
**Department of Family and Protective
Services**



**Internal Audit Annual Report
Fiscal Year 2017**

OCTOBER 2017

Table of Contents

Executive Summary	3
I. Compliance with Texas Government Code, Section 2102.015.....	3
II. Internal Audit Plan for FY 2017.....	4
III. Consulting Services and Nonaudit Services Completed.....	5
IV. External Quality Assurance Review.....	8
V. Internal Audit Plan for FY 2018	9
VI. External Audit Services Procured in FY 2017.....	12
VII. Reporting Suspected Fraud and Abuse.....	12

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 (FY) 2017 and planned work during FY 2018 are described in this report. Annual audit plans are based on an agency wide risk assessment developed with input obtained through surveys and interviews with executives and management, as well as auditor assessment.

This 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 FY 2018 Annual Audit Plan, available on its publicly accessible website.

For further information about the contents of this report and Internal Audit activities, please contact Chance Watson, DFPS Internal Audit Director, by email at Chance.Watson@dfps.state.tx.us or by telephone at (512) 438-3365.

I. Compliance with Texas Government Code, Section 2102.015

In November 2017, DFPS will post on the agency's public website the FY 2017 Internal Audit Annual Report, which includes the approved FY 2018 Annual Audit Plan. The DFPS Internet site is located at: <http://www.dfps.state.tx.us/>.

The Annual Audit Report (see Section II) summarizes the FY 2017 Internal Audit recommendations for each audit and reports on the progress towards the implementation of those recommendations.

The FY 2018 Annual Audit Plan was approved by the DFPS Commissioner on September 15, 2017 and was posted to the agency's public web site on September 22, 2017.

II. Internal Audit Plan for FY 2017

Audit Project	Project Status
<i>Utilization of Medical Consultations Audit</i> (Report 2016-04)	Completed Report Date: January 11, 2017
<i>Audit of Child Specific Contract Processes</i> (Report 2016-06)	Completed Report Date: December 13, 2016
<i>Follow-up on Prior Audit Findings Implemented on or before July 31, 2016</i> (Report 2016-09)	Completed Report Date: December 20, 2016
<i>Follow-up on Prior Audit Findings Implemented on or before January 31, 2017</i> (Report 2017-07)	Completed Report Date: April 21, 2017
<i>Audit of Family Based Safety Services</i>	Status – Field Work Phase Carried Forward to FY 2018 Annual Audit Plan
<i>Centralized Background Check Unit</i>	Removed from the FY 2017 Annual Audit Plan and Added to the "Risk Areas Not Included in the Plan" Section of the FY 2018 Annual Audit Plan with Commissioner's Approval
<i>Follow-up on Prior Audit Findings Implemented on or before July 31, 2017</i> (Extended "Implemented" date to August 31, 2017)	Status – Field Work Phase Carried Forward to FY 2018 Annual Audit Plan

2016-04 Utilization of Medical Consultations Audit

The audit identified several areas for improvement with respect to encouraging investigations staff to obtain timely medical consultations when necessary, as well as documenting and applying the expert opinions to case decisions. In addition, changes to policy, training, awareness, and caseworker assistance may help increase utilization and application of medical consultations.

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 FY 2018 Annual Audit Plan.

2016-06 Audit of Child Specific Contract Processes

The audit identified opportunities in monitoring of services procured, detection of overpayments, and negotiation of daily rates.

Management continues to make progress toward implementing the recommendations included in the report, with one recommendation exception that will not be implemented. Internal Audit will validate the implementation of audit recommendations in future follow-up audits as noted in the FY 2018 Annual Audit Plan.

2016-09 Follow-up on Prior Audit Findings Implemented on or before July 31, 2016

The Internal Audit Division completed a follow-up review of 31 management action plans from 9 audit reports for which management indicated implementation would be completed on or before July 31, 2016. A total of 16 management action plans were considered implemented and 15 were in progress with new estimated completion dates.

2017-07 Follow-up on Prior Audit Findings Implemented on or before January 31, 2017

The Internal Audit Division completed a follow-up review of 25 management action plans from 10 audit reports for which management indicated implementation would be completed on or before January 31, 2017. A total of 11 management action plans were considered implemented and 13 were in progress with new estimated completion dates. Also, there was one that will not be implemented with mitigating controls in place.

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 FY 2017.

Consulting Service or Nonaudit Service	Project Status
<i>Unlocateable Children</i>	Completed Issued: December 13, 2016
<i>Statewide Intake – Quality Assurance</i>	Completed Issued: December 21, 2016
<i>Child Care Licensing (CCL) Performance Management Unit (Replacement for Missing Children with Commissioner’s Approval)</i>	Completed Issued: June 13, 2017
<i>Identification of Support Areas Embedded in Programs</i>	Completed Issued: July 7, 2017
<i>Accounting Risk Assessment</i>	Completed Issued: August 10, 2017

Consulting Engagement of Unlocateable Children (2017-01)

The objective of this consulting engagement was for Internal Audit to review the process for unlocateable children to provide flowcharts and identify improvement opportunities.

Management's efforts to improve the search process for unlocateable children have been recognized, there were six primary opportunity categories for improvement identified:

- Accountability
- Training
- External Coordination
- Internal Coordination
- Data Access
- Other Sources of Data

Consulting Engagement of Statewide Intake - Quality Assurance Evaluation Process (2017-02)

The objective of this consulting engagement was to evaluate SWI's quality assurance evaluation processes, including sampling methodology and identify potential opportunities for improvement of SWI's quality assurance evaluation processes. Internal Audit identified opportunities for improvement to the evaluation process.

The Statewide Intake (SWI) Division is continually taking actions to improve their processes. However, the current procedures for quality assurance evaluation could be enhanced to improve the processes performed by the Program Improvement Division and Intake Supervisors. The primary opportunities for improvement include the following:

- Further alignment of sampling methodology with evaluation type
- Define key terminology and streamline questions

- Provide periodic training to evaluators to improve consistency

Consulting Engagement of CCL Performance Management Unit (2017-05)

The objective of this consulting engagement was to evaluate CCL's PMU quality assurance processes and identify potential opportunities for improvement.

Internal Audit was able to identify strengths in the CCL PMU's quality assurance processes and potential opportunities for improvement which included the following:

- Consistency of case readings
- Quality/Usefulness of the recommendations
- Timing of the follow-up process

Consulting Engagement for the Identification of Support Areas Embedded in Programs (2017-04)

The objective of this consulting engagement was to review the data request process to identify support areas that collect, analyze, format, or communicate data and identify any opportunities for streamlining and improving processes.

Management Reporting and Statistics (MRS) has established controls relating to data requests through the Data Request Intake and Tracking (DRIT) process. The goal of the DRIT process is to eliminate duplication of efforts, promote consistency of data processing and data definitions, and streamline processes. The primary opportunities for improvement include the following:

- Coordination among agency areas
- Tracking mechanism for all data requests
- Strengthen the consistency of released data
- Formalized quality review process
- Consideration of training needs expressed by staff
- Policy revision for expanded data request uniformity

Accounting Risk Assessment Consulting Engagement (2017-06)

The objective of this consulting engagement was to assess risks related to control weaknesses or gaps, policies and procedures documentation, succession planning, and organizational structure in Cost Allocation and Cash Management. Internal Audit identified opportunities for improvement in the following areas:

- Formalize succession plan
- Enhance control environment
- Establish standardized process for revising procedures
- Evaluate organizational structure for efficiency and effectiveness

IV. External Quality Assurance Review

An external peer review of DFPS Internal Audit was conducted in FY 2017, 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 September 2013 through August 2016.

Anthony Chavez, CIA, CGAP, CRMA, Director of Internal Audit, Employees Retirement System of Texas was the SAIAF Peer Review Team Leader. Other members of the team included Beth Gilbert, CFE, CGAP, Internal Auditor, Employees Retirement System of Texas and Kent Heath, CGAP, Internal Auditor, Texas Commission of Environmental Quality.

Excerpt from "Report on the External Quality Assurance Review of the Department of Family and Protective Services Internal Audit Department" December, 2016.

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/Generally Conforms"** 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. Staff members collectively 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 effective relationships 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."

V. Internal Audit Plan for FY 2018

The approved FY 2018 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 8,200 budgeted hours to projects in the FY 2018 Annual Audit Plan. The FY2018 budgeted hours reflects a reduction in staffing resources of one full time employee (FTE) over FY2017 staffing levels.

Audit Area	Preliminary Audit Objectives
<p><i>Family Based Safety Services</i></p> <p><i>Carried Forward from FY 2017 Annual Audit Plan</i></p>	<p>Assess whether FBSS processes in place effectively support the:</p> <ul style="list-style-type: none"> • Identification and resolution of root causes of family issues. • Engagement of families and their extended support network. • Reduction of risk before cases are closed. <p>To assess the utilization of analyses, case reviews, and assessments to improve FBSS process and outcomes.</p>
<p><i>Follow-up on Prior Audit Findings</i></p> <p><i>Carried Forward from FY 2017 Annual Audit Plan</i></p>	<p>To determine the status of management actions in response to audit recommendations.</p> <ul style="list-style-type: none"> • 3rd and 4th Quarter status as of August 31, 2017
<p><i>Adult Protective Services (APS)</i></p>	<p>To determine if the APS In-Home Investigations division is meeting client needs.</p>
<p><i>Administrative (Overtime)</i></p>	<p>To assess the reasonableness of overtime hours charged by staff in various areas of the agency.</p>

Audit Area	Preliminary Audit Objectives
<i>Administrative Purchasing</i>	To determine if appropriate and effective controls have been established over the agency's administrative purchasing vendor and are working as intended.
<i>Follow-up on Prior Audit Findings (FY 2018)</i>	To determine the status of management actions in response to audit recommendations as of May 31, 2018.

Additionally, two consulting and/or special projects were included in the FY 2018 Annual Audit Plan.

Consulting Service or Special Project	Objectives	Comments
<i>Prevention and Early Intervention Contracting (PEI)</i>	To evaluate PEI's processes for ensuring that quality prevention services are provided to the community and meet community needs.	Status – Not Yet Started
<i>Contracts Division</i>	To evaluate processes identified by management and efficiency of operations in the consolidated Contracts Division and provide potential opportunities for improvement.	Status - Planning Phase

Other Internal Audit Activities

Other Internal Audit Activities include the following:

- Training and Staff Development
- Internal Audit Annual Report
- Internal Audit Staff Meetings
- Referrals of fraud, waste, and abuse to external oversight and legislative agencies
- Risk Assessment and Annual Audit Plan for FY 2019
- 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.)
- Legislative Coordination
- IG investigations of DFPS reporting
- SAO Complaints Response Coordination

- Information Technology (IT) Risk Assessment
- Internal Audit quality assurance and improvement program
- Team Mate Follow-Up Tracking and Risk Assessment Enhancements

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/Improvement Workgroup
- Training Governance Workgroup
- State Agency Internal Audit Forum

Contract Reform

The Prevention and Early Intervention Contracting and Contracts Division consulting engagements which are listed above in the Internal Audit Plan for FY 2018 will evaluate key contract processes at DFPS and provide management with observations and potential opportunities to improve the contract processes.

Risk Assessment Methodology

In June 2017, the Internal Audit Division sent a risk assessment survey to various levels of DFPS management for purposes of assessing risk on agency activities and functions identified for the risk assessment process. In July 2017, the Internal Audit Division also interviewed executive management to discuss potential risk issues for their respective divisions and gain their perspective on risks to DFPS. The results from these communications, along with auditor assessment, were used to inform the likelihood and impact scoring for the risk factors identified below.

- Service Delivery
- Potential Fraud, Waste or Abuse
- Extent of State/Federal Requirements
- Negative Publicity/Loss of Credibility
- Fiscal Operations
- Security and Confidentiality
- Performance Indicators
- Complexity of Operations
- Extent of Oversight/Monitoring
- Executive Management Input and Other Risk Factors

The results of the scoring were used to identify the activities and functions that were included in the FY 2018 Annual Audit Plan.

Auditing standards require the Internal Audit Director to communicate periodically to senior management on 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.

High Risk Areas Not Included in the Plan

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.

- Centralized Background Check Unit
- Statewide Intake (SWI)
- Investigations (Office of Dep. Comm.)

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.

VI. External Audit Services Procured in FY 2017

DFPS did not procure external audit services in FY 2017.

VII. Reporting Suspected Fraud and Abuse

Regarding requirements of the General Appropriations Act, Section 7.9, Fraud Reporting, 84th Legislature, the home page of DFPS internet and the Internal Audit Division's intranet page provide instructions for reporting suspected fraud, waste and abuse involving DFPS programs directly to the State Auditor's Office (SAO). The home page includes a link to 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 Waste, and Abuse Reporting, Responsibilities, and Coordination*. The circular includes instructions for reporting suspected fraud, including 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.