

**DEPARTMENT OF SOCIAL SERVICES**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2005**



## **AUDIT SUMMARY**

Our audit of the Department of Social Services for the year ended June 30, 2005, found:

- amounts reported in the Commonwealth Accounting and Reporting System and the Department's accounting records were fairly stated;
- certain matters involving internal control and its operation that require management's attention and corrective action;
- instances of noncompliance that are required to be reported under Government Auditing Standards; and
- inadequate corrective action of prior year audit findings.

### **Properly Manage and Maintain Access to Information Systems**

The Department provides central statewide oversight for policies and procedures to 120 locally-operated social service agencies. In support of the locally-operated social service agencies, the Department has a number of central systems for determining and providing benefits. These central systems operate in diverse environments and include everything from mainframe applications to web-enabled systems.

The Department's oversight of local social service agencies has created some significant security issues over access to the systems and their data. Currently, the Department controls access to its systems at two levels. The Department's Information Security Unit creates, changes, and deletes access for some of the Department's systems, while other individual divisions and local social service agencies have their own security officers for access granting, removal, and modifications. Management of each local social service agency determines what systems and level of access individual employees should have to the Department's systems, which determines the functions an individual can perform when they get into the system. Controlling access is the equivalent of determining who has access to the cash drawer or safe.

We recognize that the cost of addressing these issues could be cost prohibitive and that an ideal solution should come from the Department's overall strategy to replace its systems. However, there are clearly some actions that the Department could undertake in the interim to strengthen controls and provide the groundwork for the long term solution.

The Department has begun developing a centralized system for monitoring access control listings for all systems as a result of last year's system access finding. The Department should continue developing this database of employees and their access so that the Information Security Unit can eventually use the database to review and verify access. The Security Unit could also use this database to conduct periodic reviews such as having local security officers confirm individual access and, coupled with payroll records, check employee status. Working with internal audit, the divisions, and local offices, the security team could conduct automated verification of access.

The report includes other audit findings.

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## **AGENCY OVERVIEW**

The Department of Social Services (the Department) administers over 40 programs that provide benefits and services to low-income families, children, and vulnerable adults. Both the state and local governments share in the administration of social service programs. The Department is comprised of a Central Office, five regional offices, eight licensing offices, and 21 support enforcement offices. There are also 120 locally-operated social service offices across the state, which report to the local governments, but receive direction and support from the Department.

The Central Office has primary responsibility for the proper administration of all federal and state-supported social service programs. The Central Office establishes policies and procedures that ensure adherence to federal and state requirements, which local offices implement. Both Central Office and regional offices enforce these policies and procedures by monitoring the local offices. The Central and regional offices often provide technical assistance to local offices and the regional offices serve as a liaison between the Central and local offices. In addition, the Central Office distributes benefits to eligible households and vendors under the Temporary Assistance for Needy Families (TANF), Food Stamp, and Energy Assistance programs.

Child Support Enforcement is a state-administrated and operated program. Child support offices process custodial parent information, help locate noncustodial parents, establish paternity, enforce both administrative and court orders, and collect and distribute child support monies.

Licensing offices regulate licensed child and adult care programs including the following programs: certified preschools, child day centers, family day homes, child placing agencies, and children's residential facilities. They also regulate adult day care centers and assisted living facilities.

In fiscal 2005, the Central, regional, child support, and licensing offices spent approximately \$930 million (60 percent) of the Department's total funding. This amount includes benefit assistance amounts paid directly to individuals.

Local social service offices deal directly with consumers. They perform a variety of functions including eligibility determination and "service" program administration such as Foster Care, Child/Adult Daycare, Adoption, and Child/Adult Protective Services. Local offices also provide information to consumers transitioning from dependency to independence. In fiscal 2005, the Department paid over \$623 million (40 percent) of its total expenses to local social service offices.

### **Federal Disallowance of Foster Care and Adoption Expenses**

The U.S. Department of Health and Human Services (HHS) Administration for Children and Families (ACF) conducted a review of the foster care and adoption assistance programs. As a result of this review, ACF disallowed over \$41 million of the Department's foster care and adoption assistance expenses. These disallowances concern three specific program areas: foster care pre-placement and prevention activities, special needs adoption claims, and training activities. Because of the timing of the ACF notification of action, some local social service agencies and other state agencies already received and used funds to cover the disallowed expenses. The Department's management does not anticipate collecting these distributed funds.

ACF subtracted the disallowance amount from the Department's current grant awards. Consequently, the Department experienced a cash flow shortage and did not have sufficient funds to cover foster care and adoption assistance expenses. In order to fund current expenses, the Department received General Fund deficit funding totaling \$36,229,747.

The Department hired outside legal counsel to represent them and appealed the disallowances to HHS' Appeals Board. If the Department is not successful in the appeals process, management intends to repay the deficit funding through additional revenues within the Department, fiscal year-end balances, amendments to the "Caboose Bill" in the 2006 session of the General Assembly, or a combination of the above. The Department has not created a definitive, detailed plan for repayment of the deficit funding.

The disallowances hamper the Department's Claims Integrity Unit's efforts to help local social service offices receive federal reimbursement for prior program expenses. In the past, the Claims Integrity Unit only reviewed local costs incurred, not reimbursement funds claimed, to aid local social service offices in receiving additional federal funding. The Department submitted these prior period locality expenses to the federal government for reimbursement and then passed the reimbursed funds through to the local social service offices.

In June 2004, the Department stopped making foster care and adoption assistance Claims Integrity Unit payments to local social service agencies and management indicates it will not make payments until they receive the appeals decision. The Department is currently developing new policies and procedures with regards to claims integrity payments. Once they have completed this process and received approval from the federal government, the Department's management intends to resume submission of foster care and adoption assistance expenses for reimbursement.

## FINANCIAL INFORMATION

Tables 1 and 2 summarize the Department's budgeted revenues and expenses compared with actual results for the fiscal year ended June 30, 2005.

Table 1

### Analysis of Budgeted and Actual Funding by Funding Source

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General Fund	\$ 303,770,744	\$ 344,317,660	\$ 344,317,660
Special revenues	610,159,514	613,807,534	561,040,711
Federal grants	<u>705,410,655</u>	<u>799,787,867</u>	<u>658,129,144</u>
Total	<u>\$1,619,340,913</u>	<u>\$1,757,913,061</u>	<u>\$1,563,487,515</u>

The deficit funding received for federal foster care and adoption assistance disallowances is the reason for the General Fund original budget adjustment. Actual special revenue funds received fell short of the adjusted budget primarily due to child support collections not meeting original projections. For fiscal 2005, child support funds accounted for approximately 99 percent of the Department's total special revenue funds received.

Actual federal grant revenues received for fiscal 2005 did not meet adjusted budget expectations because of the federal foster care and adoption disallowances and the Department's suspension of billing for pre-placement and prevention services. During fiscal 2005, the Department received approximately 67 percent of their federal grant funding from five grants: the Temporary Assistance for Needy Families (TANF) grant, the State Administrative Matching Grants for the Food Stamp Program, the Child Care Mandatory and Matching Funds of the Child Care and Development Fund, the Child Support Enforcement grant, and the Social Services Block Grant.

In prior years, the Foster Care grant comprised a larger percentage of the Department's federal grant funds, but the disallowances placed restrictions on federal funds received for this program. Although the Food Stamp benefits are 100 percent federally-funded, the Department does not receive the funding for direct benefits for this program because the funds pass from the federal government directly to the Commonwealth's electronic benefits transfer contractor, J.P. Morgan.

Table 2

Analysis of Budgeted and Actual Expenses by Program

<u>Program</u>	<u>Program Expenses</u>			<u>Funding Source</u>		
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>General Fund</u>	<u>Special Revenues</u>	<u>Federal Grants</u>
State administration for Standards of Living services	\$ 49,987,126	\$ 54,992,717	\$ 48,130,905	\$ 10,624,374	\$ -	\$ 37,506,530
Temporary Income Supplement Services	155,397,676	205,746,206	174,613,285	60,498,361	1,699,332	112,415,592
Protective Services	141,637,137	147,247,117	139,405,792	71,882,423	413,853	67,109,517
Financial assistance to local welfare/ social service boards for administration of benefit programs	152,525,807	170,431,667	157,825,562	46,672,883	778,326	110,374,353
Continuing Income Assistance Services	20,098,755	20,098,755	19,728,876	19,728,876	-	-
Employment Assistance Services	79,471,722	78,834,222	59,502,422	27,354,386	-	32,148,036
Child Support Enforcement Services	653,620,868	661,644,957	626,789,527	-	571,697,825	55,091,702
Administrative and Support Services	46,918,606	52,708,405	48,752,776	21,983,443	1,103,848	25,665,485
Financial Assistance for Individual And Family Services	308,207,640	354,123,184	267,422,428	84,304,748	-	183,117,680
Regulation of Public facilities and services	<u>11,475,576</u>	<u>12,085,831</u>	<u>11,341,306</u>	<u>833,215</u>	<u>587,893</u>	<u>9,920,198</u>
Total	<u>\$1,619,340,913</u>	<u>\$1,757,913,061</u>	<u>\$1,553,512,879</u>	<u>\$343,882,709</u>	<u>\$576,281,077</u>	<u>\$633,349,093</u>

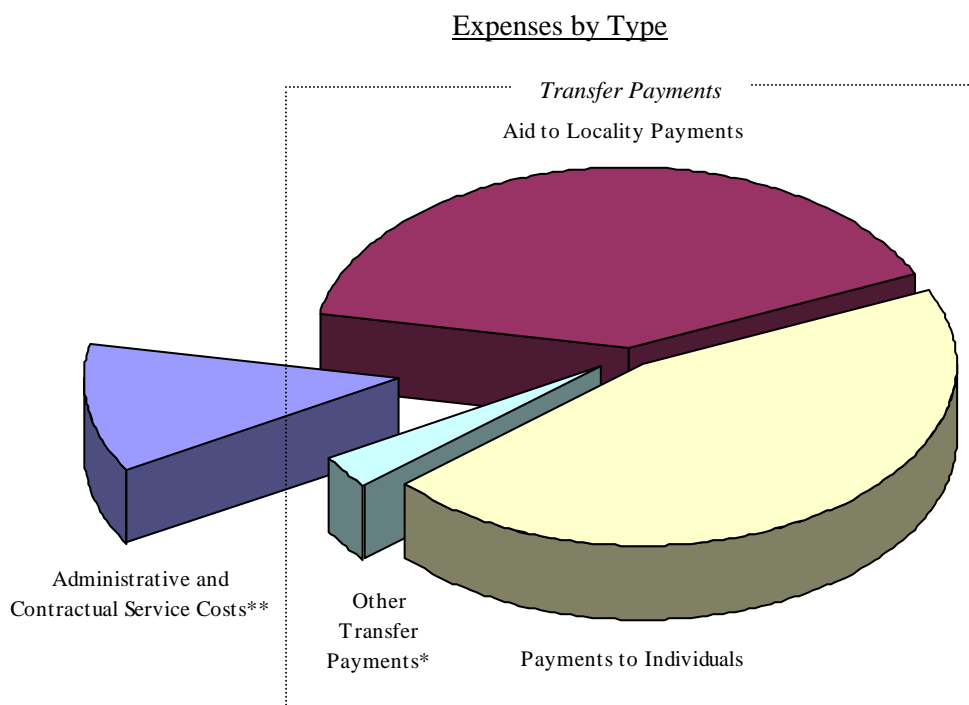
Actual expenses for the Temporary Income Supplement Services program fell short of the adjusted budget because management thought initial federal appropriations for this program were insufficient, causing the Department to request additional funds. This request resulted in a budget adjustment, which the General Assembly approved as additional funds during the 2005 Session. These two additional appropriations caused an over appropriation of federal funds for this program.

The variance between the Employment Assistance Services program's actual expenses and adjusted budget results from adjustments in the funding of TANF activities made by the 2004 General Assembly session. The program received more non-general fund appropriations than were necessary.

Actual expenses for the Financial Assistance for Individual and Family Services program fell short of both the original budget and the adjusted budget because the Department discontinued claiming federal pass-through funds for the Claims Integrity pre-placement and prevention activities due to federal disallowances of previous expenses. This caused federal expenses to be less than originally estimated.

The Department has the following sources of funding: 22 percent General Funds, 37 percent special revenue funds, and 41 percent federal grants. General Fund expenses include state matching dollars spent in order to receive federal funds.

The figure below summarizes the Department's expenses by type for the fiscal year ended June 30, 2005.



\* Includes payments to nongovernmental and intergovernmental organizations and community service agencies

\*\* Includes payments for personal services, supplies, rent, equipment, property, and improvements

Approximately 89 percent of the Department's expenses are transfer payments to local governments, individuals, and other organizations. Financial assistance for individual and family services and child support enforcement services expenses comprise over 58 percent of the transfer payments. In fiscal 2005, the Department paid \$623 million (40 percent of total expenses) to local social service agencies and \$706 million (45 percent of total expenses) to individuals as direct benefits. Administrative and contractual service costs are 11 percent of total expenses. The Department spent over \$86 million on personal service expenses and \$79 million on contractual services.

Table 4 summarizes the aid to locality payments by subprogram for the fiscal year ended June 30, 2005.

Table 4

Aid to Locality Expenses by Subprogram

Benefits programs administration	\$147,035,256
Direct social services	103,341,523
Day care (non-TANF)	90,962,794
Foster care	79,532,379
Financial assistance for child and youth services	47,182,544
Individual and family economic independence services through employment assistance services	46,976,937
Individual and family economic independence services through day care support (TANF)	50,105,009
Supplemental income assistance to the aged, blind, and disabled	19,727,131
Other	<u>38,166,942</u>
Total	<u>\$623,030,515</u>

Of the \$623 million paid to the localities, approximately 41 percent of the funds are for local social service agency benefits programs administration or direct social services. These programs include administrative and other allocable costs, pass-through funds, and locality contractual services. Non-TANF day care expenses accounted for over 14 percent of aid to locality payments, while day care expenses for TANF families represented about eight percent. Almost 13 percent of the funds the Department paid to localities are for foster care expenses. These expenses include maintenance payments to foster care families, foster parent and staff training, and additional foster care administrative costs. The Financial Assistance for Child and Youth Services subprogram represented approximately eight percent of the Department's locality payments. Adoption incentive payments, special needs adoption expenses, and adoption-related contracts are included in this subprogram. Other aid to locality expenses include: regional and area-wide assistance administration, general relief payments, resettlement assistance, emergency assistance, Comprehensive Services Act administration, financial assistance for employment services, non-public assistance child support payments, and other purchased services.

Table 5 summarizes the payments to individuals by subprogram for the fiscal year ended June 30, 2005.

Table 5

Payments to Individuals by Subprogram

Nonpublic assistance child support payments	\$537,729,408
Temporary Assistance for Needy Families	118,865,735
Emergency assistance	37,871,117
Other	<u>12,015,469</u>
Total	<u>\$706,481,729</u>

Of the \$706 million paid directly to individuals, approximately 76 percent are for non-public assistance child support payments. These payments are made to custodial parents from a child support special



revenue fund. Once the Department has collected the child support payment from the non-custodial parent, the Department redistributes the money to the custodial parent.

TANF payments represent 17 percent of the Department's payments to individuals. These are cash payments made directly to eligible families to help meet basic monthly needs.

Emergency payments account for five percent of the Department's payments made to individuals. Disaster assistance cash payments fall under this category, as well as low income home energy assistance payments. Under the home energy assistance program, the Department pays energy vendors and individuals directly. Other payments to individuals include expenses related to unemployed parent supplements and public assistance child support collections.

### Business Process Reengineering

The Department is working on its business process reengineering project (BPR) by using First Data Government Solutions, an outside consulting firm, to facilitate the process. The first phase of the BPR, referred to as the "as is" phase, involved gaining an understanding and assessing the Department's current processes at state and local social service offices. The Department reported the results and findings of this phase in May 2005.

In the summer of 2005, the Department completed the second phase of the BPR, referred to as the "to be" phase, and prepared a detailed "to be model report" to present the results of this phase. This phase focused on simplifying the customer service model by removing process barriers.

The Department recently completed a draft change management plan for the "to be" model with implementation over a three to five year period. This plan is under review by the Department's management. The Department intends to present this plan to internal committees and the local social service offices in early 2006.

## **INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS**

### **Properly Manage and Maintain Access to Information Systems**

The Department provides central statewide oversight for policies and procedures to 120 locally-operated social service agencies. In support of the locally-operated social service agencies, the Department has a number of central systems for determining and providing benefits. These central systems operate in diverse environments and include everything from mainframe applications to web-enabled systems.

The Department's oversight of local social service agencies has created some significant security issues over access to the systems and their data. Currently, the Department controls access to its systems at two levels. The Department's Information Security Unit creates, changes, and deletes access for some of the Department's systems, while other individual divisions and local social service agencies have their own security officers for access granting, removal, and modifications. Management of each local social service agency determines what systems and level of access individual employees should have to the Department's systems, which determines the functions an individual can perform when they get into the system. Controlling access is the equivalent of determining who has access to the cash drawer or safe.

The Department has no comprehensive automated centralized records system of who has access to systems and at what level. This lack of information hinders their ability to safeguard the Department's assets by not allowing the Department to easily determine the system access of employees. In addition, without a centralized listing of access, the Information Security Unit cannot easily review system access for separated employees to ensure that they no longer have access to the Department's information systems.

Over time, an employee's responsibilities typically change, thereby increasing or decreasing the need for access to and functionality within the system. Neither the local social service agency security officer nor Central Office staff have the tools available to examine all the access granted to an individual over time and their capabilities. By not reviewing overall system access, individuals may have multiple system access that is no longer necessary for the employee's current job responsibilities.

If an employee changes positions or separates from the Department, the employee's supervisor is responsible for notifying the appropriate security officers. This allows the security officer or the Security Unit time to either delete or disable systems and network access in a timely manner.

We found several instances where terminated employees still had access to the system after separation. This includes the following instances:

- 54 user accounts were deleted 3 to 30 days past separation
- 34 user accounts were deleted 31 to 180 days past separation
- 16 user accounts were deleted 181 or more days past separation
- 19 user accounts were not deleted upon separation

We found the above instances resulted from supervisors not notifying the security officers or the Security Unit of an employee's separation in a timely manner and/or the security officers and Security Unit not deleting access upon receiving notification. The inefficient communication between supervisors and security officers and the Security Unit has caused the untimely deletion of system access.

The Department's Human Resources Division does not receive notification when a local employee or contract employee terminates, resigns, or dies. The Department uses the Local Employee Tracking System

(LETS) as its local employee listing; however, since neither the Department nor local social service agencies update this listing, the Department does not have an accurate listing of local employees and contractors.

Without an accurate listing, the Information Security Unit cannot provide adequate system oversight. In addition, security officers cannot review current local employees' and contractors' system access because Central Office staff do not know who is employed by the Department or individual local social service agencies. Since the Department has ultimate responsibility for access control, the lack of an accurate local employee listing comprises their ability to fulfill this responsibility.

We recognize that the cost of addressing these issues could be cost prohibitive and that an ideal solution should come from the Department's overall strategy to replace its systems. However, there are clearly some actions that the Department could undertake in the interim to strengthen controls and provide the groundwork for the long term solution.

The Department has begun developing a centralized system for monitoring access control listings for all systems as a result of last year's system access finding. The Department should continue developing this database of employees and their access so that the Information Security Unit can eventually use the database to review and verify access. The Security Unit could also use this database to conduct periodic reviews such as having local security officers confirm individual access and, coupled with payroll records, check employee status. Working with internal audit, the divisions, and local offices, the security team could conduct automated verification of access.

The Department's Human Resources Division should also maintain an accurate listing of local employees and contractors. With this information, the Information Security Unit could also assess and review system access for these individuals.

Instead of supervisors notifying individual security officers of employee separations, they should inform the Human Resources Division, who should notify security officers and the Security Unit. This would streamline the termination process and should lead to more timely deletion of system access for separated employees.

While these approaches do not provide the ideal solution to the problem, they begin to address the access issue. The current situation is a material weakness in internal control.

#### Maintain Local Employee Tracking System

As already mentioned, the Department and local social service offices do not maintain the listing of local employees in the Local Employee Tracking System (LETS). We found terminated employees still listed and a number of current employees never entered into the system.

The Department allocates federal and state funds through a random sample of local employees' times. This allocation method uses the employees listed in LETS as the population for the sample. As a result, the Department may be including and excluding local employees inappropriately from this random sample. The Department may not be adequately assessing how local employees truly spend their time for allocating federal costs.

The Department should work with local social service offices to ensure that processes exist to update LETS accurately for personnel changes. The Department could require local social service offices to verify at least monthly the completeness and accuracy of their LETS employee listings.

### Establish Control Mechanisms for Foster Care and Adoption Payments

The federal government provided additional funding for state social services departments to develop and implement a comprehensive automated system for social service workers to manage foster care and adoption assistance cases, referred to as “SACWIS.” Currently, the Department uses the On-line Automated Services Information System (OASIS) as a case management system for foster care, adoption assistance, and child protective services cases. OASIS is not currently SACWIS-compliant; however, the Department is working on implementing various eligibility, interface, and financial OASIS components in order to make OASIS a SACWIS compliant system.

The Department does not currently have a control mechanism to verify that only individuals determined eligible and included in OASIS are receiving foster care and adoption payments. In addition, the Department cannot verify that the actual payment amount is equal to the monthly amount entered into OASIS. The monthly payment amount field is not even a required field for OASIS.

By not requiring social workers to enter, update, and reconcile OASIS information to the payment system, local social service offices may be making over or under payments to individuals or making payments to individuals who are not eligible to receive assistance. Local social service offices would then receive reimbursement from the Department for these improper payments. In addition, the Department may be reporting incorrect monthly payment amounts on their federal Adoption and Foster Care Analysis and Reporting System report, since the information submitted comes from OASIS and not from the foster care and adoption payment systems.

The Department should establish control mechanisms over their foster care and adoption payments. The Department should make the monthly payment amount in OASIS a required field and communicate the importance of updating this field to the local social service employees. In addition, the Department should reconcile the amount in OASIS to the foster care and adoption amounts actually paid to individuals.

### Develop Recovery Procedures for Internally-Housed Department Systems

The Department lacks the proper procedures and plans to recover from a disaster or service interruption for high priority systems located at the Central Office. COV ITRM Standard SEC2000-01.1 requires that agencies document plans to include “recovery procedures and responsibilities to facilitate the rapid restoration of normal operations at the primary site, or if necessary, at a new facility, following the destruction, major damage or other interruptions at the primary site.” Developing a disaster recovery plan reduces the risk of business operations downtime and loss of data.

Although the Virginia Information Technologies Agency (VITA) took over operations of the Department’s hardware and network devices, the Department is still responsible for ensuring that its critical operations are restored within an acceptable timeframe and data is properly protected. We recommend that the Department develop a disaster recovery plan to restore critical systems housed at the Central Office. The Department should work with VITA to ensure that this plan is sufficient to recover high priority systems hardware and devices.

### Update Client Information

We found several instances where the Department and local social service offices did not document client’s social security numbers (SSN) at their recertification period as required by Department policy and federal regulations. We found clients without social security numbers listed in the system who have received food stamps, TANF, and Medicaid for over a year.

If a client does not have a SSN when initially applying for benefits, the Department must require the client to prove that he or she has applied for one. At the case's recertification date, the eligibility worker should obtain the client's newly received SSN and update the Application Benefit Delivery Automation Project (ADAPT) system with this information.

By not obtaining the client's SSN, the Department does not have adequate controls over benefit distribution and clients may receive benefits under multiple cases or ineligible individuals may receive benefits. In addition, by not complying with federal regulations or providing adequate documentation of compliance, the Department may face federal financial penalties.

The Department should reemphasize the importance of obtaining a client's SSN. In addition, the Department should consider adding a requirement in the ADAPT system that will not allow a recipient to receive benefits for over a year unless SSNs are entered in the system.

#### Improve Documentation of Certain Temporary Assistance to Needy Families

Federal regulations require the Department to reduce or eliminate a recipient's benefits if the recipient fails to cooperate with the Division of Child Support Enforcement Agency (DCSE). In two out of ten TANF cases tested, we found no documentation of benefit reductions when the custodial parent failed to cooperate with DCSE. In addition, for five of ten selected cases, the case file did not contain adequate documentation to show that the case worker followed Department policies and properly reduced benefits or there was an untimely delay between DCSE referral of the case and appropriate action taken by the case worker.

Federal regulations require states to perform a systems inquiry to evaluate the client's income and benefits received from other programs when determining TANF eligibility. In three of ten cases selected for review, the Department did not maintain adequate documentation to support that a case worker performed a systems inquiry.

Federal regulations also state that the Department may not reduce or terminate benefits if the recipient refuses to work because of a demonstrated inability to obtain necessary childcare for a child under the age of six. The Department's TANF policies require that when a client does not comply with Virginia Initiative for Employment not Welfare requirements, the caseworker will send an "advanced notice of proposed action" to the client and retain it in the case file to document that the eligibility worker has considered good cause. In two out of ten TANF cases selected, the case file did not contain this documentation to show that the eligibility worker took good cause (unavailable childcare) into consideration before suspending a recipient's TANF benefits for refusing to work.

In addition, we found one case where benefit reductions should have occurred, but the client received full benefits for an additional four months. In two other cases reviewed, the clients' benefits were suspended, but the case file did not contain any documentation supporting the suspension of benefits.

By not complying with federal regulations or providing adequate documentation of compliance, the Department may face federal financial penalties. The Department should ensure that TANF case files contain adequate supporting documentation to show compliance with federal regulations.

#### Properly Report TANF Unliquidated Obligations and Basic Assistance Amounts

Federal regulations require the Department to report the TANF unliquidated obligation amount at fiscal year-end and expend the remaining TANF unobligated balance on basic assistance during the following fiscal years. The Department does not currently have a method to determine the amount reported as TANF unliquidated obligations on the TANF financial report. Instead, the Department reported the unexpended

award amount as the obligated amount, which over-reported the federal unliquidated obligation amount by more than \$10 million. Further, the Department cannot provide documentation showing how they spent \$815,750 of the reported unliquidated obligation amount during the following fiscal year. As a result, we could not determine whether the Department complied with federal period of availability regulations, and therefore, we questioned costs totaling \$815,750.

In addition, we found that the Department does not have adequate grant reporting procedures to ensure that grant reports are consistently prepared and sufficiently supported. Due to the lack of established policies and procedures, the Department under-reported TANF basic assistance expenses by over \$2 million and made a number of untimely adjustments to account balances.

By not accurately reporting and expending federal TANF amounts, the Department is not complying with federal requirements and may face federal financial penalties. The Department should establish policies and procedures, as well as establish a method for determining the amount of funds obligated, but not yet expended at fiscal year-end. The Department should properly report this amount on the TANF financial report and use the remaining unobligated amount on basic assistance during the following fiscal years.



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

December 14, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Department of Social Services** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

## Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Department's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2005 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in Department's accounting records; reviewed the adequacy of the Department's internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Federal grant revenues and expenditures
Expenses	Network security and system access

Our audit did not include the Department's system development efforts, which we previously audited and reported on in the Department of Social Services' Public-Private Partnership report in August 2005.

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel; inspection of documents, records, and contracts; and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusion

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Department's accounting system. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. We also noted matters of noncompliance that are required to be reported under Government Auditing Standards. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

The Department has taken adequate corrective action for two of four audit findings reported in the prior year. We are currently unable to determine the adequacy of the corrective action with respect to the prior finding, "Improve Documentation for Certain Temporary Assistance to Needy Families," because of the timing of the corrective action plan and the noted exceptions. The Department has not taken adequate corrective action with respect to the prior finding "Properly Manage and Maintain Access to Information Systems."

### EXIT CONFERENCE

We discussed this report with management on December 22, 2005 and their response is included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

/kva





# COMMONWEALTH of VIRGINIA

## DEPARTMENT OF SOCIAL SERVICES

January 4, 2006

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
James Monroe Building  
Richmond, VA 23219

Dear Mr. Kucharski:

This letter is in response to your report on the audit of the Virginia Department of Social Services (VDSS) for the fiscal year ending June 30, 2005. Your report contains seven Internal Control and Compliance Findings and Recommendations to which the VDSS has responded in detail during the course of the audit. In accordance with state policy, detailed responses and plans for corrective action will be submitted to the State Comptroller and to you for inclusion in the Statewide Single Audit Report.

It has been my belief over the years that audits are management tools and audit findings and recommendations should be used to improve overall internal financial controls and agency operations. My position on the audit of VDSS for FY05 is no different and VDSS will respond to your findings and recommendations accordingly. Summaries of previously submitted responses follow:

### *Properly Manage and Maintain Access to Information Systems*

Although VDSS has made progress in controlling access to information systems, we recognize that issues still exist that must be resolved. You recognized the magnitude of this issue both in your report and in your comments at the audit exit conference. As you have observed, VDSS is faced with making piecemeal patches to several legacy systems, delaying taking any action in anticipation of including appropriate security measures in the envisioned Integrated Social Services Delivery System, or a combination of the two. VDSS will consider its options, including conducting cost/benefit analyses, and have a plan in place to address this finding no later than April 30, 2006.

Maintain Local Employee Tracking System

This issue is closely related to and will be included in the analysis conducted relative to the above issue. In the meantime, VDSS staff members are developing enhancements to the Local Employee Tracking System (LETS). In addition, VDSS is uploading information from the agencies that are not reporting through LETS so that they are current; however, accuracy of the information is dependent on the various local agencies. Again, VDSS will have a plan in place to address this finding no later than April 30, 2006.

Establish Control Mechanisms for Foster Care and Adoption Payments

In the short term, VDSS will require each local department of social services (LDSS) to certify semiannually that they have compared the information concerning foster care and adoption payments submitted to VDSS on the warrant registers with the information that is in the On-line Automated Services Information System (OASIS) and that any discrepancies have been resolved. All LDSS will be required to submit the first certification in June 2006 for payments made in May 2006. The second certification will be due in December 2006 for payments made in November 2006. The final certification will be due in June 2007 for payments made in May 2007. The Division of Family Services will be responsible for following up with any LDSS not submitting a certification by the due date.

In the long term, VDSS will develop a financial interface between the financial systems of local departments of social services and OASIS. The financial interface will allow local workers to create a file containing the name of the foster care or adoption payment recipient and the amount of the payment. This file will be created at the time the checks are cut in the local department. The information will be electronically submitted to VDSS and placed in appropriate OASIS data fields. The financial interface will be completed no later than December 31, 2007.

Develop Recovery Procedures for Internally-Housed Department Systems

VDSS approached the Virginia Information Technologies Agency (VITA) prior to being notified of this finding to begin working on a solution.

VDSS prepares an annual Contingency Management Survey listing all mission critical systems and forwards it to VITA annually. This list of mission critical systems shows the priorities and allowable downtime for each application. The list includes applications running on computers housed at VITA as well as applications housed at VDSS. VDSS submitted its most recent survey to VITA on September 15, 2005.

VDSS has also submitted a copy of our Business Continuity Plan (BCP) to VITA. The BCP contains individual plans of each unit of the Division of Information Systems (DIS), a detailed inventory of the equipment in the VDSS computer room, its functional use, and the priority for restoration.

VDSS and VITA are currently exploring two alternatives for backing up the VDSS computer facility. The first is to use SunGard to provide disaster recovery services for VDSS' mission critical systems running on servers at VDSS. The second is to relocate mission critical systems to VITA and provide back up either at VDSS or SunGard. The second alternative may evolve as Northrop Grumman begins taking over operations.

In the event of a disaster at VDSS, several of the mission critical applications can be quickly restored using high-end desktop computers that are available from any retailer. This would significantly reduce the time required to restore those applications. VDSS will have recovery procedures in place no later than June 30, 2006.

#### Update Client Information

New edits and alerts will be put into the Application Benefit Delivery Automation Project (ADAPT) system that will prompt a worker to obtain a social security number (SSN) 60 days after initial eligibility determination and that will prevent cases from maintaining their eligibility without a social security number after 90 days. The edits will be in place no later than June 30, 2006. Until such time as the automated system edits are in place, state staff will run monthly reports to identify cases without a social security number and that have been active for more than 60 days. In such cases, workers will be required to secure the SSN before the 90<sup>th</sup> day. Program consultants will monitor local compliance with the SSN verification requirement. Any worker having a case meeting these criteria will be notified and asked to review the case and take appropriate action. The new policy will be communicated to workers via broadcast and policy transmittal. No later than January 15, 2006, a broadcast will be issued to local agency staff reminding them of the requirement to verify all outstanding SSNs by the first eligibility recertification.

#### Improve Documentation of Certain Temporary Assistance to Needy Families

We are in partial agreement with this finding. In many of the cases cited in the finding, we concur that there was not sufficient documentation in the case record or state policy was not followed. However, VDSS does not concur with the Auditor's findings in several cases and a detailed response has been provided to the Auditor.

To address the findings of the Auditor, VDSS will design and deliver training to local eligibility staff regarding the requirement to screen all cases through the Income Eligibility Verification System (IEVS), proper documentation, time frames for client notices, and documentation regarding the Virginia Initiative for Employment Not Welfare (VIEW) sanctions. The training will be delivered no later than March 31, 2006. In addition, monitoring procedures will be altered to focus case readings on these specific areas; a broadcast will be issued to advise local agencies of these findings and of the revised monitoring procedures to correct the deficiencies cited by January 15, 2006. VDSS has a draft monitoring response plan that was implemented effective January 1,

2006. Actions to respond to local departments that do not improve their performance in the areas cited will be in accordance with the monitoring plan.

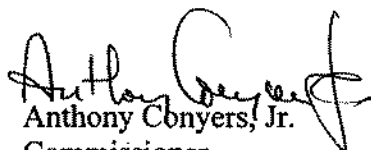
*Properly Report TANF Unliquidated Obligations and Basic Assistance Amounts*

We are in partial agreement with this finding. Reporting errors were noted and VDSS will submit revised reports to correct those errors no later than March 31, 2006. In the future, federal fund balances will only be reported as unliquidated obligations when a contract exists that obligates federal funds. VDSS recently filled the Grants Reporting Manager position. One of the top priorities for the Manager will be to improve grants reporting, and policies and procedures for report preparation. VDSS anticipates having improved procedures for preparing TANF reports in place no later than March 31, 2006. In addition, VDSS plans to rewrite procedures for reporting on all federal grants no later than June 30, 2006. TANF funds carried over from one year to the next can be spent for TANF basic assistance in the subsequent year. Consequently, VDSS does not agree that the \$815,750 should be considered questioned costs by APA. By TANF regulations, VDSS has until September 30, 2006 to spend these funds on TANF basic assistance.

As stated earlier, VDSS views periodic audits as management tools. We have provided your office with detailed responses for each of the above findings and will provide detailed information to the State Comptroller as required that also will be included in the Statewide Single Audit Report. We appreciate the professional manner in which your staff conducted the 2005 audit and look forward to working with you and your staff in the future.

Please contact me if you have any questions or comments related to this response.

Sincerely,

  
Anthony Conyers, Jr.  
Commissioner

c: The Honorable Jane H. Woods  
VDSS Leadership Team

DEPARTMENT OF SOCIAL SERVICES

Anthony Conyers, Jr.  
Commissioner

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