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**Department of Family and Protective  
Services**

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**Internal Audit Annual Report  
Fiscal Year 2015**

**OCTOBER 2015**

# Table of Contents

Executive Summary .....	3
I. Compliance with Texas Government Code, Section 2102.015 .....	3
II. Internal Audit Plan for FY 2015 .....	4
III. Consulting Services and Nonaudit Services Completed .....	6
IV. External Quality Assurance Review .....	8
V. Internal Audit Plan for FY 2016.....	9
VI. External Audit Services Procured in FY 2015 .....	13
VII. Reporting Suspected Fraud and Abuse.....	13

## 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) 2015 and planned work during FY 2016 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.

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 FY 2016 Annual Audit Plan, available on its publicly accessible web site.

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](mailto:Chance.Watson@dfps.state.tx.us) or by telephone at (512) 438-3365.

### **I. Compliance with Texas Government Code, Section 2102.015**

In November 2015, DFPS will post on the agency's public web site the FY 2015 Internal Audit Annual Report, which includes the approved FY 2016 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 2015 Internal Audit recommendations for each audit and reports on the progress towards the implementation of those recommendations.

The FY 2016 Annual Audit Plan was approved by the DFPS Commissioner on August 26, 2015 and was posted to the agency's public web site on September 23, 2015.

## II. Internal Audit Plan for FY 2015

Audit Project	Project Status
<i>Placement Capacity - Sufficiency and Accessibility</i>	Removed from Plan with Commissioner Approval
<i>Placement Process - Appropriateness of Placements</i>	Removed from Plan with Commissioner Approval
<i>Redaction Processes</i> <i>(i.e., Audit of Records Redaction Processes)</i>  (Report 2015-01)	Completed Report Date: February 27, 2015
<i>Evaluation of CPS Regional Contracted Services</i> <i>(i.e., Audit of Quality of Services in CPS Regional Contracts)</i>  (Report 2015-04)	Completed Report Date: August 25, 2015
<i>Special Investigator and Child Safety Specialists - Roles and Responsibilities</i> <i>(i.e., Audit of the Roles and Responsibilities of the Special Investigator, Child Safety Specialist, and Risk Manager Positions)</i>  (Report 2015-02)	Completed Report Date: June 16, 2015
<i>External Access to IMPACT</i>	Removed from Plan with Commissioner's Approval
<i>Validation of the Stephen Group Recommendations</i>	Removed from Plan with Commissioner's Approval
<i>Follow-up on Prior Audit Findings Implemented on or before November 30, 2014</i>  (Report 2015-03)	Completed 1 <sup>st</sup> Quarter Status Report Date: April 2, 2015

Audit Project	Project Status
<i>Follow-up on Prior Audit Findings Implemented on or before May 31, 2015</i>	3 <sup>rd</sup> Quarter Status - Fieldwork Phase  Carried Forward to FY 2016 Annual Audit Plan
<i>Preparation for Adult Living Program (Transitional Living Services)</i>	Added to FY 2015 Annual Audit Plan with Commissioner's Approval from the FY 2015 Risk Areas Not Included in the Plan Section of the FY 2015 Annual Audit Plan  Status - Reporting Phase  Carried Forward to FY 2016 Annual Audit Plan

During August 2015, the Internal Audit Director was requested to perform a consulting engagement for Day Care Services. On August 17, 2015, the Internal Audit Director received approval to add this consulting engagement to the FY 2015 Annual Audit Plan.

**Summary of Completed Projects**

*2015-01      Audit of Records Redaction Processes*

The audit identified a need for executive management to decide whether to expand Records Management Group's (RMG) span of control over all aspects of records management across the agency to improve efficiency, effectiveness, accuracy, and timeliness in processing records requests.

In addition, there is a need for a long-term strategy for managing RMG's redaction workload to include (1) a relief valve to handle unanticipated increases in records requests and (2) a contingency plan in the event that RMG does not receive additional funding and staff. Finally, appropriate logical security settings should be applied to computer system folders to ensure proper access to confidential data.

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 16 Annual Audit Plan.

*2015-02 Audit of the Roles and Responsibilities of the Special Investigator, Child Safety Specialist, and Risk Manager Positions*

The audit identified several areas for improvement in the utilization of CPS's specialized staff. While the Risk Manager positions appear to be in sync with their intended roles and responsibilities, the Child Safety Specialist and Special Investigator positions are not fully optimized. Areas for improvement included better alignment with statute, rules, and policy, a formal process to follow-up on Child Safety Specialist recommendations, and a process to monitor timely implementation of internal and external recommendations. 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 2016 Annual Audit Plan.

*2015-03 Follow-up on Prior Audit Findings Implemented on or before November 30, 2014*

The Internal Audit Division completed a follow-up review of 30 management action plans from 10 audit reports for which management indicated implementation would be completed on or before November 30, 2014. A total of 21 management action plans were considered implemented and 9 were in progress with new estimated completion dates.

*2015-04 Audit of Quality of Services in CPS Regional Contracts*

The audit identified specific indicators of quality that should be considered for future statements of work and monitoring. Current processes for evaluating contractor performance could be improved to help ensure quality services are provided and contractors are held accountable. A shift is needed to focus more on quality indicators, including outcomes, to provide Child Protective Services (CPS) with an opportunity to collaborate with contractors to correct performance deficiencies and ensure positive outcomes for 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 FY 2016 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 FY 2015.

Consulting Service or Nonaudit Service	Project Status
<i>Illegal Daycare Operations</i>	Completed Issued: November 6, 2014
<i>Annual Rider 29 Survey of Contract Management Staff</i>	Completed Issued: August 26, 2015

### ***Review of CCL Illegal Daycare Operations Initiative***

This engagement was initially planned as an audit on the FY2015 audit plan; however, because the illegal operations initiative was in its early stages of implementation, Internal Audit and CCL agreed that a consulting engagement would be more appropriate. The objective of this engagement was to identify areas of improvement regarding CCL's processes to proactively research, locate, and investigate illegal child care operations.

Internal Audit identified opportunities for improvement in the illegal operations search processes and practices. The Child Care Licensing (CCL) Division is continually taking actions to improve their processes. However, the following potential areas for improvement were identified:

- Search and outreach activities are adversely impacted by the volume of abuse/neglect investigations and other required generalist functions.
- Basic Skill Development (BSD) may not be sufficient for generalist personnel.
- Generalists are not fully utilizing tools available to conduct searches, more specifically, utilizing the Family Inquiry Network/Database Research System (FINDRS).
- Utilization of Special Investigators as needed during inspections to mitigate any safety concerns.

### ***Annual Rider 29 Survey of Contract Monitoring Staff***

The 2014-15 General Appropriations Act, Senate Bill 1, 83<sup>rd</sup> Legislature, Regular Session, 2013, Article II, Health and Human Services Commission, Rider 29 requires DFPS Child Protective Services (CPS) contract management staff to have sufficient training in fiscal monitoring and financial analysis to perform such activities or review the work of others who perform these activities. DFPS Internal Audit Division is required to conduct an annual survey of CPS Purchased Client Services (PCS) contract monitoring and oversight staff to measure the impact additional training has on staff satisfaction and staffs view of their ability to perform

the required fiscal analysis and financial monitoring.

Since the September 2014 Rider 29 survey, some headway and improvements have been made regarding training for contract management staff. After two years of training, some progress has been made, based on the responses provided during this survey and the results of the previous survey. The majority of contract monitoring staff surveyed now feels comfortable performing fiscal monitoring and financial analysis as required by Rider 29. However, respondents again suggested that they would like more in-depth training in the areas of fiscal monitoring, financial analysis, standards and guidance, the procurement process, internal controls and data collection systems.

#### **IV. External Quality Assurance Review**

An external peer review of DFPS Internal Audit was conducted in FY 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 FY 2016.

## **V. Internal Audit Plan for FY 2016**

The approved FY 2016 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 11,415 budgeted hours to projects in the FY 2016 Annual Audit Plan.

Audit Area	Preliminary Audit Objectives
<p><i>Audit of Transitional Living Services</i></p> <p><i>Carried Forward from FY 2015 Annual Audit Plan</i></p>	<p>To evaluate whether transitional living services are meeting state and federal requirements and are effective in preparing foster youth for living as an adult.</p> <ul style="list-style-type: none"> <li>• To review the management and reporting structure to assess if process controls are in place, efficient, effective and working as intended.</li> <li>• To determine whether the program is consistent and compliant with the policies &amp; procedures and State &amp; Federal requirements.</li> <li>• To assess whether outcome performance measures are in place and meeting targeted goals and objectives.</li> </ul> <p>To determine if transitional living services contractors are complying with the terms and conditions of their contracts in providing quality services.</p> <p>To determine the effectiveness of IT controls over systems and applications used in support of transitional living services program processes.</p>
<p><i>Follow-up on Prior Audit Findings</i></p> <p><i>Carried Forward from FY 2015 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"> <li>• 3<sup>rd</sup> Quarter status as of May 31</li> </ul>
<p><i>Adoption Process - Selection and Matching</i></p>	<p>To evaluate the processes for matching prospective adoptive parents with foster children.</p>
<p><i>Utilization of Child-Specific Contracts</i></p>	<p>To assess the following processes related to child-specific contracts:</p> <ul style="list-style-type: none"> <li>• Determination of need</li> <li>• Approval</li> <li>• Rate negotiation</li> </ul>
<p><i>Statewide Intake - Quality Assurance</i></p>	<p>To evaluate Statewide Intake's quality assurance processes, including sampling methodology, to ensure that referrals are appropriately addressed.</p>

<b>Audit Area</b>	<b>Preliminary Audit Objectives</b>
<i>Quality of APS Facility Investigations</i>	To assess APS's controls for ensuring quality of facility investigations.
<i>SHIELD</i>	To evaluate the effectiveness of SHIELD for assessment of clients' service needs and safety.
<i>Utilization of Medical Consultations</i>	To evaluate appropriate utilization of medical consultations to support CPS, APS, and CCL investigations.
<i>Follow-up on Prior Audit Findings (FY 2016)</i>	To determine the status of management actions in response to audit recommendations. <ul style="list-style-type: none"> <li>• 1<sup>st</sup> Quarter status as of November 30</li> <li>• 3<sup>rd</sup> Quarter status as of May 31</li> </ul>
<i>DFPS Ethics Assessment</i>	An assessment of the agency's design, implementation, and effectiveness of its ethics-related objectives, programs and activities is required under audit standards.

Additionally, two consulting and/or special projects were included in the FY 2016 Annual Audit Plan.

<b>Consulting Service or Special Project</b>	<b>Objectives</b>	<b>Comments</b>
<i>Day Care Services</i>	To review the processes for foster care, kinship, and protective day care services and identify potential opportunities for improvement for management's consideration.	Status - Planning Phase  Carried Forward from FY 2015 Annual Audit Plan
<i>Functional Analysis</i>	To facilitate and coordinate the collection of functional analysis data for HHSC Risk and Compliance Management.	

***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 2017
- 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
- Legislative Coordination

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

- Executive Team Meetings and monthly program updates
- HHS Enterprise Audit Council
- IT Governance Workgroup
- IMPACT Modernization Steering Committee
- Critical Case Meetings
- Contracting Governance Workgroup/Improvement Workgroup
- Workforce Management Steering Committee
- Ethics Council
- Training Governance Workgroup
- DFPS Task Force
- HHS System Federal Grant Reform Strategy Team

### ***Contract Reform***

The Utilization of Child-Specific Contracts audit which is listed above in the Internal Audit Plan for FY 2016 will address contract management.

### ***Risk Assessment Methodology***

In June 2015, 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 2015, 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, Confidentiality, and Privacy
- Performance Indicators
- Complexity of Operations

- Extent of Oversight/Monitoring
- Other Risk Factors

The risk factors above were established by an HHSC Enterprise wide Internal Audit risk assessment workgroup. The results of the scoring were used to identify the activities and functions that were included in the FY 2016 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.

- Family Based Safety Services
- Post-Adoption Billing Oversight and Matching of Services
- IT Security
- Regional Audits of Multiple Decentralized Issues
- CPS Check Writing and Claims Processing
- Prevention and Early Intervention Contracting

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 2015**

DFPS did not procure external audit services in FY 2015.

## **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.