
Department of Family and Protective Services



Internal Audit Annual Report Fiscal Year 2013

OCTOBER 2013

Table of Contents

| | |
|--|---|
| I. Executive Summary..... | 1 |
| II. Compliance with House Bill 16 (83 rd Legislature, Regular Session)..... | 1 |
| III. Internal Audit Plan for Fiscal Year 2013 | 1 |
| IV. External Quality Assurance Review | 3 |
| V. List of Consulting Services and Non-audit Services | 4 |
| VI. Internal Audit Plan for Fiscal Year 2014..... | 4 |
| VII. External Audit Services Procured in Fiscal Year 2013 | 7 |
| VIII. Reporting Suspected Fraud and Abuse | 8 |

I. 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 2013 and planned work during fiscal year 2014 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 2014 Annual Audit Plan, available on its publicly accessible website.

For further information about the contents of this report and Internal Audit activities, please contact Annick Barton, DFPS Internal Audit Director, by email at Annick.Barton@dfps.state.tx.us or by telephone at (512) 438-3210.

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

In November 2013, DFPS will post on the agency's public web site the FY 2013 Internal Audit Annual Report, which includes the approved Fiscal Year 2014 Annual Audit Plan. The DFPS Internet site is located at: <http://www.dfps.state.tx.us/>

III. Internal Audit Plan for Fiscal Year 2013

| Audit Project | Project Status |
|---|---------------------------------------|
| <i>Development of Major Information Resources Projects</i> (Report 2013-01) | Completed Issued January 31, 2013 |
| <i>Budget Processes (Phase II)</i> (Report 2013-02) | Completed Issued February 28, 2013 |
| <i>Follow-Up Report on Audit Recommendations to be Implemented on or Prior to November 30, 2012</i> (Report 2013-03) | Completed Issued February 8, 2013 |

| Audit Project | Project Status |
|--|---|
| <i>Children's Income Accounts</i> (Report 2013-04) | Reporting Phase Estimated Release November 2013 |
| <i>Reporting Missing Children</i> (Report 2013-05) | Reporting Phase Estimated Release October 2013 |
| <i>Child Death Investigations and Reporting</i> (Report 2013-06) | Added to the Plan with Commissioner Approval - Completed Issued July 30, 2013 |
| <i>Personally Identifiable Information (PII)</i> (Report 2013-07) | Removed from Plan with Commissioner Approval |
| <i>Follow-Up Report on Audit Recommendations to be Implemented on or Prior to May 31, 2013</i> (Report 2013-08) | Completed Issued August 20, 2013 |
| <i>Texas Child Care Search Website</i> (Report 2012-07) | Carried forward from FY 2012 Audit Plan Issued April 22, 2013 |
| <i>Client Services Procurement and Contracting</i> | Completed as a consulting service August 2012 |

The Children's Income Accounts audit was carried forward to the Fiscal Year 2014 Annual Audit Plan. This audit was started in fiscal year 2013. 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 is scheduled for released in early fiscal year 2014. With approval of the Commissioner, the Personally Identifiable Information audit was removed from the Fiscal Year 2013 Annual Audit Plan and was replaced with the higher risk Child Death Investigations and Reporting audit.

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. Consulting Services and Non-audit Services

Consulting engagements and non-audit 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.

Internal Audit did not perform consulting engagements or non-audit projects during fiscal year 2013. The Client Services Procurement and Contracting Audit in the Fiscal Year 2013 Annual Audit Plan was changed to a consulting engagement as a result of the initial project risk assessment completed in August 2012. As a result, the engagement was started and completed by the end of August 2012. The completion of this engagement was reported in the Fiscal Year 2012 Internal Audit Annual Report.

VI. Internal Audit Plan for Fiscal Year 2014

Approved Audit Plan and Budgeted Hours

The approved Fiscal Year 2014 Annual Audit Plan includes projects in the table below. In addition to audits planned for fiscal year 2014, the Annual Audit Plan includes one audit from the prior year audit plan that was in progress as of August 31, 2013.

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 8,250 budgeted hours to projects in the Fiscal Year 2014 Annual Audit Plan.

| Audit Area | Preliminary Audit Objectives | Comments |
|---|---|---|
| Children's Income Accounts | <p>Determine if processes established for the management of children's income funds comply with DFPS policies and procedures as well as federal and state regulations.</p> <p>Assess if agency internal controls over the management of children's income funds is adequate, including:</p> <ul style="list-style-type: none"> • IMPACT automated controls and assigned permissions • Regional accounting processes used to maintain and analyze transactions | <p>Reporting Phase</p> <p>Carried forward from Fiscal Year 2013 Audit Plan</p> <p>Report 2013-04</p> |
| Follow-up on Prior Audits Findings | <p>Determine the status of management actions in response to audits.</p> <ul style="list-style-type: none"> • 1st Quarter status as of November 30, 2013 • 3rd Quarter status as of May 31, 2014 | |
| Foster Care Redesign Mandatory Survey | <p>The General Appropriations Bill requires that the Internal Audit Division conduct an annual survey of Child Protective Services, 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.</p> | |
| Child Protective Services Residential Child Care Monitoring Tools and Monitoring of the Quality of Services Provided by Contractors | <p>Evaluate the effectiveness of contractor monitoring tools and monitoring of the quality of services provided by contractors.</p> | <p>Planning Phase</p> <p>Report 2014-01</p> |
| Child Care Licensing Waiver Process | <p>Assess the consistency and effectiveness of the waiver process used by Child-Placing Agencies.</p> | <p>Planning Phase</p> <p>Report 2014-02</p> |

| Audit Area | Preliminary Audit Objectives | Comments |
|---|--|----------|
| Utilization of Special Investigator and Child Safety Specialist Positions | Determine if Special Investigator and Child Safety Specialist positions are utilized in compliance with mandated statute(s) and provide value-added services. | |
| External Documentation for Child Protective Services Cases | <p>Determine if policies clearly specify how the types of external documentation should be recorded and referenced in IMPACT.</p> <p>Determine whether automated and manual processes ensure external documentation can be readily captured and retrieved.</p> <p>Determine whether physical and logical security controls over external documentation are adequate.</p> | |
| Illegal Daycare Operations Unit | Determine if the Illegal Daycare Operations Unit is in compliance with Legislative requirements as well as policies and procedures. | |

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

In May 2013, 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 2013, the Internal Audit Division interviewed management from Child Protective Services, Adult Protective Services, Child Care Licensing, Operations, Legal, and Finance to discuss potential risks and issues associated with their respective operations. The Internal Audit team also interviewed executive management to gain their perspective on risks to DFPS. 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.

- Court System Forms and Potential Loss of Title IV-E Funding
- Supervision of Newly Hired Staff
- Needs Assessment for Purchasing Program Area Services
- Go Mobile Initiative
- Protection of Confidential Information

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

- Referrals of fraud, waste, and abuse to external oversight and investigative agencies
- Risk assessment and Annual Audit Plan for fiscal year 2015
- External audit liaison services that include coordinating and providing a single point of contact for all audits of DFPS by external audit entities (such as the State Auditor's Office and the federal HHS Office of Inspector General).
- Training and staff development
- Internal quality assurance and process improvement efforts

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

- Executive Team Meetings
- HHS Enterprise Audit Council
- Critical Projects Steering Committee Meetings
- IMPACT Modernization Steering Committee Meetings
- Information Technology Governance Workgroup
- Contracting Governance Workgroup
- Contract Improvement Workgroup
- Training Governance Workgroup

VII. External Audit Services Procured in Fiscal Year 2013

DFPS did not procure external audit services in fiscal year 2013.

VIII. 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.

**TEXAS DEPARTMENT OF FAMILY AND PROTECTIVE SERVICES
INTERNAL AUDIT DIVISION**

Fiscal Year 2013 Internal Audit Annual Report

Texas Department of Family and Protective Services

John J. Specia, Jr., Commissioner
Jennifer Sims, Deputy Commissioner
Katie Olse, Associate Commissioner
Audrey Deckinga, Assistant Commissioner, Child Protective Services
Beth Engelking, Assistant Commissioner, Adult Protective Services
Paul Morris, Assistant Commissioner, Child Care Licensing
Cynthia O’Keeffe, General Counsel
Cindy Brown, Chief Financial Officer
Terri Ware, Chief Operating Officer
Ann Strauser, Director, Center for Consumer & External Affairs
James A. Rogers, M.D., Medical Director

**Texas Department of Family and Protective Services
Advisory Council Members**

Christina Martin, (Chair)
Imogen Papadopoulos, (Vice Chair)
Patricia Cole
Lisa Hembry
Ben Morris
Krizia Ramirez
Scott Rosenbach
Juan Sorto
Linda Timmerman

**Internal Audit Reports are distributed to the following agencies
in accordance with Government Code 2102.009**

Governor’s Office of Budget, Planning and Policy
Legislative Budget Board
Sunset Advisory Commission
State Auditor’s Office

**Texas Department of Family and Protective Services
Internal Audit Division
P.O. Box 149030, Mail Code E-545
Austin, Texas 78714-9030**