



Performance Audit

Effectiveness of Controls

DSS

Durham County Internal Audit Department

June 14, 2016



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Audit Committee:
Harrison Shannon
Brenda Howerton
Michael Page
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June 14, 2016

Michael Becketts,
Social Services Director

Dear Mr. Becketts:

The Internal Audit Department has completed its audit of controls put into place to correct findings in the 2015 Single Audit Report. The audit focused on determining if the controls were effective in correcting the issues discovered in the Audit.

We identified errors similar to errors identified in the Single Audit, however; we do not believe the controls are ineffective, but that other factors play a major role in the occurrence of errors. Controls are both detective and preventive and we believe they are adequate to detect errors in a reasonably timely manner if DSS vigorously adheres to them. However, employee turnover and manual data entry are inherent risks that make it likely that mistakes and omissions will occur. We encourage continued implementation of the controls to keep errors to a minimum and timely identification and correction when they occur.

Paul Mason and Kierra Simmons were auditors assigned to the engagement. We appreciate the Department of Social Service's team for its cooperation and assistance in completing the audit.

Sincerely,

Richard Edwards,
Internal Audit Director

CC: County Manager,
DSS Board
Audit Oversight Committee,
George Quick, Finance Director
BOCC

INTRODUCTION

Entities that receive federal funds are subject to audit requirements that are commonly referred to as single audits. Such audits, required under the Single Audit Act Amendments of 1996, are intended to promote sound financial management, including effective internal control, with respect to federal awards administered by state and local governments and not-for-profit organizations. Guidance for these audits are communicated through the Office of Management and Budget (OMB) Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," (Circular A-133). The State of North Carolina has similar statutes for funds it provides. Durham County's single audit is conducted concurrently with its annual financial audit and the single audit report, titled, *Schedule of Expenditures of Federal and State Awards*," is a separate report.

In the 2015 report, Durham County's audit resulted in seven negative findings, an increase of five from the previous reporting period. Although the findings were not materially significant, they were cause for concern by the County's Financial Officer and he requested Internal Audit to review the effectiveness of controls implemented to correct the findings. Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards. The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives.

Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our fieldwork for the audit engagement between March 7, 2016, and April 26, 2016. The objective of our audit was to determine if control procedures put in place to correct findings identified in the fiscal year 2015 Single Audit are effective in eliminating the issues identified in the audit report. The audit was not to highlight errors we identified but only to determine if the controls are effective. To make this determination, we:

1. Reviewed program statutes, policies and instructions.
2. Reviewed administrative directives, departmental policies, and procedures.
3. Reviewed randomly selected case files.
4. Reviewed processes for cases we reviewed
5. Interviewed supervisory and management personnel.

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2011, p.17.

6. Reviewed the control processes for cases we review to determine if the control was complete or directly addressed the issues discovered in the single audit.
7. Conducted research to determine best practices for controls.

BACKGROUND

The NC Division of Social Services, provides direct services to North Carolinians that address issues of poverty, family violence, and exploitation. The Division's statement said it aims to prevent abuse, neglect, and exploitation of vulnerable citizens, and promote self-reliance and self-sufficiency for individuals and families. Durham County's Social Services Department (DSS) has further clarified in the *County's Fiscal Year 2015-2016 Approved Budget* that "the mission of the Department of Social Service is to partner with families and communities in achieving well-being through prosperity, permanence, safety, and support." The department accomplishes its mission via several programs established and overseen by the State and DSS Board. Each program has eligibility requirements and the department is responsible for determining eligibility and correct payments. DSS uses Federal, State, and local funds to accomplish its mission.

To assure programs comply with State and federal requirements, entities that receive \$750,000 or more of federal and state funds are audited each year as a requirement established by the U.S. Office of Management and Budget (OMB) Circular A-133 and the State Single Audit Implementation Act. The purpose of the audit is to ensure recipients of government funds comply with requirements regarding use of money and management controls for the same. For example, each federal agency that gives out grants outline specific items it feels are important for recipients to meet to ensure the successful management of the program and alignment with legislative intent.

Durham County's Department of Social Services Audit for the year ended June 30, 2015 resulted in identifying seven instances of non-compliance. These instances of non-compliance were identified in several programs. The programs were:

1. Medical Assistance
2. Children's Health Insurance
3. Subsidized Child Care
4. Crosscutting (This is not a program, however; it relates to accounting for time expenditures for all programs.)
5. State and County Special Assistance

Although the 2015 Audit did not report that any of the findings were material, the increase in the number of findings led Internal Audit to review the effectiveness of the control put in place to address the issues.

FINDINGS AND CONCLUSIONS

This audit focused on the effectiveness of management controls implemented by DSS as a result of findings identified in the 2015 Single Audit. During our audit we found that controls put in place by DSS to correct the 2015 Audit findings consisted of two elements, preventative and detective. We do not believe the preventive elements of the controls are effective in preventing errors because we identified eleven incidents similar

to those identified in the 2015 Audit Report. However, we believe the detective controls will be effective by facilitating identification and timely correction of errors and we encourage their continued use. Controls that assure timely identification and correction of errors are considered successful controls. We saw evidence that DSS supervisors were identifying some errors through the use of its newly implemented detective controls.

We identified one newly implemented control that did not entirely address the targeted problem. In that instance the auditors identified a case under the State/County Special Assistance program in which the file did not show income verification. The criteria states that verifications are to take place at initial application, recertifications, and when life changes occur. The corrective action addressed only the occurrence at recertification. We recommend that DSS revise the corrective action to include all three of the specific verification points.

As in the Single Audit Report, we do not believe the eleven incidents we identified significantly affected DSS's financial operations. We believe the types of incidents we identified are likely to re-occur because DSS operations rely heavily upon manual input and intervention. Single audit and internal audit discussion of the findings are on the last page of this report.

Newly implemented controls are not likely to stop the occurrence of errors

Newly implemented controls are not likely to prevent DSS processing errors from occurring. Controls provide a means for preventing or minimizing errors, irregularities, and illegal acts, however; controls do not assure that errors or adverse events will not occur. When operating properly, controls mitigate the risk of adverse events and facilitate their discovery in early stages if they occur.

Internal controls:
Promote orderly, economical, efficient, and effective operations.
Produce quality products and services consistent with the department's mission.
Safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud.
Promote adherence to statutes, regulations, bulletins, and procedures.
Develop and maintain reliable financial and management data and accurately report that data in a timely manner.

DSS's control processes are likely to identify errors timely because the process is primarily one of supervisory oversight. That oversight, which is detective in nature, provides process reminders to case workers and, as a final backstop, supervisors review completed cases to determine if they contain errors. Done monthly, the controls call for supervisors to test several dozen cases for accuracy and completeness. The control processes are likely to identify errors timely if supervisors rigorously and consistently adhere to them. This will allow for timely correction. Therefore, internal audit believes the controls have potential to be effective in detecting and correcting errors.

Internal audit does not believe the preventative aspect of the controls will be effective because of other factors. Inherent

risks such as high turnover and manual data entry exist within DSS's operation. For example, 441 full time employees were on board at the end of fiscal year 2015. The employee turnover rate for that year was approximately 11.6 percent or 51 employees. New employees frequently coming on-board and being trained have a high likelihood of making errors. Additionally, much of the case processing require employees to make at least one entry into the data system. These inherently risky factors can result in errors, however; the "case review" control will facilitate identification and timely correction of errors.

In summary, Internal Audit, believes DSS service providers will make some errors while providing services because of the factors discussed above. Internal Audit also believes DSS can timely identify and correct errors if implementation of controls continue. Internal Audit encourages DSS to vigorously continue with its monitoring efforts as well as the processes it has implemented to remind case workers of appropriate actions.

Internal Audit did not Identify Major Errors

We identified eleven errors or omissions in our sample of 116 randomly selected cases. Although the number of errors we identified was approximately ten percent of the cases reviewed, we did not find any ineligible clients receiving benefit payments. For example, late recertifications did not equate to ineligible recipients, although late recertification is inappropriate and runs the risk of ineligible clients receiving benefits. However; in this case the late recertifications did not result in payment to ineligible recipients. In another example, we identified two cases in which we did not find evidence of timely recertification in the file. The records indicated the clients were eligible for benefits. Similar results occurred for all the cases with errors; ineligible clients are overpayments did not result from the errors.

Again, Internal Audit encourages DSS to continue its monitoring efforts as well as the processes it has implemented to remind case workers of appropriate actions. Monitoring efforts should identify errors timely.

Durham County Single Audit does not Stand Apart From Other Counties

Durham County's 2015 Single Audit results do not appear to be out of line with audit results in other counties. The following exhibit compares the number of findings for each program we reviewed. As the exhibit shows, all counties did not have findings in each program.

Exhibit 1
Comparison of Single Audit Findings in Five Counties

PROGRAM NAME	Durham ² County	Forsyth County	Guilford County	Mecklenburg County	Wake County
Adoption Assistance	0	0	0	3	0
Children's Health Insurance Program	2	0	0	2	1
DSS Crosscutting	2	2	0	1	2
Low-Income Energy Assistance	0	1	0	0	0
Medical Assistance	1	1	2	3	1
NC Health Choice	0	1	1	0	0
State/County Special Assistance	1	2	0	2	0
Subsidized Child Care	1	0	0	0	0
Temporary Assistance for Needy Families	0	2	2	3	0
Total	7	9	5	14	4

Source: Compiled from financial reports from the counties mentioned.

The above exhibit demonstrates that although the number of findings increased from fiscal years 2014 to 2015, the number of findings were not out of line with other

Internal controls cannot eliminate all errors and irregularities, but they can alert management to potential problems.

counties that provide services under these federal and state programs. Again, we believe the controls are reasonable based upon the number of staff involved, the numbers of clients served and cases processed, and DSS's employee turnover rate.

RECOMMENDATION

One of DSS's control activities did not address the entirety of the problem. In that instance the auditors identified a case under the State/County Special Assistance program in which the file did not show income verification. The criteria states that verifications are to take place at initial application, recertifications, and when life changes occur. The corrective action addressed only the occurrence at recertification.

² For a summary of each finding and results of Internal Audit's review of corrective actions, please see appendix 2.

Internal Audit recommends that DSS revise the corrective action to include income verification at (1) initial application, and (2) life changes as well as during recertification.

Appendix 1: Department Head Comments



Social Services

Social Services Board

Tara L. Fikes, DPA, Chair
Commissioner Wendy Jacobs, Vice Chair
Helen J. Berry
Jane Volland

Michael A. Becketts, MSW, MS
Director

To: Richard Edwards, Internal Audit Director

Cc: DSS Board
Gayle Harris, General Manager
DSS Assistant Directors

From: Michael A Becketts

Date: June 11, 2016

Re: Performance Audit

I have received and reviewed the Performance Audit Draft. I appreciate the time and effort that the Internal Audit Department took to review DSS's performance in responding to findings in last year's Singe Audit.

I agree and accept the findings of this review and the Department of Social Services will continue our work toward eliminating adverse events.

Summary of Audit Findings

Medical Assistance

- Auditors found that an income verification for one participant was not completed and/or the budget was not completed in the case file. Case workers should conduct verifications during initial application or re-determination and insert verification documentation into the files. To correct the problem, DSS created a checklist for staff to use as a guide or reminder to check eligibility. The checklist was to become a tool for review of adherence to policy.
- During our audit of 30 cases, we identified two instances in which documentation of the participant's income was not on file, however; the client was eligible for services.

Children's Health Insurance Program

- Auditors found an instance in which the caseworker did not complete redetermination of eligibility for a client timely and the client received benefits of \$6. 82 for a month during the period of ineligibility. The caseworkers should have completed the recertification at least by the end of the 12th month. To correct this problem, DSS took the same action as in the problem above; created a checklist for caseworkers to use as a reminder.
- During our audit of 30 cases, we identified four instances in which caseworkers did not re-determine eligibility by the end of the 12th month. We did not determine the amount of payments during the ineligible period, however; we learned that all four clients were eligible for benefits and would have received them without interruption if the redetermination process had taken place as required.

Subsidized Childcare

- Auditors found that DSS's Compliance and Quality Assurance (CQA) unit did not complete quality control reviews for an entire year. By not performing the reviews, Durham County DSS could have been servicing ineligible clients. Reviews were not conducted because the quality assurance trainer position was vacant for the entire year. DSS corrected this issue by filling the position with a new hire and the CQA unit is conducting reviews as required.

Employee Time report Documentation (Crosscutting)

- Employees report their time charges on a form referred to as a day sheet. Day sheets should account for 100% of employee time and documentation should be maintained in case files. Auditors identified a day sheet without required supporting documentation in the case file. To correct this problem, DSS revised/updated day sheet protocol. The protocol incorporates Quality Assurance (QA) reviews of day sheets in Child Welfare Services on randomly pulled cases. Additionally, work plans were to be updated to include accuracy and completeness of daysheets. In our review of 30 cases, we identified one instance in which supporting documentation was not on record in the files.

Employee Time Report Matching with State Records (Allowable Cost/Cost Principles and Reporting)

- Auditors found two instances in which in which the employee's daysheet didn't agree with the Percentage of time report, the report submitted to state to account for employee costs. Daysheets and the Percentage of Time Reports should match. DSS believed the problem was system related and sought to correct the issue by having County IS&T assist with determining the reason for the system discrepancies.
- During our review of 25 cases, we identified three instances in which the day sheets and the percentage of time reports did not reconcile. We found that day sheets were prepared and uploaded correctly, however; the resulting printout of the report was erroneous. DSS continues to work with the state to work out system problems.

State and County Special Assistance

- These services provide assistance that does not fall under purview of the Federal Assistance programs. They may help with rent for a disabled client outside of Federal Programs. Clients served under these programs meet an income test like other program and their income should be verified to ascertain eligibility. Caseworkers should verify income through on-line processes at initial intake, at annual recertification, and upon life changes. Auditors found one instance in which the case files did not have evidence of income verification. DSS's proposal to correct this issue was to develop a checklist for staff workers to use as a reminder to document the recertification process.
- During our review of 26 cases we identified one instance in which documentation for the online verification was not present in the client's case file. Our review of that case showed that the client was eligible for benefits.