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

SPECIAL COMPLIANCE REPORT
OF

INDIANA FAMILY AND SOCIAL
SERVICES ADMINISTRATION
STATE OF INDIANA

April 1, 2015 to June 30, 2018

FILED
04/23/2019

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SCHEDULE OF OFFICIALS

Office	Official	Term
Secretary of the Family and Social Services Administration	James Wernert	07-21-14 to 01-12-17
	Jennifer Walthall	01-13-17 to 01-10-21

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TO: THE OFFICIALS OF THE INDIANA FAMILY AND SOCIAL SERVICES ADMINISTRATION

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Indiana Family and Social Services Administration (FSSA), for the period of April 1, 2015 to June 30, 2018, to determine compliance with terms and conditions of Temporary Assistance for Needy Families funding as provided for in a Memorandum of Understanding between the FSSA and the Indiana Department of Veterans' Affairs.

The Results and Comments contained herein describe the identified reportable instances of non-compliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

April 12, 2019

BACKGROUND

On April 14, 2015, a Memorandum of Understanding (MOU) between the Indiana Family and Social Services Administration (FSSA) and the Indiana Department of Veterans' Affairs (IDVA) was signed. The purpose of the MOU was to provide federal Temporary Assistance to Needy Families (TANF) funding of $2,000,000 to the IDVA to provide counseling and employment/training assistances to military veterans and their families. The original MOU was signed on April 14, 2015, commenced on April 1, 2015, and remained in effect through September 30, 2016. The original MOU was amended three times.

- Amendment 1, signed by the FSSA and the IDVA on October 8, 2015 - added an additional training program.
- Amendment 2, signed by the FSSA and the IDVA on September 27, 2016 - commenced on October 1, 2016, and remained in effect through September 30, 2017, added an additional $3,350,000 to the funding, made changes to eligible employment/training services, including the addition of childcare while attending training or looking for meaningful employment.
- Amendment 3, signed by the FSSA and the IDVA on September 26, 2017 - extended the term through June 30, 2018.

TANF is a federal grant that requires compliance with federal regulations. The governing regulations for states are those in 45 CFR parts 75, 92, and 260-265.

45 CFR 260.20 states:

"The TANF program has the following four purposes:

(a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

(b) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

(c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

(d) Encourage the formation and maintenance of two-parent families."

The original MOU provided for the following services to meet the TANF purpose:

- Marriage and non-medical counseling focused on individuals and families in need of services under purpose (d) above, "Encourage the formation and maintenance of two-parent families."
- Job placement and training services under purpose (b) above, "End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage." Per the MOU, in order to be eligible for this service, applicants must fall below 250 percent of the poverty level, and be a parent/caretaker for a dependent child.

- Amendment 2 of the MOU added childcare to all approved applicants to attend training classes and search for meaningful employment.

Additionally, the original MOU allowed $150,000 to be used for administrative purposes that includes employees, outreach, and travel. Amendment 2 increased the amount to $400,000.

INTERNAL CONTROLS OVER TANF EXPENDITURES

The FSSA internal control system in place over the TANF funding provided to the IDVA was not effective. The following deficiencies were identified during the review:

- The original MOU, nor amendment 1, did not inform the IDVA the TANF funding was federal funds and the IDVA would be required to follow federal regulations when spending the funds. Amendment 2, dated September 27, 2016, and commenced on October 1, 2016, included the federal regulations that are required to be followed.

- While FSSA had controls in place to monitor the types of expenditures that were charged to the TANF program by the IDVA, there were no controls in place to ensure the IDVA properly documented the reason the applicant was approved for the service provided. In a separate compliance report, issued by the Indiana State Board of Accounts, dated April 10, 2019, to the IDVA, lack of supporting documentation by the IDVA resulted in federal questioned costs totaling $718,260.59. This report can be found at www.in.gov/sboa.

The Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines & Policy Part IV states in part:

"Each agency, department, quasi, institution, or office has the following accounting responsibilities:

- Operate within the confines of the established budget.

- Maintain an adequate internal control environment.

- Maintain adequate internal control procedures.

- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.

- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records.

- Maintain, and make available for audit, documentation supporting the validity and accountability of monies received or disbursed.

- Perform duties in accordance with statute, regulations, state policy, contract provisions, and federal requirements as applicable.

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.

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. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit.

Each agency, department, quasi, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies and also with various accounting guides, manuals and other publications.

Every governmental unit is required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies. This includes opinions of the Attorney General of the State of Indiana and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance with these requirements may require corrective action by the governmental unit and follow up by a federal or state agency. "

QUESTIONED COSTS

In a separate compliance report, issued by the Indiana State Board of Accounts, dated, April 10, 2019, to the IDVA, questioned costs of $718,260.59 were identified. We recommended that FSSA follow up on each item that resulted in a questioned cost to verify the cost was allowable in accordance with the MOU and/or the TANF federal program. FSSA should seek reimbursement from those who received services that were not allowable.

The Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6 Accounting for Expenses, Expenditures states in part:

> "Unlike funds controlled by private business, the spending of public funds is restricted by law to impose a high level of accountability on public officials approving these expenditures. Payment of unallowable costs from public funds may be the obligation of the responsible official or employee.
>
> 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 items.

- Items not related to the functions and purposes of the unit.
- Alcoholic beverages.
- Duplicate payments or overpayments.
- Personal long distance telephone calls (should not be billed to state network).
- 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-minimis personal use.
- Personal use of state debit or credit cards or SDO checks.
- Personal use of state automobile, unless allowed by specific regulation."

Indiana Family and Social Services Administration
Division of Family Resources (DFR)
402 W. Washington Street, Room W-392 Indianapolis, IN 46204

Response to the Indiana State Board of Accounts
Special Compliance Report
April 22, 2019

DFR Response Transmittal Letter

TO: The Indiana State Board of Accounts

The FSSA Division of Family Resources (DFR) is in receipt of the Special Compliance Report of the Board's review of the TANF Subgrant MOU from DFR to the Indiana Department of Veterans Administration (IDVA), which ended on June 30, 2018. We thank you for sharing the findings and for this opportunity to provide additional information to inform the Results and Comments of your report.

In this response, DFR highlights some of its oversight of the operations of IDVA under the subgrant – how DFR identified issues, asked questions, met with IDVA, and reviewed reports. Then, how the FSSA Audit Division performed an audit and shared those results; how based upon that information, DFR developed and executed on an Action Plan with IDVA to address the identified concerns. Once the action plan was finalized, DFR continued to monitor spend under the Grant to its end, and work in partnership with IDVA.

Finally, we have included in this document, our Follow-Up Action plan. This plan includes DFR's plan to pursue documents and records to answer remaining questions surrounding the costs IDVA incurred and charged to the subgrant, including how the time of the IDVA employees and contractor employees were allocated working directly with clients under the grant, working on other grant management/administrative activities or on non-grant tasks.

Adrienne M. Shields
Director
FSSA, Division of Family Resources

DFR Response

General

DFR management provided support and guidance to IDVA for this agreement from its beginning. Then, in July 2016, DFR directed its Operational Validation and Verification (OV&V) TANF Team to join efforts to meet with IDVA management and their project staff routinely during the life of the Agreement. DFR and the OV&V TANF Team provided support in the form of research, memos, question and answer documents, advice, financial analysis and more. These activities both preceded and followed a FSSA Audit of the MOU.

Oversight of IDVA TANF MOU

DFR and its OV&V TANF Team conducted oversight, monitoring, and support of IDVA's TANF Subgrant with regular meetings, beginning in July of 2016. DFR management and OV&V reviewed IDVA expenses by category, by vendors paid and by numbers served. DFR and OV&V regularly coached IDVA on how funds should be spent in accordance with their own Statement of Work and the Budget in their Agreement (i.e., education, training, job readiness). DFR and OV&V researched and reported results on the many questions IDVA posed about what services were allowed, what limits applied, which services fell under which TANF purpose, and what that meant for eligibility. These efforts by DFR resulted in many instances of improved management and implementation of the TANF Subgrant by IDVA.

FSSA Audit of IDVA TANF MOU

In early 2017, the FSSA Audit Division began an audit of the IDVA TANF Subgrant. This group regularly conducts audits of some portion or timeframe under the TANF Block Grant services MOUs, as outlined in federal regulations. As you know, these audits look at expenses incurred, checking for adherence to formal agreements, for compliance with state and federal rules, for reasonableness, as well as looking at program expense vs. administrative expense ratios, and examining documentation to see if the entity is keeping required records of activities, of decisions on eligibility and more.

DFR Post FSSA-Audit Action Plan, May 2017

Upon receipt of the results from the FSSA Auditors, the DFR Director ordered an Action Plan be developed based upon those results. On May 1, 2017, Ms. Shields presented the results of the FSSA Audit to IDVA. At this same meeting, she presented IDVA with the Action Plan to be carried out to address the concerns noted by the Auditors. DFR directed its OV&V/TANF team to meet two times a week with IDVA managers until they could report the Action Plan had been executed. This was completed and implemented. IDVA management assured DFR they had established processes for client applications, for approving clients for the program, and approving them for particular services in accordance with the eligibility rules that applied to the services being requested or considered. IDVA stated their Case Managers reviewed each client and client family situation and confirmed or determined what services were needed, in what volume and over what timeframe. DFR reviewed the original IDVA Program Application and the IDVA Program Intake and Approval process documents they provided and these supported what IDVA stated.

When DFR asked IDVA if client cases received follow-up reviews by Case Managers, we were assured they did on a regular basis. DFR was assured Case Managers documented their initial decisions and reviews in the paper file and/or the Excel-based system that IDVA set up. DFR viewed samples of the Excel-based system showing case status as entered by the Case Managers. These samples included applicants who were not approved because they had not provided proof of income. Although FSSA Audit critiqued the IDVA Program record keeping system as complex, it was a system and IDVA provided DFR with a mapping of their internal process.

DFR has previously shared the following to SBOA: the Action Plan document, the Action Plan Wrap-Up Memo to Director Shields, and the library of documents created and adopted by IDVA to meet the issues documented in the Audit Report. These include financial policies for role-based and hierarchical spending limits and approval authority – internal controls.

Planned Activities – DFR Follow-Up Action Plan

DFR is organizing an effort to review each of the cases that appears to fit the criteria of *Questionable Expense*, as explained by the SBOA.

DFR has made contact and informed IDVA of the plans to carry out additional follow-up activities. These include assisting IDVA management and staff to locate any additional records and information related to the questioned costs outlined by the SBOA. DFR will organize a close review of all records identified to determine how to characterize the expenses. Such characterization will form the basis of any recoupment recommendation for each expense that is determined unallowable.

Further, DFR will work with IDVA management and staff to locate any additional records and information related to the allocation of work hours of their IDVA staff and contracted staff to TANF MOU client case management (also referred to as a type of "counseling," in the early days of their TANF MOU grant), as well as time they may have spent in grant management and administrative activities, as opposed to time they may have spent on unrelated projects.

These activities will be organized as follows:

DFR will hold an organizational meeting for this effort, write a project plan and then with the assistance of IDVA, execute the project. This will be implemented in stages with completion envisioned by the end of the current Federal Fiscal Year, so that it can be done with reasonable haste, but without disrupting services to other state agencies, other citizen-clients, citizen-applicants or other vendors.

This review must determine if indeed each case or some aspect of the case meets the established eligibility and/or program criteria. If not, then DFR must determine if recoupment is appropriate and if so, from whom – IDVA's own Subrecipient/Provider or IDVA, and for what particular service(s) and timeframe. The Project Team would document in the Project Plan the criteria for recommending recoupment and from whom.

<u>Closing Statement</u>

DFR remains committed to using all funds, including TANF federal funds, to pursue the purposes for which they have been allocated. Over the lifespan of the subgrant at issue in this review, DFR engaged in monitoring and encouraged compliance with documentation requirements.

DFR intends to continue to document, and strengthen its formal monitoring and compliance enforcement for subgrants. Further, DFR intends to take the information received from SBOA in its report, to support those efforts across all current and potential future grant efforts.

DFR thanks the SBOA for its efforts in this situation and for the opportunity to participate in reporting and follow-up efforts.

INDIANA FAMILY AND SOCIAL SERVICES ADMINISTRATION
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2019, with the following officials from the Indiana Family and Social Services Administration: Jennifer Walthall, Secretary; Michael Gargano, Deputy Secretary/Chief of Staff; Leslie Huckleberry, General Council; Adrienne Shields, Director, Division of Family Resources; David Smalley, Deputy Director, Division of Family Resources.