

**DEPARTMENT OF SOCIAL SERVICES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Department of Social Services for the year ended June 30, 2002, found:

- amounts reported in the Commonwealth Accounting and Reporting System and the Department's accounting records were fairly stated;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses;
- instances of non-compliance with federal and state requirements; and
- adequate corrective action of 21 prior year audit findings; and inadequate corrective action of five prior year audit findings, which are indicated with an asterisk (*).

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AGENCY OVERVIEW

The Virginia Department of Social Services (the Department) administers over 40 programs that provide benefits and services to low-income families. Both the state and local government share in the administration of social service programs. The Department is comprised of a central office, five regional offices, and 121 locally-operated offices. Below is a description of the responsibilities of each office.

- Central Office has primary responsibility for the proper administration of all federal and state-supported social service programs. Central Office establishes policies and procedures that ensure adherence to federal and state requirements. Local offices implement these policies and regional offices enforce the policies. In addition, Central Office administers “benefit” programs such as Temporary Assistance for Needy Families (TANF), Food Stamps, Energy Assistance, and the Child Support Enforcement program. There are 22 child support enforcement district offices across the state.
- Regional offices perform program-monitoring functions. They provide technical assistance to local offices and serve as a liaison between the central and the local offices.
- Local offices deal directly with the consumers. They perform a variety of functions including eligibility determination, administering “service” programs such as Foster Care, Child/Adult Daycare, Adoption, Child/Adult Protective Services. Local offices also provide information to consumers transitioning from dependency to independence.

AGENCY FINANCIAL OVERVIEW

The Department managed \$1.4 billion of activity in fiscal year 2002. Below is a snapshot of the Department’s receipts and disbursement at June 30, 2002, followed by a brief discussion about budget reductions.

Results of Operations

Fund	Adjusted Appropriations	Expenses
Federal funds	\$ 651,037,729	\$ 604,111,810*
Special revenue funds	521,776,585	482,021,412
General Fund	261,678,729	261,676,159
Fraud fund	<u>2,308,500</u>	<u>1,520,452</u>
Total	<u><u>\$1,436,801,543</u></u>	<u><u>\$1,349,329,833</u></u>

* Federal expenses exclude food stamp issuances totaling \$293 million.

Expenditure by Category		
Payroll and fringe benefits	\$ 78,241,319	5.80%
Contractual services	68,546,113	5.08%
Supplies and materials	1,658,203	0.12%
Transfer Payments*	1,186,046,957	87.90%
Equipment/Plant and improvements	6,636,645	0.49%
Other expenditures**	<u>8,200,597</u>	<u>0.61%</u>
Total	<u>\$1,349,329,834</u>	<u>100.00%</u>

Source: Commonwealth Accounting and Reporting System and the Department's Financial Accounting and Analysis System

* Includes payments to individuals, community service agencies, intergovernmental and nongovernmental organizations.

** Includes payments for postal services, telecommunications, printing, maintenance, clerical services, and office rentals.

Impact of Budget Cuts

In fiscal year 2002, the Department's budget reduction was \$2.3 million. The Department absorbed most of this reduction through Electronic Benefits Transfer (EBT) cost savings. In 2003, the budget reductions increase by an additional \$13,096,178, and the anticipated reductions for 2004 are \$13,376,833. The Department plans to implement the following nine actions to address these reductions.

Administrative Cuts

- Eliminate 20 classified positions.
- Reduce funding to local social service agencies. The Department anticipates a one percent cut in fiscal year 2003 and a three percent cut in fiscal 2004.
- Replace 75 information services contractors with state classified employees at a lower cost.
- Renegotiate the EBT contract for a lower cost, which the Department anticipates will save \$800,000.

Cost Savings Proposals

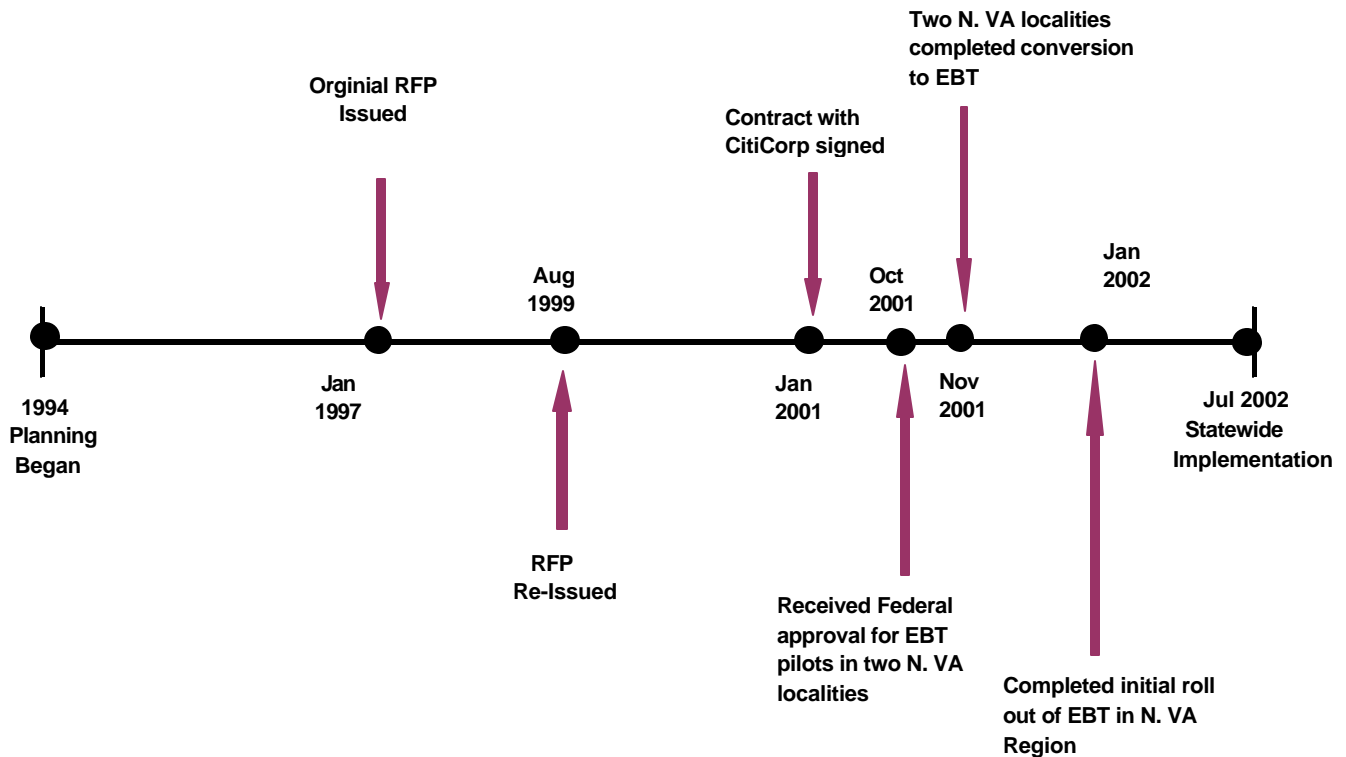
- Use federal incentive revenue to offset state support for the Division of Child Support Enforcement activities. This represents a 16.5 percent reduction in General Fund support.
- Substitute federal funds in fiscal 2003 for state support for at-risk child care subsidies to working parents of school age children.
- Use TANF funding to replace state funds to support Community Action Agencies.
- Use TANF funds to support the Healthy Families and Hampton Healthy Start projects.
- Substitute pre-K funding for General Fund match of \$3 million in fiscal 2003 and \$3.4 million in fiscal 2004 in the child care program. The Department used data from the Virginia Department of Education to verify eligibility for this funding.

AGENCY OPERATIONS

During fiscal year 2002, the Department automated food stamp operations, improved child support collections, and implemented cost savings and revenue enhancement initiatives. This section of the report discusses the status of these activities.

Food Stamp Program – Electronic Benefits Transfer

The U.S. Department of Agriculture's Food and Nutrition Services (FNS) required that all states discontinue use of food stamp coupons and develop an electronic method of providing food stamp benefits to recipients by October 1, 2002. The term for this automated system is Electronic Benefits Transfer (EBT). In January 2001, the Department contracted with CitiCorp Electronic Financial Services, Inc. to design, develop, and operate a statewide EBT system in Virginia. By July 2002, the Department started using EBT statewide. The timeline below details the major milestones of Virginia's implementation of EBT.



The Department agreed to pay approximately \$40 million to CitiCorp over the life of the contract ending September 2006. In exchange, CitiCorp agreed to develop and maintain an EBT system to process transaction requests, maintain recipient account and transaction history data, initiate and perform daily financial settlement and account reconciliation, and produce system activity and performance reports. In addition, CitiCorp would train eligible recipients and department staff, issue EBT cards and personal identification numbers, provide customer service, manage retailer's access, and system security. Local social service offices will continue to use the Application Benefit Delivery Automation Project (ADAPT) system to electronically determine eligibility for food stamps and will also perform customer service and card issuance functions. As of October 2002, there were 152,000 active food stamp cases.

It is essential that Central Office regularly monitors the activities of the local offices and CitiCorp to verify compliance with federal program requirements to avoid any liabilities arising from the local offices and Citicorp's operation of the program. While reviewing the Department's policies and procedures for EBT operations, we found a lack of program monitoring in instances where local offices could not achieve a proper separation of duties.

**Follow EBT Policies and Procedures and
Provide Separation of Duties for EBT Users**

The Department does not have adequate separation of duty controls for establishing and maintaining the new Electronic Benefits Transfer (EBT) cards. The same individual that has physical access to the vault cards can issue a PIN, create a card account, and make changes to the accounts. Furthermore, there is no review process currently in place for monitoring and determining if there have been any improper or inappropriate transactions.

The Department has policies and procedures in place that specifically focus on the importance of separation of job functions. However, in some cases there is no separation of duties at the smaller local agencies, and we also found similar situations in the larger agencies throughout the state. This could lead to fraudulent use of the EBT cards, and risks of allowing authorized users to make unauthorized worker transactions, which could lead to questioning the integrity of the Food Stamp program.

The Department should re-evaluate the internal controls established for issuing and maintaining the EBT cards. We recommend that the Department evaluate the number of backups needed, and the level of access needed to complete specific tasks. As of September 2002, the Department made some progress in this area by reducing the number of individuals with dual access and by initiating the development of program monitoring procedures. We recommend the Department establish a method for monitoring user transactions as soon as possible.

Child Support Enforcement

The Department's Division of Child Support Enforcement (DCSE) issues and enforces child support and medical support orders, establishes paternity, and collects and distributes child support payments. The division performs these functions through 22 district offices located throughout the state. DCSE uses a variety of methods to enforce child support orders such as wage withholding, seizure of assets, suspension of drivers' licenses, and state and federal income tax offsets.

For several years, DCSE has implemented new performance management strategies that have resulted in an increase in overall collections. DCSE collected and distributed a record \$474 million in child support during fiscal year 2002. The following table shows the total collections and caseload data over the last three years.

	2000	2001	2002
TANF collections	\$ 36,604,425	\$ 36,827,538	\$ 38,108,181
Non-TANF collections	<u>354,500,084</u>	<u>399,157,022</u>	<u>435,849,735</u>
Total collections	<u>\$391,104,509</u>	<u>\$435,984,560</u>	<u>\$473,957,916</u>
TANF cases	88,535	84,382	85,385
Non-TANF cases	306,483	297,326	287,449
Other cases	<u>6,604</u>	<u>7,460</u>	<u>8,088</u>
Total caseload	<u>401,622</u>	<u>389,168</u>	<u>380,922</u>

Source: APECS Monthly Caseload Report

Frequently, DCSE receives payments from an unidentified source. As part of its collection process, DCSE generates a list of unidentified payments and attempts to identify the payee. It is the Department's policy to resolve these instances within 30 days in order to reduce delays in payments to custodial parents. However, we found instances where payments were unresolved for more than nine months.

Resolve Unidentifiable Child Support Payments Timely

The resolution of unidentifiable child support payments is a difficult problem, however, the Department has set as its goal the identification and resolution of support payments within 30 days. We selected ten unidentified payments from a population of 302. We found that all ten of the payments went beyond the Department's goal and one was outstanding for 22 months. Managers should reemphasize the Department's goal in this area and develop a process to age and follow up on all payments over 90 days at least quarterly.

In fiscal year 2002, administrative costs for child support enforcement totaled \$75.5 million. The federal and state government paid \$46.8 million and \$28.7 million, respectively, to support these activities. The table below shows the Commonwealth's income and expense information for fiscal years 2001 and 2002, in addition to projected amounts for 2003 and 2004.

	Actual 2001	Actual 2002	Projected 2003	Projected 2004
Income				
Incentive payments for collections	\$ 6,600,000	\$ 6,600,000	\$ 8,000,000	\$ 8,000,000
State share of retained collections	<u>17,580,727</u>	<u>18,314,658</u>	<u>18,898,271</u>	<u>19,465,219</u>
Total income	<u>24,180,727</u>	<u>24,914,658</u>	<u>26,898,271</u>	<u>27,465,219</u>
Expenses				
State share of operating expenses	(23,479,063)	(23,991,377)	(24,506,179)	(24,877,978)
\$50 disregard payments	(2,732,191)	(3,075,170)	(3,225,779)	(3,387,068)
Other expenses and adjustments	774,831	(1,623,753)	(279,729)	(90,111)
Prior year incentive award remaining	<u>-</u>	<u>-</u>	<u>5,480,063</u>	<u>5,480,063</u>
Total expenses and other adjustments	<u>(25,436,423)</u>	<u>(28,690,300)</u>	<u>(22,531,624)</u>	<u>(22,875,094)</u>
Net profit/(loss)	<u>(\$ 1,255,696)</u>	<u>(\$ 3,775,642)</u>	<u>\$ 4,366,647</u>	<u>\$ 4,590,125</u>

Source: APECS and various financial reports

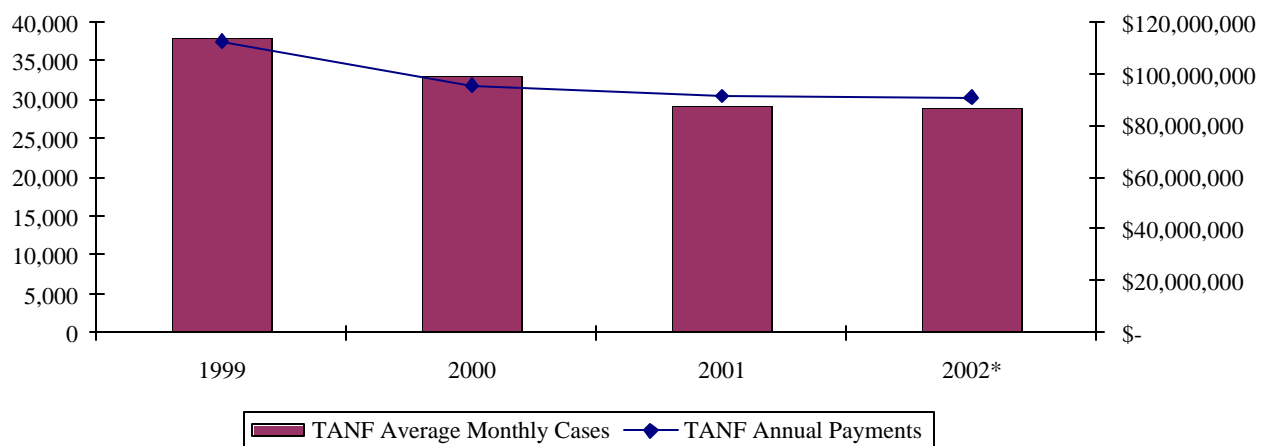
The Commonwealth absorbed deficits in fiscal years 2001 and 2002. Changes to federal laws and regulations caused the Department to experience these budget deficits and increased long-term budget instability. Federal law now requires states to provide past-due child support payments to custodial parents who are former welfare recipients. Additionally, the state does not retain the full child support payment received from non-custodial parents for TANF recipients. Custodial parents receiving TANF benefits receive up to \$50 of their current child support payment in addition to receiving their benefits. Previously, the Commonwealth retained support payments as an offset to welfare payments.

During fiscal year 2003, DCSE received a \$16.9 million prior year incentive award from the federal Office of Child Support Enforcement for meeting federal performance measures. The incentive award was included in the financial report and accounts for the projected gains in fiscal years 2003 and 2004.

Temporary Assistance For Needy Families

The Temporary Assistance for Needy Families (TANF) program is part of the welfare reform efforts. TANF provides time-limited assistance to needy families with children so that the children can be cared for in their home or in the homes of relatives. Currently, the average monthly assistance under the TANF program is \$260. The following graph shows TANF activity over the last four years.

TANF Activity 1999-2002



Source: Virginia Department of Social Services Information Resource Book

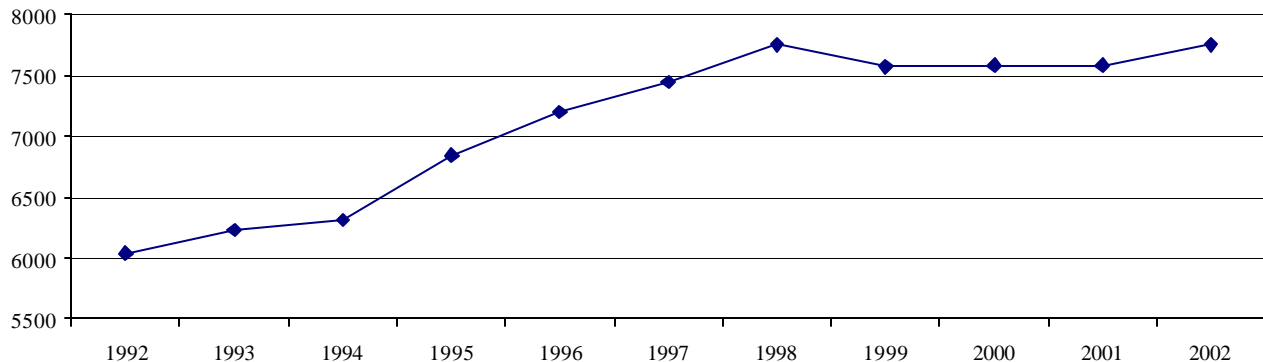
**Note: Cases and payments annualized based on July through November.*

A family may receive TANF benefits no longer than 60 months. The first TANF recipient will reach this 60-month limit in January 2006. The ADAPT system is monitoring this limit by tracking the number of payments made to each recipient.

Foster Care

The Foster Care program is a locally-administered program that receives federal and state funding. Foster Care provides safe, appropriate, 24-hour, substitute care to children who need temporary placement and care outside their homes. The federal government pays the state 75 percent for training costs, 50 percent for administrative costs, and 51.4 percent for all other costs. Total foster care cost in fiscal year 2002 totaled approximately \$146 million. Below is the program activity since 1992.

Children in Foster Care



State and local governments incur significant costs in administering the Foster Care Title IV-E program. While the federal and state governments provide cost support for foster care, many local governments incur additional costs to support the program, which they did not claim for reimbursement.

The federal government allows state and local governments the opportunity to review and determine if they have received the maximum reimbursement under the Foster Care Title IV-E program. Under this process, the recipient government reviews both its direct and indirect costs, as well as any previously excluded costs to determine if they could have received additional reimbursement, which the Department refers to as “revenue maximization.” Currently, there are about 62 localities that participate in the revenue maximization process.

The Department assigns staff to work with the localities to identify eligible costs, request federal reimbursement, and distribute the money to the locality. Under this process, the Department paid localities approximately \$17 million in additional federal reimbursement in fiscal 2002.

Information Technology System Initiatives

The Department made progress implementing several information technology initiatives. These initiatives include enhancing existing applications, upgrades, and incorporating new applications. The following sections discuss initiatives that impact Medicaid eligibility determination, provider licensing, and the Department’s financial accounting system.

Medicaid Module

In fiscal 2002, the Department developed a Medicaid eligibility module in the ADAPT system. The module enables local social service agencies to electronically determine if an individual qualifies for Medicaid benefits. This greatly improves the efficiency of Medicaid eligibility determination. It also reduces risks associated with a manual process. In March 2002, the Department began using the Medicaid module to determine eligibility for individuals in the Families and Children population in Newport News. Newport

News staff will assist the Department with implementing this module statewide by training each of the remaining local social service agencies. The Department estimates that the entire state will be using the new Medicaid module by August 2003.

Currently, the Department is delaying the development and implementation of the Aged, Blind, and Disabled and Long-term Care populations for Medicaid since it has other priorities impacting the on-going development of ADAPT. As a result, eligibility for these two populations will continue to use manual processes. The Families and Children population will add about 250,000 cases to ADAPT. The Department anticipates it will add another 200,000 cases when it adds the Aged, Blind, and Disabled and Long-term Care populations. The Department estimates spending \$1.3 million for this initiative.

New Licensing System

The Department purchased the commercially-available LicenseEase software for warehousing and reporting data about the Child and Adult Daycare programs. The Department calls the new licensing system the Division of Licensing Programs Help and Information system (DOLPHIN). KPMG Consulting, Inc. is installing the system and modifying it to meet the Department's needs. DOLPHIN will allow field inspectors to update the system from remote hand-held terminals by modem or network when conducting inspections of licensed daycare providers. The system will also generate a report for the inspected site. The Department anticipates that the total cost of the system will be \$1.24 million. The Department expects to have the system on-line across the state in March 2003.

Financial Accounting Analysis System Upgrade

In June 2002, the Department completed the upgrade to version 11i of its Financial Accounting and Analysis System (FAAS). FAAS is the Department's system for federal reporting used by central, regional, and district staff. This upgrade required no customizations and includes the installation of the accounts payable, purchasing, and general ledger modules. The Department also plans to include a grant and contract-tracking module in 2003.

While auditing the Department's systems environment, we found that the Department has not updated its information technology security plan to correspond with system changes.

Comply with the Commonwealth of Virginia (COV) Information Technology Resource Management (ITRM) Standard 2000-01.1

The Department has not updated its Business Impact Analysis and Risk Assessment since May 1999 and September 1999, respectively. The lack of an updated Business Impact Analysis and Risk Assessment prohibits the Department from identifying new and unknown vulnerabilities that may affect critical and sensitive information systems.

Additionally, the Department's Business Continuity Policy does not assign accountability for each division, regional, and district office for updating, testing, and submitting plans to Central Office.

The Department should update its Business Impact Analysis and Risk Assessment in accordance with COV ITRM Standard 2000-01.1 to ensure that the plan considers new threats and vulnerabilities and identifies ways to mitigate potential risks. In addition, the Department should update policies to assign responsibility to a division within Central Office to ensure that someone is updating and testing the plans on an annual basis by all division, regional, and district offices.

OTHER INTERNAL CONTROL WEAKNESSES AND COMPLIANCE FINDINGS

In addition to the previously identified findings, we found six other internal control weaknesses and compliance findings.

The federal government requires states to participate in a nationwide data exchange initiative with other federally-assisted benefit programs. The Department must exchange income and benefit data when making eligibility determinations for federally-assisted benefit programs. The purpose of these measures is to increase the accurate determination of benefit amounts and reduce the occurrence of overpayments. We found that the Department is not in compliance with the federal TANF program Income Eligibility Verification System (IEVS) requirement.

***Improve Usage of the Income Eligibility Verification System**

The Department does not use the Income Eligibility Verification System (IEVS) to determine eligibility for TANF recipients.

According to Section 1137 of the Social Security Act, the Commonwealth must coordinate data exchanges with other federally-assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. IEVS is the means by which the Commonwealth will meet this requirement. The Department currently verifies recipient eligibility using only the Virginia Employment Services and other internal resources.

The Department is attempting to integrate IVEs into ADAPT, which is the Department's new system of record for the TANF program. The Department is currently testing the first component of IVEs at three local agencies for a planned statewide implementation in January 2003. The Department plans to add, test, and implement three additional components to the system during December 2003. The Department should continue its development of IEVS into the ADAPT system.

The Department's Office of General Services (OGS) is the centralized purchasing unit that is responsible for the procurement of goods and services on behalf of the agency. This office is also responsible for maintaining and recording its fixed assets in the Commonwealth's Fixed Asset Accounting and Control System (FAACS). In fiscal year 2002, the Department reported \$8.1 million of capital assets in FAACS.

***Properly Maintain Capital Assets on the Fixed Asset Accounting Control System**

The Department does not perform physical inventories as required by the Commonwealth Accounting Policies and Procedures (CAPP) Manual, Section 30500.

The Department should perform inventories at least once every two years or more frequently, if warranted. When conducting inventories, staff should bring to management's attention surplus, as well as unrecorded items, so that OGS can make the appropriate adjustments on FAACS. Inventory procedures should also include verification from the inventory listing to determine physical existence of listed assets. When performing inventories, the Department should verify the asset's responsible party, location, and status.

The Division of Finance is responsible for the Department's cash receipting processes. Division personnel receive cash and record the transactions to the FAAS system. In accordance with the CAPP manual procedures, "all state receipts are to be deposited on the day received or no later than the next banking day."

***Improve Internal Controls for Cash Receipting**

The Department does not consistently follow good internal control practices over revenue processing. Audit test work revealed the following:

- Checks are not immediately logged into the newly implemented access database.
- Unendorsed checks are not properly secured.
- Receipts are not deposited timely.

The Department should update the documented internal policies and procedures to clearly define the revenue receipting process. The Department should ensure checks are immediately secured until deposited and receipts are deposited timely in accordance with CAPP manual, Section 20205.

The Division of Finance and the Division of Human Resource Management (DHRM) share responsibilities for processing payroll and fringe benefit transactions. The Payroll Unit within the Division of Finance performs payroll processing. DHRM provides support, training, guidance, and consultative services to management, supervisors, and employees of state and local departments of social services on human resource and benefit administration-related issues.

Improve Internal Controls Over CIPPS Access

The Department did not delete three terminated payroll employees' access to the Commonwealth's Integrated Payroll/Personnel System (CIPPS) from one to three months after the employees' last day. In addition, a Human Resource employee had access to CIPPS for two years after a change in job responsibilities, which no longer required access to CIPPS.

CAPP manual, Section 50210 requires the CIPPS security officer to ensure that adequate internal controls exist within the agency to prevent unauthorized access to CIPPS. As a result, the CIPPS security officer must delete each logon ID upon an employee's termination. In addition, the CIPPS security officer must ensure that access is necessary based on an employee's job responsibilities.

A lack of proper internal controls over CIPPS access exposes the agency to the potential risk of unauthorized changes to sensitive employee payroll data. The Department should delete payroll system access upon employee termination, review access in relation to an individual's job duties, and periodically review all employee access to determine that employees have the appropriate access.

***Enhance Communication Between Human Resource Department
and Payroll Department Regarding Employee Status Changes**

The Department is not adequately communicating changes in employee status between the Human Resource and Payroll Departments timely and/or effectively. Auditors found the following during audit test work:

- Employee records entered in CIPPS, but not in the Benefit Eligibility System within the same period.
- Eight employees shown on the CIPPS terminated employees listing, but not on PMIS.

These instances resulted in inaccurate health insurance premiums payments for 10 out of 20 employee's tested, payroll overpayments, and inconsistent recording of employee data in the CIPPS and PMIS/BES systems.

The Department should continue to examine deficiencies in the procedures for communicating and reporting employee data that would enable the Department to reduce or eliminate monthly health insurance premium reconciling items, payroll overpayments, and inconsistent reporting between the CIPPS and PMIS/BES systems.

The Division of Information Systems (DIS) uses the Time Activity Project & Expense Reporting System (TAPERS) to record the timesheets for DIS employees. The Division of Finance uses TAPERS to allocate DIS information technology costs to the appropriate federal programs for federal reimbursement. However, we found that the information in TAPERS may not be complete or reliable.

***Improve Use and Maintenance of the TAPERS System**

Incomplete or inaccurate information entered or maintained in this system may result in incorrect allocation of costs or missed opportunities to maximize federal reimbursement for information technology expenses. Our test work noted the following instances:

- Terminated employees remain on the TAPERS system.
- Approved and unapproved timesheets for the same pay period remain on the system. Once approved, the approver or the system does not delete the unapproved timesheets.
- Leave shown as taken in TAPERS, but there is no record of the person taking leave. In addition, TAPERS shows employees taking leave while at the same time charging labor hours.
- Some DIS employees are not recording time in TAPERS at all.
- Employee leave time taken and recorded records shows no supervisory review.

DIS supervisors should ensure employees properly record their time in TAPERS by reviewing timesheets for accuracy and verifying leave time taken to leave recorded in the system. Supervisors should resolve any discrepancies in leave with each cost center leave coordinator. Lastly, DIS should ensure proper system maintenance by requiring supervisors to remove duplicate timesheets and terminated employees.

January 24, 2003

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

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Social Services** for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Federal Grants	Revenue
Expenditures	Payroll
Accounts Payable	Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

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

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are shown as bordered items and discussed throughout the report. We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance are also bordered and discussed throughout the report.

The Department has not taken adequate corrective action with respect to five of the previously reported findings. Accordingly, we included these findings in the report. The Department has taken adequate corrective action with respect to 21 audit findings reported in the prior year that are not repeated in this report.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 5, 2003.

AUDITOR OF PUBLIC ACCOUNTS

CPS/kva
kva:

DEPARTMENT OF SOCIAL SERVICES
Richmond, Virginia

Maurice A. Jones, Commissioner
(as of October 10, 2002)

Ray Goodwin, Acting Commissioner
(until October 9, 2002)

BOARD MEMBERS

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