

AUDIT SUMMARY

Our audit of the Department of Social Services for the year ended June 30, 1998, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- no material weaknesses in the internal control structure and its operation; however, we did find certain matters that we consider reportable conditions; we also noted risk factors associated with Social Services' systems that we explain in detail in the section entitled "Status of Information System Initiatives."
- instances of noncompliance with the selected provisions of applicable laws and regulations; and
- corrective action of prior audit findings, except for the findings listed on page 2 and detailed on pages 3 through 4.

Our audit findings include the following issues that we explain in detail in the section entitled "Internal Control and Compliance Findings and Recommendations." The Department of Social Services should:

- Follow Procurement Law and Policy
- Properly Include Mandatory Language on Foster Care Court Orders
- Properly Charge Payroll to Federal Programs
- Standardize APECS Program Change Procedures
- Delete Benefits Eligibility System (BES) Access Timely

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February 20, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
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, 1998. We conducted our audit in accordance with generally accepted government auditing standards, and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to review Social Services' accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, adequacy of the internal control structure, and compliance with applicable laws and regulations. We also reviewed the Department's corrective action of prior year audit findings.

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.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures 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 an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We found that Social Services properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department's 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 came directly from the Commonwealth Accounting and Reporting System and several internal Department systems.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, 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. These reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations found issues of noncompliance that we are required to report herein under Government Auditing Standards, and are included in the section entitled "Internal Control and Compliance Findings and Recommendations."

The Department has not taken adequate corrective action with respect to the previously reported finding, "Properly Include Mandatory Language on Foster Care Court Orders". Accordingly, we included this finding in the section entitled "Internal Controls and Compliance Findings and Recommendations."

The Department has taken corrective action with respect to all other audit findings reported in the prior year.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Follow Procurement Law and Policy

The Department of General Services' Division of Purchases and Supply performed a procurement management review of Social Services' purchasing function. General Services' report dated March 31, 1998, noted significant noncompliance with both public procurement law and policies. Noncompliance issues noted were as follows:

- Failure to Seek Competition
- Sole Source procedures not Followed
- Improper Procurement
- Contract Management Lacking and Incomplete File Documentation

Social Services agreed with the findings and developed corrective action plans. Social Services needs to promptly implement these plans.

Properly Charge Payroll to Federal Programs

Two out of five Division of Information Systems employees tested failed to enter all hours worked in the Time Tracking System. The Time Tracking System allocates payroll expenses to Federal programs each quarter. Incomplete or inaccurate information in this system improperly allocates costs. This resulted in questioned costs of \$41,628.

45 CFR Part 74.22, "Allowable Costs," requires states to determine allowable costs in accordance with OMB Circular A-87, "Cost Principles for State and Local Governments." These principles require appropriate time and distribution records to support salaries and wages of employees chargeable to more than one grant program or other cost objective.

The Division of Information Systems should ensure all employees properly record their time in the Time Tracking System. Supervisors should review and approve the information in the system for accuracy and completeness and document this work. The Division of Finance should confirm all Information System employees have recorded their time before preparing the quarterly cost allocation.

Properly Include Mandatory Language on Foster Care Court Orders

Eligibility for the Foster Care program is determined at the Social Services localities. In testing the foster care cases, we found the following errors:

- Local Social Service agencies did not include the required language on the initial court order for 4 of 20 (20 percent) foster care cases tested (Foster Care – Title IV-E, CFDA # 93.658). The four judicial determination cases did not contain the language in the court order to indicate reasonable efforts were made to prevent removal of the child from the home and that the child remaining in the home would be contrary to his/her welfare. None of these cases had "Nunc Pro Tunc" orders to correct this error. However, the Department corrected the court orders when the auditors brought this to their attention. We will not question these costs.

- Local Social Service agencies did not properly re-determine eligibility for IV-E Foster Care payments for 3 of 20 (15 percent) foster care cases tested (Foster Care – Title IV-E, CFDA # 93.658). The three case files in question did not contain the IV-E eligibility re-determinations required by federal regulation to justify foster care payments. Upon bringing this matter to the attention of the Department, staff preformed retroactive re-determinations to correct this error. We will not question these costs.

42 U.S. Code Section 672(a)(1)(4), “Foster Care Maintenance Payments Program” states that if a child is removed from the home as a result of a judicial determination, the court order must contain language to the effect that the child’s remaining at home would be contrary to his/her welfare and that reasonable efforts have been made to prevent removal.

45 CFR Section 206.10 (a)(9)(iii), “Application, Determination Eligibility and Furnishing Assistance – Public Assistance Programs” states that where an individual has been determined to be eligible, eligibility will be reconsidered or re-determined periodically, within agency established time standards, but not less frequently than every 12 months.

The Department should continue to work with court officials and local case workers to ensure that proper language is included in the court orders, and that eligibility re-determinations are made timely.

Standardize APECS Program Change Procedures

The Department of Social Services should document and implement standard program change procedures for modifying APECS system modules. The auditor could not trace program changes from request through modification, testing, compilation, and implementation. Exceptions were noted as follows:

- No documentation of end user sign-off on testing for 4 of 20 changed program modules.
- No analyst approval for 3 of 20 changed program modules.
- No migration sheet for movement back to production for 7 of 20 changed program modules.

Additionally, the auditor had difficulty in cross-referencing program change documentation. Programmers used various methods of tracking and migrating program changes, making it difficult to determine what documentation was necessary or if documentation existed. This lack of consistent cross-referencing could lead to unauthorized changes if management is unable to verify proper authorization, testing, compilation and migration of critical program modules to production environments.

Delete Benefits Eligibility System (BES) Access Timely

The Division of Human Resources did not delete BES access timely. We found four employees still had access 4 to 6 months after their separation from the Human Resources division.

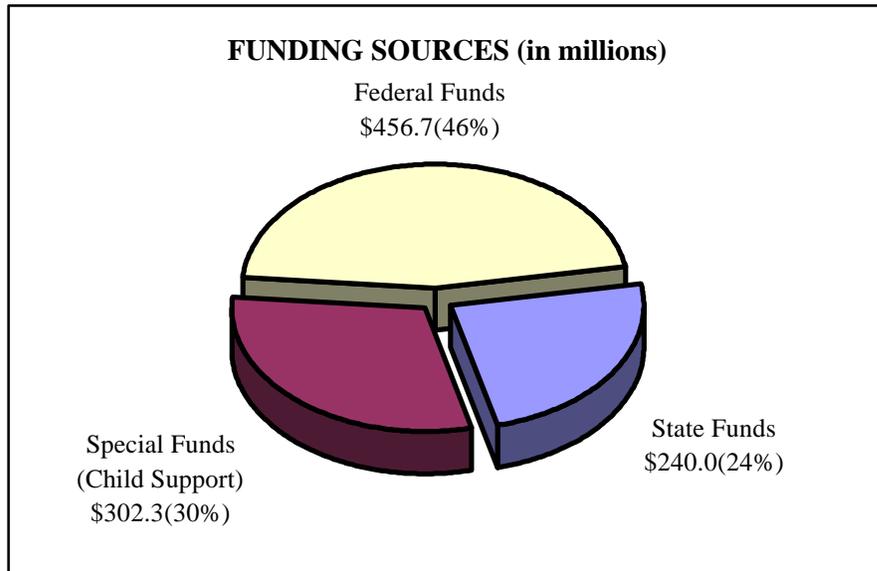
The Division of Human Resources should ensure all sections follow implemented procedures for timely deletion of employee access in order to protect the integrity of benefit data.

FINANCIAL BACKGROUND

Social Services provides welfare benefits and services to eligible recipients. These services include providing assistance to low-income families through the following programs:

1. Temporary Assistance for Needy Families
2. Day Care Services
3. Protection of Children and Adults from Abuse
4. Establishment of Obligations and Collection of Child Support for Custodial Parents
5. Issuance of Food Stamps
6. Eligibility Determination for Medicaid

Social Services provides funds to 123 local Social Services agencies for service delivery and eligibility determination for a variety of assistance programs. Social Services incurred \$999 million in expenses during fiscal year ended June 30, 1998. The charts below show the breakdown of funding sources and expenses by program.



SUMMARY OF EXPENSES AND APPROPRIATIONS BY PROGRAM
 (Source: CARS data and Chapter 924 of Virginia Acts of Assembly)

Program	Appropriation	Budget	Actual	
451	State Administration for Standards of Living	\$28,905,338	\$31,577,114	\$31,496,886
452	Temporary Income Supplement Services	182,231,717	178,224,895	161,566,267
453	Protective Services	41,566,252	46,249,977	45,050,215
460	Financial Assistance to Local Welfare/Social Services Boards for Administration of Benefit Programs	104,473,366	129,425,139	123,045,378
461	Continuing Income Assistance Services	17,173,520	16,573,520	16,152,285
462	Employment Assistance Services	56,090,288	58,300,000	54,931,124
463	Child Support Enforcement	281,193,813	345,141,408	337,612,129
479	Administrative and Support Services	67,049,058	83,678,105	73,090,916
490	Financial Assistance for Individual and Family Services	172,512,957	168,841,797	150,205,129
561	Regulation of Public Facilities and Services	5,853,009	5,949,991	5,818,860

The effects of welfare reform on Social Services' programs have been difficult to predict causing needed adjustments to originally appropriated amounts. As noted above, actual decreases in the Temporary Income Supplement Services Program were greater than expected.

The changes noted in Financial Assistance to Local Social Service Boards reflect a one-time effort to pay central service allocation reimbursements to localities in the same year they incur expenses. Typically, these payments were made a year behind. Therefore, the Department had two years of reimbursements during the fiscal year.

Child Support Enforcement's newest effort to collect past due payments caused increases noted in program 463. The federal government reduced the Social Services Block Grant causing the noted reductions in program 490.

Contingent Liability

Social Services' faces potential federal sanctions totaling \$15.7 million for exceeding acceptable food stamp error rates. Social Services' error rate for the Food Stamps program continues to be well above the national average, 12.97 percent versus the national average of 9.88 percent. Amendments to the Food Stamp

Act of 1977 allow states subject to potential error rate sanctions the option of either a direct repayment to the federal government or a reinvestment in program administration improvements. Social Services opted for the latter and has a settlement agreement with the federal government. It appears Social Services' will incur additional liabilities in Federal Fiscal Year 1998 and must enter another reinvestment agreement. With the implementation and full conversion to ADAPT, worker calculation errors should decrease. Additionally, Social Services is reviewing the Food Stamp eligibility determination process in an effort to find ways to reduce sources of client induced errors.

STATUS OF INFORMATION SYSTEM INITIATIVES

Overview

Social Services operates one of the state's larger and more complex information technology systems. During the past year, Social Services has completed the following tasks:

- Installed statewide digital network linking over 150 remote sites.
- Upgraded local social service agencies desktop technology base to Windows 95, MS Office 97 environment.
- Completed and implemented ADAPT Food Stamps and TANF rule bases.
- Implemented the OASIS Foster Care and Adoption system, providing office automation software for local agency workers that were largely using manual paper tracking systems.
- Provided e-mail services and Internet access between all local agencies, regional offices and central office staff.

The following paragraphs discuss Social Services progress on current system initiatives.

Year 2000 Compliance

Year 2000 (Y2K) issues place Social Services at risk. Social Services has three major systems to carry out the delivery of benefits, services, and child support enforcement. These systems are the Application Benefit Delivery Automation Project, On-line Automated Services Information System, and Automation Program to Enforce Child Support. Social Services plans to incorporate the majority of minor, non-mission critical systems into one of these three systems. Social Services received approval for their Year 2000 plan in December of 1998 from the Century Date Change Initiative (CDCI).

The software and hardware are Y2K compliant; however, case conversion and validation testing remain outstanding issues. Social Services plans to have these resolved by the spring of 1999; although, any unexpected problems could cause Social Services not to meet its deadline. Social Services still has three remaining mission critical systems, which cannot migrate to one of the larger systems and has just begun evaluating compliance.

Social Services' past efforts focused primarily on the information systems aspects of Y2K. This is only one of the five risk areas affected by Y2K. Social Services has performed more work recently on the other four areas; supply chain, data exchange, facilities and embedded technologies, and telecommunications.

In December of 1998, the Department of Social Services hired a consulting firm to assist them in ensuring Year 2000 compliance. The consultant will perform the following tasks.

- Research the business process used by the localities to ensure that the infrastructure providing public assistance will work on July 1, 1999.
- Complete an evaluation of Social Services' supply chain for compliance. This entails evaluating the Accounts Payable process. As Social Services leases the majority of its equipment, this is a critical piece to Y2K compliance.
- Identify and test each of the 125 mission critical exchanges. Social Services has over 200 data exchange ports, many with the Department of Treasury. The consultant, Social Services, and Century Date Change Initiative group are all working with the Department of Treasury to ensure that these exchanges are compliant for the distribution of assistance checks during fiscal year 2000 and beyond.

As of the date of this report, Social Services does not have a contingency plan if their systems remain non-compliant on July 1, 1999. This plan is scheduled for completion in May 1999.

Application Benefit Delivery Automation Project (ADAPT)

The ADAPT system experienced performance problems during the period of this report. During fiscal year 1998, the increased conversion of cases caused the local users to experience slow processing times and complete shutdowns. The diagnosis for the problem was lack of memory on the current mainframe and Unix server. The Department of Information Technology purchased a new mainframe computer with increased memory capacity to resolve these issues. After some initial start-up problems on the new mainframe, ADAPT is currently performing well.

The ADAPT system design seeks to streamline eligibility determination and benefit calculations at local social service agencies for TANF, Food Stamps, and Medicaid and is meeting the project on schedule. Although understaffed, the Department expects to complete case conversions by the end of February 1999. To date, the localities report converting 97 percent of Food Stamp cases and 91 percent of TANF cases. The Department plans the timely conversion of the remaining 7,943 cases. Social Services continues to work on the Medicaid module but has not established a final delivery date.

Social Services scheduled advanced training sessions for localities beginning in February 1999. Current schedules included sessions through July 1999. Social Services received assistance from DIT to staff an ADAPT project technical team. The ADAPT helpdesk continues to field calls from the localities concerning system functions, case conversions, and program modifications.

The ADAPT project is expected to cost a total of \$51 million. Current costs of the system are approximately \$32 million. Social Services received approval from the federal government for its annual Updated Advanced Planning Document.

On-line Automated Services Information System (OASIS)

Social Services has incurred reporting problems with the OASIS system. The federal government requires states to report case figures for the Foster Care and Adoptions programs. The reporting problems have been with the Foster Care program. While Social Services has corrected the majority of the case conversion errors, two errors remain outstanding. These problems have resulted in penalties levied by the federal government totaling \$82,000. Social Services plans to appeal these fines.

The Foster Care and Adoption components of OASIS are operational and staff have updated 90 percent of the cases in OASIS. Social Services is currently making changes to the Child Protection Services component and plans to implement and convert those cases by the end of fiscal year 1999.

The OASIS system is running on an Oracle database using Sybase Powerbuilder to develop the front-end applications. Both of these software packages use a four-digit date field and are Year 2000 compliant. Social Services has tested all of the date fields to ensure that the OASIS system is compliant regarding all software and hardware.

The federal government continues to refuse to pay its Title IV-E 75 percent participation amount of \$7.2 million for the OASIS system. Social Services has been working with the Attorney General's Office, who in-turn has met with the federal government, but has made no progress so far. Social Services has an alternative-funding source to pay for the system.

Automation Program to Enforce Child Support (APECS)

To combat slow user response time, periods of unavailability, and storage limitations, the APECS project team has moved forward with the re-engineering of the system. Working with DIT, the project team purchased new hardware and software to decrease month-end batch processing, eliminating the downtime experienced during normal work hours. Additionally, the team is developing plans to replace the current infrastructure with a relational data base model. The project team is also working on several system changes required by welfare reform. Federal funding is available for the implementation of these changes. Child Support Enforcement uses the APECS system to track financial and case management data, process child support payments, and capture necessary documentation to meet state and federal requirements.

Financial Accounting Automated System (FAAS)

In April 1998, Social Services contracted with Oracle Corporation to install the Oracle Governmental Financial Systems package. Social Services is replacing their financial management system, SSAMS, because it is not Year 2000 compliant. Social Services opted for the standard system with only limited custom changes. Oracle consultants worked on development and testing through July 1998, and in August, went live with the General Ledger, Accounts Payable, and Purchasing modules. Social Services continues to run the old financial system in parallel to ensure the accuracy of transactions and plans to continue this practice until July 1999. Once it determines the system is functioning, Social Services will begin the development of the remaining module, Grants Management, and plan completion for July 1999.

Electronic Benefits Transfer (EBT)

Welfare reform legislation mandates the Commonwealth implement an EBT system to disburse food stamp benefits by October 1, 2002. The biennial budget for July 1, 1998 through June 30, 2000, does not include funding for the EBT system, which will delay the project until July 1, 2000. Federal guidelines for implementing EBT are that they will maintain the level of funding for administration of food stamps consistent with expenses prior to EBT. Recent experience by other states indicates that because of caseload declines this level of funding is not always sufficient. Social Services is working closely with the federal government and other states to ensure proper planning for funding of EBT.

Virginia remains only one of four states that have neither a system already in place nor a signed contract. Social Services has a federally approved Request For Proposal and has submitted a budget language amendment specifying the procurement will be moving forward with specific funding requests to follow in the next biennium. Social Services is going to start the procurement process in the spring of 1999. Social

Services does not have a contingency plan for the delivery of food stamp benefits in the event that the system is not fully operational by 2002.

CHILD SUPPORT ENFORCEMENT

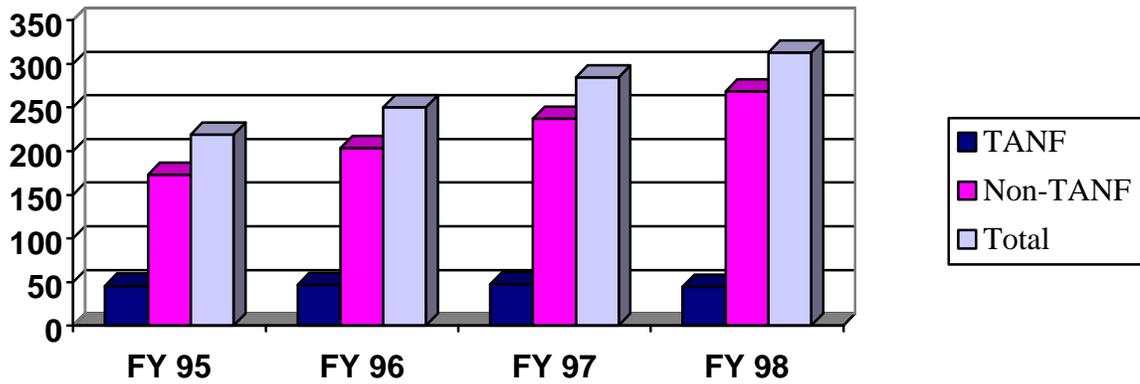
The division of Child Support Enforcement administers and enforces laws requiring parents or other responsible parties to provide financial support to children. Child Support Enforcement has the authority to issue administrative child and medical support orders, enforce those orders, and establish paternity. Child Support Enforcement can enforce orders through administrative wage withholdings, seizure of assets and property, suspension of drivers' licenses, and state and federal income tax offsets. Federal Welfare reform made revisions to the child support statute and restructured the administration of child support. These changes affected everything from paternity establishment rates required to avoid sanctions to the distribution of payments and enforcement methods available. The majority of the changes made by welfare reform will assist the states in collecting payments. However, some of these changes may have a negative impact as described below.

Child Support Enforcement transfers any profit realized to the General Fund. The profit represents the net revenue from child support enforcement collections after all disbursements including the state's share of administrative cost. The profit calculated for fiscal year ended June 30, 1998, was approximately \$1.2 million. This is \$2 million less than the prior year and \$4 million less than fiscal year 1996. The division speculates that this profit will continue to decrease causing the child support program to no longer be self-supportive. With the implementation of Federal welfare reform, disregard payments were no longer mandated, therefore no longer federally funded. The Commonwealth continued to fund this payment resulting in decreased profit. Child Support paid \$4.8 million in disregard payments during fiscal year 1998.

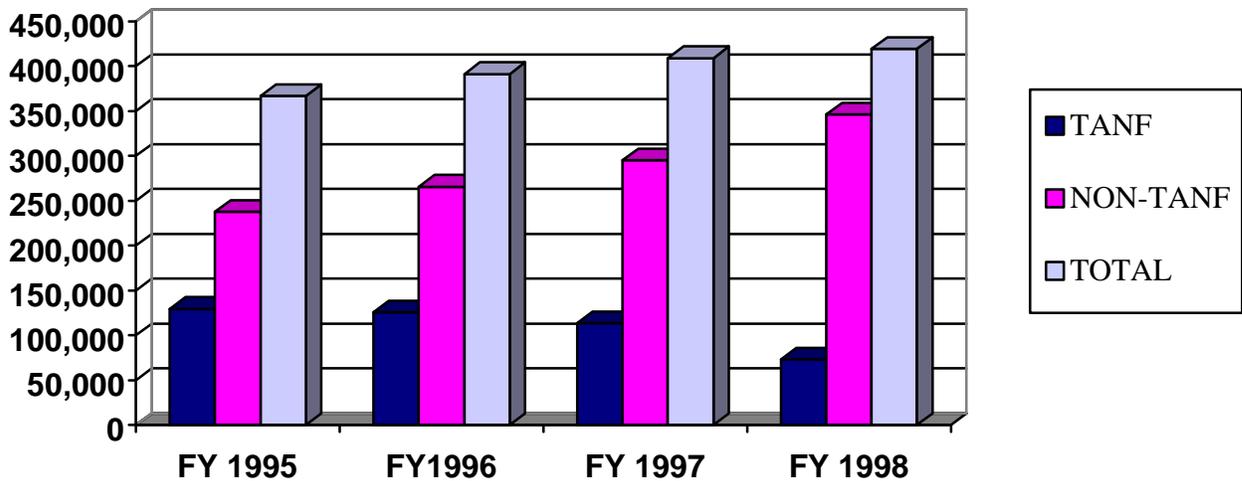
The federal government reimburses the Child Support Division for a portion of the costs associated with operating the program and pays incentives based on the amount of collections. The division retained \$6.8 million in incentives during fiscal year 1998. TANF collections directly affect the amount of incentives received. With welfare reform, the expectation is that TANF caseloads and TANF collections will decrease, hence, causing the incentive payments to decrease. As shown in the following graphs, TANF caseloads are decreasing and TANF collections have only increased slightly over fiscal years 1996 and 1997 with a decrease in fiscal year 1998. The small increases are the net result of more aggressive collection efforts combined with the declining caseloads. The division expects TANF collections to continue declining as the effects of the aggressive collection efforts level off.

(Note: The AFDC program was replaced with TANF in Fiscal Year 97, TANF will be used in the graphs for simplicity)

Collections (rounded to the millions)



Caseloads



Child Support's newest collection effort is the Kids First Campaign created on July 1, 1997. The Campaign tries to collect child support payments from non-custodial parents intentionally avoiding child support payments. Child Support sent out 57,000 letters to delinquent parents offering amnesty from criminal prosecution for a short period of time in order to encourage the non-custodial parents to work with the state to provide children support. As of December 18, 1998, the Kids First Campaign has generated an additional \$42.3 million in support from 34,907 non-custodial parents.

The Division continues to pursue privatization of functions and district offices due to increasing caseloads and the high ratio of cases to enforcement workers. Currently, the division has four full-service privatized offices serving the localities of Chesapeake, Hampton, Arlington, and Alexandria.

BENEFITS AND SERVICES

Caseload Data

Social Services attributes the changes in caseload data to the implementation of welfare reform initiatives. However, due to the economy being in such good condition, it is difficult to determine exactly the cause for the decrease in caseloads.

<u>As of June 30,</u>	<u>TANF</u>	<u>Foster Care</u>	<u>Medicaid</u>	<u>Child Day Care</u>
1994	74,457	6,313	331,240	N/A
1995	70,403	6,841	348,298	18,312
1996	62,876	7,201	356,506	22,651
1997	50,814	7,446	349,440	21,981
1998	44,091	7,756	338,733	25,505