



SOCIAL SERVICES BLOCK GRANT OFFICE OF CHILDREN'S SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of the Social Services Block Grant federal program, administered by the Office of Children's Services for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal; and
- a matter involving internal control, which is also an instance of noncompliance, necessary to bring to management's attention.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1
INDEPENDENT AUDITOR'S REPORT	2-3
AGENCY RESPONSE	4-5
AGENCY OFFICIALS	6

AUDIT FINDINGS AND RECOMMENDATIONS

Why the APA Audits the Social Services Block Grant federal program, administered by the Office of Children's Services

For fiscal year 2016, the federal government required the Auditor of Public Accounts to conduct a compliance audit of the Social Services Block Grant funds expended by the Commonwealth. On behalf of the Commonwealth, Children's Services spends approximately ten percent of the block grant funds. Children's Services awards these funds to subrecipients, which must be monitored for compliance. Children's Services has determined that they must perform certain actions, which it documents in its work plan, to properly monitor its subrecipients. To confirm that Children's Services achieved its stated goals, we compared its work plan to the work performed, which resulted in the following finding.

Increase Program Auditors or Determine Another Approach to Meet Monitoring Requirements - NEW

The Office of Children's Services (Children's Services) did not complete its audit work plan to monitor subrecipients in fiscal year 2016. Management sets their audit work plan based on risk and intended to use the results to monitor locally administered Children's Services Act (CSA) programs. Children's Services' management developed a risk based work plan that called for 11 on-site audits, 62 self-assessment validations, and one special project to be reviewed in fiscal year 2016 to achieve monitoring requirements. Of the original plan, Children's Services completed 27 percent of the on-site audits, 30 percent of the self-assessment validations, and no special projects.

CFR Section 200.331 item (d) requires all pass-through entities to monitor the activities of subrecipients as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Furthermore, item (e) states that performing on-site reviews of the subrecipient's program operations may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals. Management determined they needed to complete the work plan to provide reasonable assurance that adequate effective internal controls exist at the localities and the localities are meeting their performance requirements.

Children's Services allocates federal funding, specifically, Social Services Block Grant (CFDA 93.667) funding to localities. Insufficient monitoring by Children's Services increases the risk of program non-compliance and non-performance at the locality level, which could require the Commonwealth to repay the federal government for any disallowed costs at localities.

According to management at Children's Services, it did not complete its audit work plan due to a lack of program auditors at Children's Services. As a result, Children's Services should obtain additional program auditors to ensure its audit work plan is achieving its objectives or determine if there is another approach that management can deploy to meet federal requirements for monitoring subrecipients.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Social Services Block Grant** federal program, administered by the **Office of Children's Services** (Children's Services), for the year ended June 30, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Single Audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to audit the Social Services Block Grant federal program in support of the Commonwealth's Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and Cardinal, and in supplement information submitted to the Department of Accounts; reviewed the adequacy of the Children's Services internal controls over the federal program; and tested for compliance with applicable laws, regulations, contracts, and grant agreements. Children's Services transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on February 1, 2016.

Audit Scope and Methodology

Children's Services management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over and compliance with subrecipient monitoring requirements for the portion of the Social Service Block Grant administered by Children's Services.

We performed audit tests to determine whether Children's Services controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and comparing Children's Services' work plan for monitoring subrecipients to their actual operations.

Conclusions

We found that Children's Services properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Cardinal, and in supplemental information submitted to the Department of Accounts for the Social Services Block Grant federal program.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The results for the Commonwealth's Single Audit for the year ended June 30, 2016, are contained in a separate report which will be available on Auditor of Public Accounts' website at www.apa.virginia.gov in February 2017.

Exit Conference and Report Distribution

We discussed this report with management on January 11, 2017. Management's response to the finding identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

GDS/clj



COMMONWEALTH of VIRGINIA

SCOTT REINER, M.S.
Executive Director

OFFICE OF CHILDREN'S SERVICES *Administering the Children's Services Act*

January 13, 2017

Ms. Martha Mavredes
Auditor of Public Accounts
Post Office Box 1295
Richmond, Va. 23218-1295

Dear Ms. Mavredes:

The Office of Children's Services (OCS) appreciates the opportunity to respond to the Social Services Block Grant federal review. Our comments are limited to activity of the OCS, which receives a portion of the Social Service Block Grant funding for services provided by the Children's Services Act.

The criteria cited states "Required by CFR Section 200.331 item (d), all pass-through entities are required to monitor the activities of subrecipients as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Furthermore, item (e) states that performing on-site reviews of the subrecipient's program operations may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals."

During Fiscal Year 2016, OCS' Program Audit Activity consisted of two auditors that were responsible for completing the audit plan that included seventy-three engagements (eleven on-site audits and sixty-two self-assessment validations). While all engagements initiated were not finalized by the close of the fiscal year, on-site visits that included review and examination of client-level transactions were conducted on or before June 30, 2016 at all seventy-three engagements included in the Fiscal Year 2016 audit plan. Further, OCS' program audits are a complement to other ongoing subrecipient monitoring activities undertaken by OCS to include:

- (1) Code of Virginia §2.2-5204 requirement for an annual audit of CSA programs, which are generally performed during the course of the local government's annual CAFR audit. In coordination with the Virginia Department of Social Services, OCS monitors the CAFR audit reports for compliance findings that pertain to CSA and coordinates with local CSA officials regarding corrective actions implemented to address reported findings.
- (2) OCS' fiscal policies and practices that restrict the allocation of SSBG funds to a designated expenditure category that complies with the terms and conditions of the grant subaward ensures that the subaward is used for authorized purposes. OCS' fiscal staff monitors the

1604 Santa Rosa Road, Suite 137 • Richmond, Virginia 23229-5008 • PHONE: 804-662-9815 • FAX: 804-662-9831 • WEB: www.csa.virginia.gov

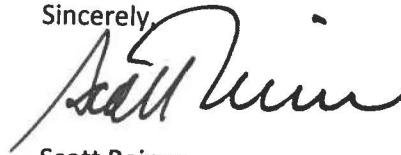
receipt of SSBG funds and ensures that the transaction is accurately recorded in the appropriate reporting category.

Prior to this audit, OCS' management identified limited staff resources as a contributing factor that affects our subrecipient monitoring activities. In response, OCS management proactively took action to mitigate this exposure by requesting additional positions through the 2016 General Assembly Legislative Session. OCS management successfully obtained legislative approval and funding beginning Fiscal Year 2017 to hire two additional Program Auditors, effectively increasing the Program Audit staff from two to four. The first of the two additional positions was filled effective November 10, 2016; the second will be hired later this year. The infusion of additional staff should further enable OCS' Program Audit Activity to complete future audit plan considerations, and along with the other subrecipient monitoring activities previously described, comprehensively fulfill compliance requirements for subrecipient monitoring.

Corrective Action Plan:

- **Task:** Hire additional program auditors to enable completion of the audit plan. OCS has been authorized and funded for two additional program auditors over the period Fiscal Years 2017- 2018. As of November 10, 2016, one of the two additional positions has been filled.
- **Responsible Party:** OCS Executive Director
- **Completion Date:** September 30, 2017

Sincerely,



Scott Reiner
Executive Director

cc: Maris Adcock, OCS Business Manager

OFFICE OF CHILDREN'S SERVICES

As of June 30, 2016

Scott Reiner
Executive Director

Charles Savage
Finance and Business Operations Manager