
**Department of Family and Protective
Services**



**Internal Audit Annual Report
Fiscal Year 2014**

OCTOBER 2014

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Executive Summary

This report provides information about the activities of the Internal Audit function within the Department of Family and Protective Services (DFPS). Internal auditing is an independent assurance and consulting activity designed to improve an organization's operations by assessing and making recommendations to enhance the effectiveness of risk management, control, and governance processes.

Key internal audit activities for fiscal year 2014 and planned work during fiscal year 2015 are described in the report. Annual audit plans are based on an agency wide risk assessment developed with input obtained through surveys and interviews with executives and managers.

The report fulfills annual reporting requirements in the Texas Internal Auditing Act (*Texas Government Code*, Sections 2102.009, 2102.0091, and 2102.015) and is aligned with State Auditor's Office guidelines that prescribe the form and content of the annual report. In accordance with requirements, DFPS will make the report, which includes the Fiscal Year 2015 Annual Audit Plan, available on its publicly accessible website.

For further information about the contents of this report and Internal Audit activities, please contact Shelley Barbontin, DFPS Interim Internal Audit Director, by email at Shelley.Barbontin@dfps.state.tx.us or by telephone at (512) 438-4710.

I. Compliance with House Bill 16 (83rd Legislature, Regular Session)

In November 2014, DFPS will post on the agency's public web site the FY 2014 Internal Audit Annual Report, which includes the approved Fiscal Year 2015 Annual Audit Plan. The DFPS Internet site is located at: <http://www.dfps.state.tx.us/>.

The Annual Audit Report summarizes the fiscal year 2014 Internal Audit recommendations for each audit and reports on the progress towards the implementation of those recommendations.

The Fiscal Year 2015 Annual Audit Plan was approved by the Commissioner on September 5, 2014 and posted to the agency's public web site on October 2, 2014.

II. Internal Audit Plan for Fiscal Year 2014

Audit Project	Project Status
<i>Children's Income Accounts</i> (Report 2013-04)	Completed Report Date: July 11, 2014
<i>Follow-Up Report on Audit Recommendations to be Implemented on or Prior to November 30, 2013</i>	Completed Report Date: June 3, 2014
<i>Follow-Up Report on Audit Recommendations to be Implemented on or Prior to May 31, 2014</i>	Delayed until FY 2015 with Commissioner Approval
<i>Foster Care Redesign Mandatory Survey</i>	Completed as nonaudit service Report Date: September 19, 2014
<i>Child Protective Services (CPS) and Residential Child Care (RCC) Monitoring Tools and Monitoring of the Quality of Services Provided by Contractor (i.e., Audit of Residential Foster Care Contract Monitoring)</i> (Report 2014-01)	Completed Report Date: July 24, 2014
<i>CPS Waiver Process Utilized by Child Placement Agencies (i.e., Review of Child Care Licensing Waiver and Variance Process)</i>	Audit was terminated and the status of the audit at the date of termination was communicated to the Child Care Licensing (CCL) Assistant Commissioner - September 19, 2014
<i>Utilization of Special Investigator and Child Safety Specialist Positions</i>	Removed from Plan with Commissioner Approval
<i>External Documentation for CPS Cases</i>	Removed from Plan with Commissioner Approval
<i>Illegal Daycare Operations Unit</i>	In Planning Phase Carried forward to FY 2015 Annual Audit Plan to be completed as a consulting service

The Children's Income Accounts audit was carried forward from the Fiscal Year 2013 Annual Audit Plan to the Fiscal Year 2014 Annual Audit Plan. This audit was started in fiscal year 2013 and the report was released July 2014.

Fieldwork and the final draft report for the audit of Reporting Missing Children was completed in fiscal year 2013, therefore, this audit was not carried forward to the Fiscal Year 2014 Annual Audit Plan. The final report (Report 2013-05) was issued July 2014.

The Illegal Daycare Operations Unit engagement was classified as an audit for inclusion on the approved Fiscal Year 2014 Annual Audit Plan; however, further discussion with management and audit consideration of the objectives indicated that the objectives could be met more appropriately and effectively through a consulting service. As a result, the engagement was reclassified as a consulting service and was carried forward to the Fiscal Year 2015 Annual Audit Plan.

Both the Utilization of Special Investigator and Child Safety Specialist Positions and External Documentation for CPS Cases audits were removed from the plan with Commissioner approval and were considered during the risk assessment for the development of the Fiscal Year 2015 Annual Audit Plan.

Summary of Completed Projects

2013-04 Children's Income Accounts

This audit noted a need for management to monitor more closely adherence to policy in order to adequately protect children's income account funds from potential fraud, waste, and/or abuse. Management continues to make progress toward implementing the recommendations included in the report. Internal Audit will validate the implementation of audit recommendations in future follow-up audits as noted in the annual audit plan.

2013-05 Reporting Missing Children

The audit identified processes that could benefit from streamlining, including notifications of missing children, efforts to locate missing children, and documentation of actions taken or needed in the case file. Opportunities to improve the usefulness of reporting were identified from a quality improvement perspective using automation and standardization of information regarding the status of missing children. Management continues to make progress toward implementing the recommendations included in the report. Internal Audit will validate the implementation of audit recommendations in future follow-up audits as noted in the annual audit plan.

2014-01 Child Protective Services (CPS) and Residential Child Care (RCC) Monitoring Tools and Monitoring of the Quality of Services Provided by Contractor (i.e., Audit of Residential Foster Care Contract Monitoring)

The audit noted that the traditional approach to monitoring residential child-care contracts can be enhanced to better identify providers with the highest risk of children living in a potentially unsafe environment, resulting in harm to a child. The current risk indicators can be improved to better assess the conditions and risks at the foster home level, resulting in a more effective use of monitoring

resources. Predictive analytics offers a promising opportunity to target monitoring resources by focusing on residential child-care providers that are most likely to experience performance problems. Management is working towards implementing the recommendations included in the report. Internal Audit will validate the implementation of audit recommendations in future follow-up audits as noted in the annual audit plan.

III. Consulting Services and Nonaudit Services Completed

Consulting engagements and nonaudit projects may be conducted at the request of executive management. These services are a means of assessing risk quickly for management and providing feedback on potential weaknesses and related recommendations for improvement. This approach often allows management to address issues proactively before launching systems or newly developed processes. The following table identifies the consulting services and nonaudit services completed during fiscal year 2014.

Consulting Service or Nonaudit Service	Project Status
<i>Review of CPS Strategy B.1.1 Budget Shortfall</i>	Completed Issued March 31, 2014
<i>Foster Care Redesign Mandatory Survey</i>	Completed Issued September 19, 2014

Review of CPS Strategy B.1.1 Budget Shortfall

The Review of CPS Strategy B.1.1 Budget Shortfall objectives were to assess the processes utilized during cost estimation which resulted in a projected budget shortfall. The remaining strategies within DFPS were reviewed to determine if a potential budget shortfall may exist there as well.

Internal Audit suggestions for improvement included the Budget Division to perform ongoing monitoring and reassessment of expenditures for key budget drivers for all strategies to fully and promptly consider and incorporate into budget projects. In addition, the division should perform formal quality assurance reviews of work products, ongoing communication with programs and operations, and cross-training of staff.

Foster Care Redesign Mandatory Survey

The Foster Care Redesign Mandatory Survey was required by the 2014-15 General Appropriations Act, S.B. 1, 83rd Legislature, Regular Session, 2013 (Article II, Health and Human Services Commission, Rider 29) to document the results of a survey performed by Internal Audit of CPS contract management staff

to measure the impact additional training has on staff satisfaction and staff's view of their ability to perform the required fiscal analysis and financial monitoring. Based on the responses to the survey, some contract monitoring staff may not be prepared or comfortable performing fiscal monitoring and financial analysis as required by Rider 29. Additional training and tools may need to be considered in order to (a) further develop and enhance staff skills, or (b) reassign fiscal monitoring and financial analysis responsibilities to a subject matter expert for each department.

Illegal Daycare Operations Unit

Internal Audit is currently performing a consulting service of the Illegal Daycare Operations Unit. The primary objective is to identify areas of improvement of the CCL Division's processes to proactively research, locate, and investigate illegal child care operations. This consulting service is expected to be completed during the first quarter of fiscal year 2015.

IV. External Quality Assurance Review

An external peer review of DFPS Internal Audit was conducted in fiscal year 2013, in accordance with professional standards, using the State Agency Internal Audit Forum (SAIAF) Peer Review guidelines. The primary objective of the quality assurance review was to evaluate Internal Audit's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvements may be needed. The review covered all completed audit and management assistance projects performed by Internal Audit from August 2010 through August 2013.

Cindy Hancock, CIA, CICA, CFE, MBA, Director of Internal Audit, Texas Parks & Wildlife Department was the SAIAF Peer Review Team Leader. Other members of the team included Angel Flores, CGAP, MBA, Internal Auditor, Texas Department of Assistive and Rehabilitative Services and Jonathan Peikert Macy, Internal Auditor, Texas Parks and Wildlife Department.

Excerpt from "Report on the External Quality Assurance Review of the Texas Department of Family and Protective Services Internal Audit Division" July, 2013

OVERALL OPINION

"Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Family and Protective Services Internal Audit Department receives a rating of "pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*,

and the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well-managed internally. In addition, the Department has an effective relationship with the Commissioner and is well-respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall Agency operations and finds that the audit process and report recommendations add value and help improve the Agency's operations."

The next external peer review will be conducted in fiscal year 2016.

V. Internal Audit Plan for Fiscal Year 2015

The approved Fiscal Year 2014 Annual Audit Plan includes projects in the table below. The Annual Audit Plan may be revised as needed to adjust for emerging issues and risks, and changes in resource availability. Any modifications to the Annual Audit Plan must be approved by the Commissioner and will be presented to the DFPS Executive Team for informational purposes.

Internal Audit has allocated 12,067 budgeted hours to projects in the Fiscal Year 2015 Annual Audit Plan.

Audit Area	Preliminary Audit Objectives
<i>Placement Capacity - Sufficiency and Accessibility</i>	To determine placement capacity, sufficiency, and accessibility to meet the demand for services.
<i>Placement Process - Appropriateness of Placements</i>	To evaluate the process for the identification, assessment, assessment, and selection of appropriate placements of children.

Audit Area	Preliminary Audit Objectives
<i>Redaction Processes</i>	<p>To evaluate the process for collecting, submitting, and redacting documents for information requests.</p> <p>To determine the effectiveness and efficiency of the redaction process, including accuracy and timeliness.</p>
<i>Evaluation of CPS Regional Contracted Services</i>	To determine if contracted services are adequately monitored for compliance with contract terms.
<i>Special Investigator and Child Safety Specialists (CSS) - Roles and Responsibilities</i>	To determine if Special Investigator and CSS positions are utilized in compliance with mandated statute.
<i>External Access to IMPACT</i>	To determine if CASA user access controls to IMPACT are appropriate and in compliance with HHSC and DFPS security requirements.
<i>Validation of the Stephen Group Recommendations</i>	To determine if selected recommendations have been fully implemented and are working as intended.
<i>Follow-up on Prior Audit Findings</i>	<p>To determine the status of management actions in response to audit recommendations.</p> <ul style="list-style-type: none"> • 1st Quarter status as of November 30 • 3rd Quarter status as of May 31

Additionally, two consulting and/or special projects were included in the Fiscal Year 2015 Annual Audit Plan.

Consulting Service or Special Project	Objectives	Comments
<i>Illegal Daycare Operations</i>	To identify areas of improvement of the Child Care Licensing Division's processes to proactively research, locate, and investigate illegal child care operations.	Planning Phase Carried forward from FY 2014 Annual Audit Plan

Consulting Service or Special Project	Objectives	Comments
<i>Annual Rider 29 Survey of Contract Management Staff</i>	Annual survey of CPS Purchased Client Services contract monitoring and oversight staff to measure the impact the additional training has on staff satisfaction and staff's view of their ability to perform the required fiscal analysis and financial monitoring.	

Risk Assessment Methodology and High Risk Areas Not Included in the Plan

In June 2014, the Internal Audit Division distributed a risk assessment survey to various levels of DFPS management for purposes of assessing risk related to agency activities and functions. In June and July 2014, the Internal Audit team interviewed executive management and management from various programs and divisions. The results from these communications and the risk factors below were used by Internal Audit when identifying activities and functions to include in the Annual Audit Plan:

- Poor Outcome to Client (death, injury)
- Violation of State/Federal Regulations
- Potential for Fraud, Waste or Abuse
- Negative Publicity/Loss of Credibility
- Other Risk Factors

Auditing standards require the Internal Audit Director to communicate periodically to senior management about significant risk exposures, control issues, corporate governance issues, and other matters, as appropriate. By communicating these high risk areas, management has the opportunity to review and assess operations to mitigate risk. The audit plan is one of the mechanisms used to communicate risk exposures.

Additional high risk areas listed below were identified in the risk assessment process and could be added to the Annual Audit Plan, as projects are completed and resources become available. Projects on the plan may also be replaced with projects related to higher risk areas, if there are significant changes to the risk environment during the year.

- Services Provided to Children to Ensure Well-being - Preparation for Adult Living
- Adoption Processes - Identification, assessment, and appropriateness of adoption placements
- Information Security - Protocol for Reporting Incidents and Security Breaches

DFPS management understands the limitations of audit coverage and the risks

assumed by management in the areas not audited and may take steps to review controls in these areas.

Other Internal Audit Activities

- Training and Staff Development
- Internal Audit Annual Report
- Internal Audit Staff Meetings
- Referrals of fraud, waste, and abuse to external oversight and legislative agencies
- External Audit Coordination - Internal Audit provides an external audit liaison services that includes coordinating and providing a single point of contact for all audits of DFPS by external audit entities (e.g., KPMG, SAO, federal audits, etc.)
- Internal Audit Quality Assurance and Improvement Program

Internal Audit also participates in committees and work groups in an advisory role, such as:

- Executive Team Meetings
- HHS Enterprise Audit Council
- IT Governance Workgroup
- IMPACT Modernization Steering Committee
- Critical Case Meetings
- Contracting Governance Workgroup
- Contract Improvement Workgroup
- Support Staff Training and Resources Workgroup
- Workforce Management Steering Committee
- Ethics Council

VI. External Audit Services Procured in Fiscal Year 2014

DFPS did not procure external audit services in fiscal year 2014.

VII. Reporting Suspected Fraud and Abuse

Regarding requirements of the 2014-15 General Appropriations Act (Article IX, Section 7.9, Fraud Reporting, 83rd Legislature), the home page of DFPS internet and intranet provide instructions for reporting suspected fraud, waste and abuse involving DFPS programs directly to the State Auditor's Office (SAO). The home page includes the SAO fraud hotline information and a link to the SAO website for fraud reporting.

Health and Human Services (HHS) enterprise policy concerning fraud, waste, and abuse was established in HHS Circular C-027, *Health and Human Services Enterprise Fraud Prevention and Awareness*. The circular includes instructions

for reporting suspected fraud involving state funds to both the SAO and the Health and Human Services Commission (HHSC) Office of Inspector General. DFPS Internal Audit coordinates with DFPS General Counsel, HHS Enterprise Internal Audit departments, the SAO, and the HHSC Office of Inspector General to address the responsibilities of the respective agencies in meeting this requirement.

DFPS Internal Audit also works with the SAO, as well as the HHSC Office of Inspector General, to ensure compliance with fraud reporting requirements in Chapter 321, Texas Government Code, Section 321.022.