
**Department of Family and Protective
Services**



**Internal Audit Annual Report
Fiscal Year 2016**

OCTOBER 2016

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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 (FY) 2016 and planned work during FY 2017 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 2017 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 2016, DFPS will post on the agency's public website the FY 2016 Internal Audit Annual Report, which includes the approved FY 2017 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 2016 Internal Audit recommendations for each audit and reports on the progress towards the implementation of those recommendations.

The FY 2017 Annual Audit Plan was approved by the DFPS Commissioner on September 9, 2016 and was posted to the agency's public web site on September 30, 2016.

II. Internal Audit Plan for FY 2016

Audit Project	Project Status
<i>Audit of Transitional Living Services</i> (Report 2015-05)	Completed Report Date: December 22, 2015
<i>Follow-up on Prior Audit Findings Implemented on or before May 31, 2015</i> (Report 2015-06)	Completed Report Date: February 29, 2016
<i>Audit of APS SHIELD Process (i.e., SHIELD)</i> (Report 2016-02)	Completed Report Date: April 29, 2016
<i>Audit of Adoption Processes - Recruitment, Matching and Selection (i.e., Adoption Process - Selection and Matching)</i> (Report 2016-03)	Completed Report Date: August 26, 2016
<i>Follow-up on Prior Audit Findings Implemented on or before November 30, 2015</i> (Report 2016-05)	Completed Report Date: June 28, 2016
<i>DFPS Ethics Assessment</i> (Report 2016-07)	Completed Report Date: July 25, 2016
<i>Statewide Intake - Quality Assurance</i>	Removed from the FY 2016 Annual Audit Plan with Commissioner's Approval Included as a Consulting Engagement in the FY 2017 Annual Audit Plan

Audit Project	Project Status
<i>Quality of APS Facility Investigations</i>	Removed from the FY 2016 Annual Audit Plan and Added to the "Risk Areas Not Included in the Plan" Section of the FY 2017 Annual Audit Plan with Commissioner's Approval
<i>Child-Specific Contract Processes (i.e., Utilization of Child-Specific Contracts)</i>	Status - Reporting Phase Carried Forward to FY 2017 Annual Audit Plan
<i>Utilization of Medical Consultations</i>	Status - Fieldwork Phase Carried Forward to FY 2017 Annual Audit Plan
<i>Follow-up on Prior Audit Findings Implemented on or before July 31, 2016 (i.e., Follow-up on Prior Audit Findings Implemented on or before May 31, 2016)</i>	Status - Fieldwork Phase Carried Forward to FY 2017 Annual Audit Plan

Summary of Completed Projects

2015-05 Audit of Transitional Living Services

The audit identified several areas for improvement in strengthening the effectiveness of the services offered in preparing foster youth and young adults who are aging out of foster care into living as an independent adult.

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 2017 Annual Audit Plan.

2015-06 Follow-up on Prior Audit Findings Implemented on or before May 31, 2015

The Internal Audit Division completed a follow-up review of 21 management action plans from 5 audit reports for which management indicated implementation would be completed on or before May 31, 2015. A total of 13 management action plans were considered implemented and 8 were in progress with new estimated completion dates.

2016-02 *Audit of APS SHIELD Process*

The audit identified opportunities to enhance the SHIELD process through revisions to training, policies, procedures, tools, and goals.

In addition, an opportunity to strengthen IT controls related to the case review and approval process was also identified.

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 2017 Annual Audit Plan.

2016-03 *Audit of Adoption Processes - Recruitment, Matching and Selection*

DFPS strives for and continues to implement strategies that decrease the length of time that children wait for adoption, increase adoptions of older children and youth, and overcome barriers to adoption for children in foster care. Opportunities exist to further improve the following areas of recruitment, matching, and selection processes:

- Consistency of recruitment efforts for children while in care, including defining and expanding the minimum recruitment efforts required
- TARE data timeliness, completeness, and accuracy
- Tracking and monitoring of responsiveness to child-specific inquiries
- Collecting, tracking, and monitoring regional outcomes related to targeted recruitment efforts
- Consistency of documenting child-specific recruitment activities and matching/selection decisions, including defining minimum documentation requirements
- Standardized, consistent, and comprehensive training curriculum regarding recruitment, matching, and selection processes

Taking advantage of the opportunities for improvement noted above may decrease the time children remain in care and/or reduce the possibility that children age out of the foster care system without finding a "forever home".

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 2017 Annual Audit Plan.

2016-05 *Follow-up on Prior Audit Findings Implemented on or before
November 30, 2015*

The Internal Audit Division completed a follow-up review of 22 management action plans from 8 audit reports for which management indicated implementation would be

completed on or before November 30, 2015. A total of 14 management action plans were considered implemented and 7 were in progress with new estimated completion dates. Also, there was 1 that will not be implemented with mitigating controls in place.

2016-07 DFPS Ethics Assessment

The Internal Audit Division completed an assessment of DFPS’ ethics-related programs and functions. The assessment identified opportunities for improvement to provide a systematic way to promote ethics and monitor staff actions, such as random samplings and inquiries.

With the recent movement to consolidate the system agencies under the Health and Human Services (HHS) umbrella, a HHS Ethics Office was created. The HHS Ethics Policy was revised in August 2015 and the overall responsibility for designing and implementing ethics awareness, training and compliance programs for all HHS agencies reside with this office. However, DFPS does provide supplemental ethical requirements which are specific to the type of services provided by DFPS. DFPS also has a Workforce Development Department which addresses internal and external complaints. An Internal Complaints Program Specialist works with the program areas to further investigation and take action as needed.

While the overall responsibility for the ethical environment for HHS System employees has transferred to the Office of Ethics, DFPS is responsible for preventing and eliminating fraud and waste in its agency, as well as learning about its ethical standards and living up to them every day.

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 2016.

Consulting Service or Nonaudit Service	Project Status
<i>Day Care Services</i>	Completed Issued: February 11, 2016
<i>Functional Analysis</i>	Completed Issued: December 23, 2015

Consulting Engagement of Day Care Services (2015-08)

The objective of this engagement was to identify areas of improvement regarding processes for foster care, kinship, and protective daycare services. Internal Audit identified opportunities for improvement to daycare request processing.

The Child Protective Services (CPS) Division is continually taking actions to improve their processes. However, the current procedures for processing daycare requests could be enhanced to expedite the receipt of daycare services by caregivers. The primary opportunities for improvement include the following:

- Incorporate a daycare emergency protocol
- Eliminate unnecessary approvals throughout the daycare process
- Improve oversight of Regional Daycare Coordinator (RDCC) productivity
- Avoid wait periods

Functional Analysis

The objective of the engagement was to facilitate and coordinate the collection of functional analysis data for HHSC Risk and Compliance Management.

Risk and Compliance Management consolidated collected information into summary documents for use by leadership. A focus will be creating a summary analysis for each organizational unit within each HHS agency. A report was not prepared for this engagement.

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."

DFPS has completed its self-assessment and is currently in the process of engaging a team to perform the external peer review. DFPS anticipates fieldwork will begin November 2016.

V. Internal Audit Plan for FY 2017

The approved FY 2017 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 10,025 budgeted hours to projects in the FY 2017 Annual Audit Plan.

See the FY 2017 Annual Audit Plan on next page.

Audit Area	Preliminary Audit Objectives
<p><i>Child-Specific Contract Processes</i></p> <p><i>Carried Forward from FY 2016 Annual Audit Plan</i></p>	<p>Assess whether child-specific contracts were appropriately executed by authorized representatives and subsequently stored into HCATS in a timely manner.</p> <p>Determine whether there are clearly defined negotiation criteria and procedures for child specific contracts to ensure the best value for the agency.</p> <p>Assess the processes to monitor whether the contractor is providing services as outlined in the child-specific contracts.</p> <p>Assess the processes to prevent and detect overpayments made by DFPS to contractors for services covered by STAR Health procured under child-specific contracts.</p>
<p><i>Follow-up on Prior Audit Findings</i></p> <p><i>Carried Forward from FY 2016 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 Quarter status as of July 31

Audit Area	Preliminary Audit Objectives
<p><i>Utilization of Medical Consultations</i></p> <p><i>Carried Forward from FY 2016 Annual Audit Plan</i></p>	<p>Assess the effective and efficient utilization of Forensic Assessment Center Network (FACN) and other medical consultations.</p> <ul style="list-style-type: none"> • Sub-objective I-1: Assess the impact, if any, of including a medical consult on investigation workload and milestones. • Sub-objective I-2: Evaluate the protocols, policies, and procedures associated with FACN use and other medical consultation. • Sub-objective I-3: Determine whether opportunities to use FACN or other medical consultations were effectively exercised. <p>Determine whether the intent of the telemedicine appropriation requirements of S.B. 6 of the 79th Legislature are being met.</p> <ul style="list-style-type: none"> • Sub-objective II-1: Validate the establishment of pediatric centers of excellence. • Sub-objective II-2: Determine whether access has been granted to appropriate staff. • Sub-objective II-3: Determine whether Contract Monitoring is conducting reviews as required. <p>Evaluate training provided to DFPS staff and exposure to FACN protocols.</p> <ul style="list-style-type: none"> • Sub-objective III-1: Determine whether adequate FACN training is provided to all potential users. • Sub-objective III-2: Evaluate ongoing efforts to promote staff engagement of FACN and other medical consultations.

Audit Area	Preliminary Audit Objectives
<i>Family Based Safety Services</i>	<p>To assess CPS's processes for ensuring that quality family based safety services provided to clients and meet clients' needs.</p> <p>To assess CPS's processes for following up with providers and families to ensure family based safety services are completed.</p>
<i>Centralized Background Check Unit</i>	To assess the efficiency and effectiveness of Centralized Background Check Unit operations to determine if it is meeting agency needs.
<i>Follow-up on Prior Audit Findings (FY 2017)</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 January 31 • 3rd Quarter status as of July 31

Additionally, five consulting and/or special projects were included in the FY 2017 Annual Audit Plan.

Consulting Service or Special Project	Objectives	Comments
<i>Unlocatable Children</i>	<p>To review the process for locating children who are with their family, not in DFPS conservatorship, and cannot be located for opportunities for improvements.</p> <ul style="list-style-type: none"> • Identify protocols for requirements in attempting to locate the children/family • Review the process for discontinuing the search, approval and documentation • Document CPS interaction and relationship with other entities • Identify potential areas for coordination and communication improvement • Review available data that may be used to find un-located children and identify opportunities for process improvement 	Status - Planning Phase
<i>Statewide Intake - Quality Assurance</i>	To evaluate Statewide Intake's quality assurance processes, including sampling methodology, to ensure appropriate coverage of intakes are being monitored.	Status - Planning Phase

Consulting Service or Special Project	Objectives	Comments
<i>Missing Children</i>	<p>To review the process for locating missing children in DFPS conservatorship for opportunities for improvements.</p> <ul style="list-style-type: none"> • Identify protocols for requirements in attempting to locate the children/family • Review the process for discontinuing the search, approval and documentation • Document CPS interactions and relationship with other entities • Identify differences in the process for children not in conservatorship • Identify potential areas for coordination and communication improvement • Review available data that may be used in locating missing children and identify opportunities for process improvements 	
<i>Identification of Support Areas Embedded in Programs</i>	<p>To identify support areas that are embedded in program divisions and identify opportunities to gain efficiencies.</p>	
<i>Accounting Division Risk Assessment</i>	<p>To review Accounting process controls and identify potential risks and opportunities for process efficiencies.</p>	

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 2018
- 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
- IG investigations of DFPS reporting
- HHS Transformation efforts for Internal Audit

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 Utilization of Child-Specific Contracts audit which is listed above in the Internal Audit Plan for FY 2017 will address contract management.

Risk Assessment Methodology

In June 2016, 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 June and July 2016, 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 2017 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.

- Quality of APS Facility Investigations
- Prevention and Early Intervention Contracting
- Governance Workgroups

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 2016

DFPS did not procure external audit services in FY 2016.

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.