B38884

# STATE BOARD OF ACCOUNTS

**302 West Washington Street**
**Room E418**
**INDIANAPOLIS, INDIANA 46204-2769**


REVIEW REPORT

OF

FAMILY AND SOCIAL SERVICES ADMINISTRATION

STATE OF INDIANA

March 1, 2008 to February 28, 2010

FILED
07/15/2011

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## AGENCY OFFICIALS

| Office | Official | Term |
|---|---|---|
| Secretary, Family and Social Services Administration | E. Mitchell Roob, Jr. | 01-10-05 to 01-04-09 |
| Secretary, Family and Social Services Administration | Anne Murphy | 01-05-09 to 11-12-10 |
| Secretary, Family and Social Services Administration | Michael Gargano | 11-13-10 to 01-14-13 |

STATE OF INDIANA
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# INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE FAMILY AND SOCIAL SERVICES ADMINISTRATION

We have reviewed the receipts, disbursements, and assets of the Family and Social Services Administration for the period of March 1, 2008 to February 28, 2010. The Family and Social Services Administration's 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. Accord-ingly, 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 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

### *STATE-WIDE SINGLE AUDIT*

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

### *INCONSISTENT PROCEDURES*

The Family and Social Services Administration (FSSA) is made up of various divisions. We stated in our twelve prior reports (most recently B33274 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 and Quasi Agencies, Organizational Overview, IV)

### *CONTRACT APPROVALS*

As stated in our three prior reports (most recently B33274 and B31277), during our review, we found that there were Family and Social Services Administration (FSSA) 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, FSSA 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, FSSA 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.

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 contact; 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 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, Organizational Overview, IV)

### *CASH MANAGEMENT LATE DRAWS*

As stated in our three prior reports (most recently B33274 and B31277), during our review of Family and Social Services Administration (FSSA), 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, 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 and Quasi Agencies, Organizational Overview, IV)

### *RECONCILIATION OF REPAYMENT SCHEDULES TO ICES*

As stated in our two prior Reports B33274 and B31277, during our review of Family and Social Services Administration (FSSA), 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.

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. In the case of agency controlled bank accounts, if the reconciled bank balance is less than the account ledger, the responsible official or employee may be held personally responsible for the amount needed to balance. 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 and Quasi Agencies, Organizational Overview, IV)

### *LACK OF BOND COVERAGE*

During our review of Family and Social Services Administration (FSSA), we found that the agency did not carry the required bond coverage for superintendents of institutions, Director of DFR, the Bureau head of the Bureau of Family Independence (BFI), the assistant supervisor of BFI, and officers and employees of Health Centers. FSSA did obtain a policy with an effective date of April 13, 2009, but it contained the following issues: (1) The current policy does not meet all statutorily required policy amounts of coverage; (2) The current policy does not provide coverage for all statutorily required positions at FSSA; (3) The current policy is not a bond, but rather a crime insurance policy. Some of the statutory requirements stipulate a bond is required.

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 12-13-2-2 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 12-13-6-2 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 12-21-3-3 states:

"(a) An officer or employee of the division shall, as the director requires, furnish a bond or crime policy endorsed to include faithful performance in the amount the director determines payable to the state and conditioned upon the faithful performance of the individual's duties. (b) The bonds or crime policies are subject to approval by the insurance commissioner and shall be filed in the office of the secretary of state. (c) The premiums for the bonds are payable from the money of the division. (d) The director may secure a standard form blanket bond or crime insurance policy endorsed to include faithful performance covering all or any part of the officers and employees of the department. However, the blanket bond or crime insurance policy must be in an amount not less than fifty thousand dollars ($50,000). (e) The commissioner of insurance shall prescribe the form of the bonds or crime policies required by this section."

Indiana Code 12-24-2-6 states:

"A superintendent shall furnish a bond as required by IC 12-24-3-3."

Indiana Code 12-24-3-3 states:

"(b) The director may require an employee of a state institution to furnish a bond in an amount determined by the director. The director shall require a superintendent to furnish a bond in an amount determined by the director. (c) A bond required by this section must be:

(1) payable to the state; (2) conditioned upon the faithful performance of the employee's duties; (3) subject to the approval of the insurance commissioner; and (4) filed in the office of the secretary of state. (d) The premiums for a bond required by this section shall be paid from the money of the division. (e) The division may secure a standard form blanket bond or crime insurance policy endorsed to include faithful performance that covers all or any part of the employees of the division. A blanket bond or crime insurance policy secured by the division under this subsection must be in an amount of at least fifty thousand dollars ($50,000). (f) The commissioner of insurance shall prescribe the form of the bonds or crime policies required by this section."

Indiana Code 12-30-2-4 states:

"Each superintendent of a county home established and operated under this chapter may, in the manner prescribed by IC 5-4-1, be required to give bond, conditioned upon the faithful discharge of the superintendent's duty."

Indiana Code 12-30-3-8(d) states:

"Before entering upon the duties of the superintendent's office, the county home superintendent: (1) shall take the oath of office required by law; and (2) may, in the manner prescribed by IC 5-4-1, be required to execute a surety bond conditioned on the faithful performance of the superintendent's duties."

Indiana Code 12-30-7-21 states:

"Health center board of managers; recommendations for salaries and benefits; officers and employees; bonds; (b) The board of managers shall designate the officers and employees who must, before entering upon the discharge of the officers' or employees' duties, give a bond in an amount determined by the board of managers to secure the faithful performance of the officers' or employees' duties."

### ***ATTENDANCE REPORTS - OVERTIME***

As stated in our prior Report B33274, 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, 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 and Quasi Agencies, Organizational Overview, IV)

***EMPLOYEE USE OF STATE OWNED VEHICLE***

During our review of Family and Social Services Administration (FSSA), we found that the agency employees did not complete the "Employee Statement of Employer Provided Vehicle Use" form which is a required form to be completed by employees commuting in state owned vehicles. Also, we found that management had not selected a policy for their employees commuting in state owned vehicles.

The Internal Revenue Service requires payroll tax withholding and compensation reporting (W-2) for employees using state-owned vehicles for non-business or commuting purposes. These employees must complete and certify Statements of Employer Provided Vehicle Use each payroll period. The amounts used in this section are current as of the publication of this policy. These amounts are set by the Internal Revenue Service and are subject to change periodically. It is the agency's responsibility to be aware of these changes. Rates may be found in IRS Publication 15-B and IRS Publication 535, and are subject to change.

In accordance with IRS guidelines, the Auditor's Office required Agency Heads to select commute vehicle policies for their agencies. The policy selections are:

1. No Personal Use (No take-home vehicle policy).

2. Commuting Use (Take-home vehicle policy).

3. Allowable Personal Use (Take home vehicle policy plus allowed personal use).

   (a) Cents-Per-Mile.

   (b) Annual Lease Value.

The agency's policy must be consistent with state law and the criteria for permanent assignments of vehicles. (State of Indiana Vehicle Fleet Management Policy, VI G)

***DMHA - LACK OF ACTUARIAL STUDY***

As stated in our prior Report B33274, 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 years beginning July 1, 2000."

***PAYROLL OVERPAYMENTS***

During our review of Family and Social Services Administration (FSSA), several payroll overpayments occurred. Based on our review of payroll by discovering a couple overpayments and notification of FSSA of these errors, FSSA performed their own internal audit and discovered additional overpayments that occurred within the FSSA Central Office and at the State Hospitals. Upon review of the FSSA letters requesting reimbursement for the overpayments made, several of the overpayment amounts listed on the request letters were not accurate, because taxes and state paid benefits paid in error were not taken into consideration. It was also discovered during our review that these overpayments were due to a lack of internal controls over FSSA payroll and also due to FSSA payroll staff not being properly trained. We also discovered that FSSA had no formal written policy detailing how to address payroll errors, such as payroll overpayments and leave balance errors.

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)

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 and Quasi Agencies, Organizational Overview, IV)

***CELLULAR PHONES***

During our review of Family and Social Services Administration (FSSA), we found that the agency did not maintain a list of assigned cell phones to agency staff, did not have an established cell phone policy, and 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.

> 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)

***FSSA MISSING PAYROLL DOCUMENTATION***

As stated in our prior Report B33274, adequate supporting documentation for several payroll transactions requested was not made available. Attendance reports with documentation supporting overtime paid was requested for eight employees. One of the eight attendance reports requested was not received. Documentation was requested for 20 employee payments over $5,000. No documentation was received for two of the 20 payments. Documentation for five positive adjustments to gross was requested. No documentation was received for three of the five adjustments. Due to the lack of supporting documentation, the validity and accountability for these payroll transactions 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 and Quasi Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION
EXIT CONFERENCE

The contents of this report were discussed on January 11, 2011, with Anne Murphy, Secretary, Family and Social Services Administration. The official response has been made a part of this report and may be found on pages 12 through 16.

The contents of this report were discussed on January 11, 2011, with Mitch Roob, former Secretary, Family and Social Services Administration. The official response has been made a part of this report and may be found on pages 12 through 16.

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

Michael A. Gargano, Secretary

"People helping people help themselves"

June 30, 2011

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 June 30, 2010 for the Compliance review conducted by SBOA.

If you have any questions or comments, please feel free to contact us.

Regards,

Paul Bowling
Chief Financial Officer

## INCONSISTENT PROCEDURES

| | |
|---|---|
| Contact Person: | Megan Ornellas |
| Title of Contact: | Chief Financial Officer - FSSA |
| Phone: | (317) 233-4451 |

Corrective Action Plan – June 30, 2010:

Full implementation of ENCOMPASS (PeopleSoft) occurred in September, 2009. As of June 30, 2010, new procedures and practices were underway to ensure the proper posting of transactions. ENCOMPASS replaces all other systems as the financial system of record.

Current status: Regarding one accounting system – Resolved
Regarding procedures and practices – Unresolved, still underway

## CONTRACT APPROVALS

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

Corrective Action Plan – June 30, 2010:

The following is the Corrective Action Plan included in the April 27, 2009 response.

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

## CASH MANAGEMENT LATE DRAWS

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

Corrective Action Plan – June 30, 2010

All State agencies are required to change financial systems and business processes to conform to the ENCOMPASS PeopleSoft design. The FSSA has continuously modified processes to align with future business requirements. An automated process cannot be completed until the ENCOMPASS conversion. Until that time, FSSA must utilize two systems for payment information. As such, a process for timely drawing of federal funds is not yet in place. For the time being, expenditures are entered into an Excel spreadsheet by FSSA accountants breaking out the federal portion, and then entering this amount into FETS.

The Auditor of State mandated as of July 1, 2006 all vendor payments are to be made by direct deposit unless a waiver is granted. Therefore, the impact of CCP is minimal with a current maximum delay of three days. However, processes are in place to ensure check clearance pattern days are updated in FETS each year. Complete compliance would require modifications to a system which is planned to be obsolete with the Auditor's conversion to PeopleSoft.

Current status: ~~Unresolved~~ Unchanged from April 27, 2009

## RECONCILIATION OF REPAYMENT SCHEDULES TO ICES

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

Corrective Action Plan – June 30, 2010:

DFR has submitted a PAPD document for an ICES upgrade to the federal funding agencies. This upgrade will include a reporting piece in which this reconciliation can be done.

Current Status: Unresolved

**LACK OF BOND COVERAGE**

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

Corrective Action Plan – June 30, 2010:

FSSA has an active bonding coverage policy with coverage from 04-13-2009 until cancelled.

Current Status: ~~Unresolved~~ Unchanged from April 27, 2009

**MISSING PAYROLL DOCUMENTATION**

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

Corrective Action Plan June 30, 2010:

The Payroll Intranet site was implemented.

Current Status: Resolved

**ATTENDANCE REPORTS – OVERTIME**

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

Corrective Action Plan June 30, 2010:

The "Reports To" manager validates the overtime log prior to approval of the electronic timesheet. The logs are available from the FSSA Administration Services intranet site.

Current Status: Resolved

**EMPLOYEE USE OF STATE OWNED VEHICLE**

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

Corrective Action Plan April 27, 2009:

An employee with an assigned vehicle indicates the commuting charges on their timesheet; the task for monitoring the accuracy of the data is assigned to the FSSA Payroll Group. After the close of each pay period, payroll personnel retrieve data based on submitted timesheets to validate that the employee assigned to a state vehicle has entered the correct commuting charges for the pay period. If data is missing, FSSA Payroll personnel will contact the employee to correct the timesheet, if determined that the data is still required. The Enterprise Rental Program has been fully implemented by FSSA reducing the number of motor pool logs.

Current Status: Resolved

**DMHA-LACK OF ACTUARIAL STUDY**

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

Corrective Action Plan June 30, 2010:

The Indiana Code related to the requirement that the Division must conduct an actuarial analysis every four years has not been modified at this time. The Division still plans to move in that direction but this would require legislative approval. Currently DMHA is in the process of contracting with Milliman to develop actuarial rates for the three populations currently served under the Division, SMI, SED and CA, based on new assessment tools being utilized (CANS and ANSA). DMHA hopes to have these completed within the next six months.

Current Status: ~~Unresolved~~ Unchanged from April 27, 2009