective Action Plan September 2008:**

FSSA has taken the following steps in regards to SFO fund reconciliations:

1. Two (2) FSSA Division of Finance employees, one from Administrative Services (formerly Claims Management) and one from Finance Operations will reconcile the SDO Account using the check register, bank statement and AOS data.
2. A signed document by both parties will be kept with the check register showing completion of the reconciliation.
3. A leadership change has occurred and the new Director is required to review the Accounting and Uniform Compliance Guidelines, specifically the Special Disbursing Officer responsibilities on an annual basis.

Current Status: Unresolved

**DCS-TAKE HOME VEHICLE**

Contact Person: Mary Edmunds  
Title of Contact: Deputy Director of Administrative Services, DCS  
Phone: (317) 232-4758

**Corrective Action Plan September 2008:**

Response to be submitted by Department of Child Services

**FSSA-MOTOR POOL LOGS AND TAKE HOME VEHICLE**

Contact Person: Michael Silberstein  
Title of Contact: Agency Controller - FSSA  
Phone: (317) 233-3045

**Corrective Action Plan September 2008:**

IDOA currently tracks all of FSSA's vehicles in its database (214 vehicles as of 9/23/08). This current listing of vehicles can be run on an ad hoc basis and IDOA maintains this database by adding new vehicles or removing surplus vehicles.

FSSA Administrative Services maintains a record of take home vehicles by employee name. FSSA captures the \$1.50/each way commuting use fee on each employee's time sheet. The reporting code that is used by the employee is "Commute Charges St. Veh. - C2". It is the responsibility of the employee to select this code and the manager to review the information entered by the employee. FSSA can run a query at any point in time that will provide the information entered by employee.

FSSA motor pool logs are typically kept in the glove compartment of each vehicle and updated during each trip by the driver. To collect 214 motor pool vehicle logs from facilities around the State is quite an arduous task, the benefits of which are difficult to justify. As FSSA continues to strive towards depleting its motor pool and using Enterprise vehicles, the motor pool logs will be utilized less frequently.

Current Status: Resolved

**DMHA-LACK OF ACTUARIAL STUDY**

Contact Person: Paul Bowling  
Title of Contact: Controller - DMHA  
Phone: (317) 232-7862

**Corrective Action Plan September 2008:**

The audit report correctly points out that Indiana Code 12-21-5-1.5 (9) states that "The Division shall do the following: (9) Conduct an actuarial analysis every four (4) years beginning July 1, 2000. As stated in the audit report, the last actuarial analysis for adults was dated May, 2002. DMHA did conduct an actuarial analysis on children and adolescents in 2004. That actuarial report is dated June 25, 2004.

The Division has not currently commissioned a new actuarial for the following reasons:

1. DMHA has embarked on a process of transforming the delivery of mental health and addiction in the State of Indiana. As part of this mental health and addiction transformation the Division has replaced the assessment instruments it requires its funded services providers to use. The former screening instruments, the HAPI-A for adults, and the HAPI-C for children, focused on the collection of demographic and diagnostic information. The newly adopted assessment instruments, the ANSA for

adults and the CANS for children, also give service providers information on the type and volume of service that would be most effective and efficient for each consumer. The CANS and the ANSA will enable DMHA to fund service packages for each consumer. This current year, SFY09, is the first year that DMHA has required its contractors to use the ANSA and the CANS; therefore, DMHA won't have data from the CANS and ANSA until SFY10. If DMHA were to conduct an actuarial prior to SFY10, the information from the CANS and ANSA would not be available. The actuary would have to use data from the obsolete instruments, the HAPI-A and HAPI-C. This data would not give DMHA the information it needs to continue with the transformation of the mental health and addiction systems. An actuarial done prior to SFY10 would be a waste of taxpayer dollars.

2. As part of the transformation process, DMHA is moving away from an actuarially based funding formula and implementing a process of performance-based contracting. Beginning in SFY08, DMHA began to incorporate pay for performance language into its contracts with its service providers. In order to draw down 100% of their allocated funding, providers must achieve or exceed pre-determined targets. These performance measures are not based on an actuarial rate. The ability of providers to draw down mental health and addiction funding has become more dependent on provider performance and less dependent on actuarially-based items such as population density and prevalence.

DMHA believes that the law requiring that an actuarial analysis be conducted every four years is outdated given implementation of the mental health and addiction transformation. While the actuarial may be overdue, conducting one prior to SFY10 would not be prudent given the adoption of the new screening instruments and the switch to performance-based contracting. DMHA proposes that the code requiring that an actuarial be conducted every four years be removed or, at a minimum, that the language of the code be changed to read, "The Division *may* conduct an actuarial."

Current Status: Unresolved (change in code only)

#### **DMHA-LACK OF CONTRACTUAL PAYMENT TERMS**

Contact Person: Paul Bowling  
Title of Contact: Controller - DMHA  
Phone: (317) 232-7862

#### **Corrective Action Plan September 2008:**

There are four distinct population groups receiving treatment through contracts from the Division of Mental Health and Addiction:

- Seriously Mentally Ill Adults (SMI)
- Seriously Emotionally Disturbed Children (SED)
- Persons of all ages with a Chemical Addiction (CA)
- Persons of all ages with a Compulsive Gambling Disorder (GAM)

A specific rate of \$2,204 per year is paid for persons with a Gambling disorder served by DMHA contractors. The audit correctly points out that DMHA contracts do not have a specific rate for serving SMI, SED, and CA clients.

In the past, DMHA did pay specific, actuarially-determined rates for serving SMI, SED, and CA clients. This methodology was flawed because the total of the state and federal appropriation for treatment was only adequate to pay for a fraction of those eligible individuals served by DMHA contracted treatment providers. At the actuarial rate there was only enough funding to pay for 45% of the SED children, 55% of the SMI adults, and 65% of those with chronic addiction served by DMHA providers.

In SFY07 DMHA began to phase in a new methodology for paying providers. The goals of this new system of reimbursement were to improve provider performance and accountability. The characteristics of the new system include:

- There are eight payment points during the fiscal year.
- Four of the payments are based on performance in the previous fiscal year.
- Four of the payments are based on performance in the current fiscal year.
- Providers are paid retrospectively in that all payments are based on previous performance.

The new system did not abandon the information provided by the actuarial. The actuarial was used to allocate the available funding to the counties. Once the amount of funding available for each county was determined the actuarial was used to determine a share of that funding for each provider serving the county. As noted above the new system does not guarantee that providers will receive their allocation.

The audit finding states that the lack of a specific rate prevents the auditors from verifying the validity of disbursements for these populations under these contracts. DMHA is able to verify the validity of the disbursements because contractors enter encounter data for every individual being served into the Community Services Data System (CSDS). Encounter data specifies the type and amount of service being received by each person served by a DMHA contracted provider; therefore, DMHA is able to monitor specific individuals to make sure they are receiving the type and volume of their services that would support their treatment, and to monitor providers to make certain that they have provided enough services to justify the payment they have claimed.

In addition to DMHA monitoring the CSDS encounter data, DMHA has additional controls in place to assure that the information entered into the CSDS is accurate and that the services have been delivered. These quality assurance controls are done through contracts DMHA has with independent contractors. At the time covered by this SBOA audit, the controls were done through DMHA contracts with Health Care Excel and KPMG. DMHA has establish controls over the receipt, disbursement, recording, and accounting of its financial transactions through the requirement that providers enter encounter data into the CSDS and through the auditing of the encounter information and of the actual services provided by independent contractors.

In SFY08 DMHA initiated another method to monitor the adequacy and quality of the services provided to individuals receiving treatment for SMI, SED, and CA through the Consumer Service Reviews (CSRs). The Consumer Service Reviews entail a detailed and thorough review of the treatment files of individuals receiving treatment from DMHA providers. In addition to the extensive review of the treatment file, the CSR process includes interviews with the person receiving treatment, their family members, the therapist, and other individuals with significant contact with the person in treatment. Examples of others interviewed during the CSR process include the DCS caseworker assigned to the person in treatment, the person's employer, or the person's vocational rehabilitation counselor. The CSR process is administered by Health Services and Outcomes through a contract with DMHA. The CSR process when combined with the case monitoring done by the other independent contractors further assures that DMHA is getting what it is paying for.

Current Status: Resolved

**DMHA- LACK OF AUDIT TRAIL SUPPORTING ACTUARIAL**

Contact Person:	Paul Bowling
Title of Contact:	Controller - DMHA
Phone:	(317) 232-7862

**Corrective Action Plan September 2008:**

As noted above, DMHA contracted treatment providers (Community Mental Health Centers and Managed Care Providers) are not currently paid based on actuarial rates. The actuarial rates are used as one of the factors in determining each provider's allocation amount. The following process was used to calculate each agency's allocation:

1. The state and federal funding available for treatment was distributed to each county of the state based on the prevalence figures generated by the actuarial.
2. The actuarially-based value was assigned to each eligible person served by each DMHA contracted agency.
3. The value of the service each agency provided in each county was calculated.
4. Available funds for each county were divided among all DMHA providers doing business in the county based on the relative value of the service each agency provided in the county.
5. Once the individual county shares for a provider were calculated the funds from each county were totaled forming the basis of the provider's statewide funding.
6. In order to claim and be paid for 100% of its funding an agency had to:
  - a. Register clients into the CSDS.
  - b. Provide encounter data on each individual served.
  - c. Meet or exceed its performance targets.

It is important to note that provider will not receive 100% of their allocated funds unless they do 6 a, 6 b, and 6c above.

Current Status: Resolved



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

**Indiana Department of Child Services**  
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317-232-4705  
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[www.in.gov/dcs](http://www.in.gov/dcs)

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

October 2, 2008

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

Dear Mr. Hartman,

This letter represents the Department of Child Services' response to outstanding issues noted on the Review Comments for February 29, 2008. The matters discussed herein were brought to the attention of appropriate staff. In addition, statuses of proposed corrective action plans are attached.

If you need anything else please let us know.

Sincerely,

Michael Ashley  
Chief Financial Officer  
Department of Child Services



*Protecting our children, families and future*

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

Contact Person: Mary Edmonds  
Title of Contact: Deputy Director of Administrative Services, DCS  
Phone Number: (317) 232-4758

**Corrective Action Plan – August 2006:**

The Department of Child Services is currently developing standard procedures for local office internal controls. These procedures will be implemented in each of the ninety-two (92) local offices. Implementation will include documentation of procedures and policies; resource manual; internal review team; statewide training; an on-going audit team; and a statewide accounting system. The internal review teams will at each local office review the current process; recommend appropriate re-organization of office; assist with implementation of recommendations; and assist with training.

A request has been made for three (3) Accountant 1 positions to staff the Internal Review Team. This team will be supervised by the Deputy Director of Administrative Services and/or the Controller.

Currently, a group made up of representatives from DCS Executive Staff, DCS Budget, DCS Legal, State Board of Accounts, FSSA Audit, FSSA Procurement, FSSA Financial Management, Local Office Directors, and Local Office Accounting staff, are meeting to determine what the appropriate policies and procedures should be and determine an appropriate timeline for implementation.

**Corrective Action Plan – October 2007:**

No change at this time. This findings remains unresolved.

**Corrective Action Plan – May 2008:**

The Department of Child Services is currently finalizing standard procedures for local office internal controls. These procedures will be implemented in each of the ninety-two (92) local offices. Implementation will include documentation of procedures and policies; resource manual; regional finance managers; statewide training; and a statewide accounting system. The regional finance managers will periodically review the processes for their counterpart's county; manage regional finance centers; and assist with training.

A request has been made for ten (10) Regional Finance Managers. This team will be supervised by the Controller.

**Corrective Action Plan – September 2008:**

Regional Finance Managers have been approved and will be hired soon. Only eight (8) were approved instead of the ten mentioned in the previous plan (May 2008).

These staff will be focused on implementing the procedures for local office internal controls in all ninety-two (92) local offices.

Finding still remains unresolved.

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

Contact Person: Celia Leaird  
Title of Contact: Deputy Director, Programs and Services  
Phone Number: (317) 232-4497

**Corrective Action Plan – August 2006**

The Department of Child Services (DCS) has developed a contracting process to be used by Local offices. Because of the volume of contracts at the local level and the lack of infrastructure to support that volume in the central office, Interim Guidelines have been established with the Department of Administration. These have been shared with local offices. The Department of Child Services has further developed a process by which local offices may not enter a contract for services at the local level without the approval of the Regional Services Council (an oversight group composed of officials other than DCS staff as well as some DCS staff).

DCS proposes to address corrective action by developing a process for internal review of the DCS local office contracting process. In order to accomplish this task it would be most helpful if the State Board of Accounts would notify DCS when there is a finding that there is a local office that is operating outside the contracting guidelines.

Further, it should be noted that DCS, by Memorandum of Understanding, depends upon the FSSA contracting system. This system is under internal review in order to develop procedures by which the overall contracting process can be more responsive to the contracting needs of DCS. DCS will strongly recommend that this new process be capable of incorporating the local office contracts into its final product.

As previously indicated, this process cannot be concluded in a one year period. Every year, however, there is progress made in attaining the goal of managing local office contracts as part of the state contracting system.

**Corrective Action Plan – March 2007:**

DCS is in the process of hiring Regional Financial Managers, who will help to ensure accountability and best use of funding sources. Anticipated date of implementation is April 2007.

Also, in DCS's budget request for SFY 2008 and 2009 is a new contract unit. The new contract unit will establish new contract guidelines for the department, including

all local OFC office. Upon establishment of these guidelines all contract for DCS will be processed through the contract unit, following all IDOA guidelines. The anticipated date of implementation is September 2007.

**Corrective Action Plan – October 2007:**

No change at this time. This finding remains unresolved.

**Corrective Action Plan – May 2008**

The Department of Child Services (DCS) has developed a contracting process to be used by Local offices. Because of the volume of contracts at the local level and the lack of infrastructure to support that volume in the central office, Interim Guidelines have been established with the Department of Administration. These have been shared with local offices. The Department of Child Services has further developed a process by which local offices may not enter a contract over \$1000.00 for services at the local level without the approval of the Regional Services Council (an oversight group composed of officials other than DCS staff as well as some DCS staff).

DCS proposes to address corrective action by developing a process for internal review of the DCS local office contracting process. In order to accomplish this task it would be most helpful if the State Board of Accounts would notify DCS when there is a finding that there is a local office that is operating outside the contracting guidelines.

DCS has now developed its own contracting process for the initiation of contracts as well as contract amendments. However, DSC, by Memorandum of Understanding, continues to depend upon the FSSA contract management system for claims payment. This system is under internal review in order to develop procedures by which the overall contracting process can be more responsive to the contracting needs of DCS. DCS will incorporate the local office contracts into the state contracting process by January 1, 2009 (This is now legislatively required under HB 1001.)

**Corrective Action Plan – September 2008**

DCS is currently processing all DCS contracts and is no longer reliant on FSSA for this function. Beginning January 1, 2009 the local offices will no longer be responsible for the contract process, as well as all costs associated with Child Welfare will be paid by the state.

Currently, DCS program staff is reviewing the first three (3) waves of contract proposals for the services that will be paid. An Request for Proposal through IDOA was made for these waves and the last wave (four (4)). These contracts all have a begin date of January 1, 2009.

This finding remains unresolved at this time.

**DCS-TAKE HOME VEHICLE**

Contact Person: Tina Keith  
Title of Contact: Assistant Deputy Director, Accounts Payable-Travel  
Phone Number: (317) 234-5687

**Corrective Action Plan – September 2008**

The Department of Child Services is currently developing standard procedures for take home vehicles provided to employees. Once procedures are written employees will be trained and the new procedures implemented.

This finding remains unresolved.

**LACK OF BOND COVERAGE**

Contact Person: Mary Edmonds  
Title of Contact: Deputy Director of Administrative Services, DCS  
Phone Number: (317) 232-4758

**Corrective Action Plan – September 2008**

Upon passage of P.L. 146 - 2008, DCS Directors are no longer required to have bond coverage.

This finding is resolved and should therefore be closed.