Based upon the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Inadequate Controls Over Child Support Collections

For the second consecutive year, the Department of Social Services, Office of Family Support, Child Support Enforcement Program (CFDA 93.563, Title IV-D) does not have adequate internal controls over collections of child support. The Code of Federal Regulations (45 CFR 302.20) requires the department to maintain methods of administration designed to ensure that persons responsible for handling cash receipts do not participate in accounting or operating functions that would permit them to conceal the misuse of collections in the accounting records. An adequate control structure also requires that cash and cash equivalents be safeguarded at all times.

We conducted reviews of the cash function in 3 of 12 regional offices and noted the following conditions at the New Orleans Regional Office:

- Data entry operators who post client subsidiary records also received cash during the year.
- Receipts were not always issued in numerical order.
- Originals of voided or unused receipts were not always retained in the receipt book.
- Carbon copies of receipts were altered.
- Receipts were not always completely filled out.
- There were no receipt books for the period July 18, 1995, through July 24, 1995, because the office exhausted its supply of receipt books and issued temporary receipts.

In addition to the conditions noted in the New Orleans Regional Office, there were 50 debit/credit memoranda issued to the Child Support Enforcement state office and various regional offices. These memoranda have an absolute value of $15,583 and represent errors in the deposits of child support collections. The types of errors noted included the following:

- Checks totaling $1,567 were properly posted to client accounts but were missing from the deposits (6 memos for a total of 8 missing checks).

DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated November 26, 1996

January 8, 1997

Mr. Joseph stated that a corrective action plan has been in place in New Orleans for approximately six months which, along with strict monitoring, should eliminate those errors. New procedures concerning debit/credit advices, while not preventing the errors, will ensure that appropriate action is taken when an error occurs.

Title IV-D Intake and Collection Activities Errors

For the third consecutive year, the Department of Social Services, Office of Family Support, did not perform proper intake, enforcement, and collection distribution activities in the Child Support Enforcement Program (CFDA 93.563, Title IV-D). The Code of Federal Regulations (45 CFR 302 and 303) specifies procedures and time frames for opening cases, establishing paternity, locating absent parents, enforcing obligations, and distributing collections. However, we noted the following conditions:

- Our review of 30 intake cases disclosed that proper intake procedures had not been performed for 13 (43 percent) of the cases. These cases had not been opened timely and/or did not have adequate paternity establishment and/or parent locate procedures. All of these 13 cases were located in the New Orleans region.

- Our review of 40 collection cases disclosed that proper collection procedures had not been performed for two (5 percent) of the cases. Adequate enforcement had not been performed for one of the cases and proper collection distribution had not occurred for the other case.

Management attributes these conditions to a combination of overworked employees, with tremendous caseloads and an overabundance of federal regulations and time frames; a mass referral of Aid to Families with Dependent Children (AFDC) cases occurring in September 1995; and human error. Failure to adhere to federal regulations concerning intake and collection activities could result in federal sanctions or disallowances and lower support collections.

The Department of Social Services, Office of Family Support, should ensure that all Title IV-D regional offices adhere to applicable federal regulations relating to intake and collection activities. In a letter dated, September 6, 1996, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding. Mr. Joseph indicated that a corrective action plan has been in place since June 1, 1996, to alleviate the problem with working intake cases. Mr. Joseph stated that the department will continue to strive to eliminate all errors in collections but feels that the error rate is quite small and acceptable under federal standards.

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DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana

January 8, 1997

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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November 26, 1996

DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1996, we conducted certain procedures at the Department of Social Services. Our procedures included (1) a review of the department's internal control structure; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The Annual Fiscal Report of the Department of Social Services was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The department's accounts are an integral part of the State of Louisiana's financial statements upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior audit of the Department of Social Services for the year ended June 30, 1995, we reported findings relating to cash controls in the Title IV-D program, Title IV-D intake and collection activities, audit report monitoring, the internal audit function, internal audit training, time and attendance records, on-line time and leave entry system, movable property records, Foster Care - Title IV-E payments, the referral process within the Office of Family Support, federal reports, the Davis-Bacon Act, rate setting, and family support case reviews. The findings relating to the internal audit function, internal audit training, time and attendance records, the on-line time and leave entry system, the referral process within the Office of Family Support, the Davis-Bacon Act, and rate setting have been resolved by management. Although the findings on movable property records, Foster Care - Title IV-E payments, federal reports, and family support case reviews have not been fully resolved by management, the remaining issues are not significant and, therefore, are not included in this report. The findings relating to cash controls in the Title IV-D program, Title IV-D intake and collection activities, and audit report monitoring are addressed again in this report.

- A non-negotiable item was included in a deposit (one memo).
- Items deposited were not included in the listing of deposit items or in the total deposit (one memo).
- There were errors in addition (9 memos).
- There were listing errors (12 memos).
- Total deposit amounts were transferred incorrectly to the deposit slip (10 memos).
- Errors were made by employees inputting the deposit information into the computer (one memo).
- There were errors for which the bank was unable to determine the cause because the department did not include a list of the deposit items with the deposit (6 memos).
- There were miscellaneous errors (4 memos).

These debit and credit memoranda resulted from deficiencies in procedures for processing and depositing collections or from employees not following the proper procedures. An adequate internal control system should ensure that errors will be detected within a timely period by employees in the normal course of performing their assigned duties.

As a result of investigating the debit and credit memos, six errors in posting payments to client accounts were found for a total of $519. When child support payments are not posted correctly, the custodial parents, the federal government, and the state government may not receive all monies that they are due.

The Department of Social Services should immediately segregate the duties of cash receipt and posting of client accounts and establish and enforce procedures that will correct the noted deficiencies and ensure that there are adequate internal controls over cash as required by 45 CFR 302.20. When debit and credit memoranda are received, the department should immediately initiate procedures to determine the cause of the error and make all required corrections. Furthermore, the department should conduct a review sufficient to determine if all child support funds collected were deposited, to determine whether all absent parents were credited for their payments, and to establish whether irregularities have occurred. In a letter dated October 17, 1996, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred that the errors occurred.

Unallowed Expenditures in Foster Care Program

The Department of Social Services, Office of Community Services (OCS), expended $7,470 in Foster Care - Title IV-E (CFDA 93.658) funds for a child who was ineligible for the program. The United States Code [42 U.S.C. 672 (a) and 606 (a)] states that a child is not eligible for Title IV-E funding once he or she has reached the age of eighteen unless, at the option of the state, he or she is a full-time student and is expected to graduate before his or her nineteenth birthday. The department's policy (OCS Financial Assessment Manual, Section F-135.1) indicates that it has elected to terminate a child's eligibility at age eighteen regardless of his or her graduation date. However, the department reimbursed the Department of Public Safety and Corrections (DPSC), which provides care for children adjudicated in need of supervision, for four months after one child had reached his eighteenth birthday. Although billings from DPSC are reviewed for eligibility of the children for whom care is provided, the reviews for these months failed to detect this instance of ineligibility.

The Department of Social Services should ensure that all foster children included on the bill from DPSC are eligible for Title IV-E funding before it reimburses DPSC. In a letter dated September 30, 1996, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding and recommendation. Mr. Joseph stated that staff has been instructed to review the billings to ensure that the child has not yet attained the age of eighteen before approving billings for payment and have requested DPSC to also verify the age of the child before billing for services.

Audit Reports Not Monitored

For the third consecutive year, the Department of Social Services does not have an adequate monitoring system to ensure that all subrecipients receiving $25,000 or more of federal funds and cost-reimbursement contractors funded with $100,000 or more of state funds are audited in accordance with *Government Auditing Standards*. Federal laws (OMB Circulars A-128 and A-133) require the department to ensure that each subrecipient of federal pass-through funds totaling $25,000 or more has an audit performed that will comply with the applicable circular. Louisiana Administrative Code (LAC 34:V.134) gives the department the option of requiring audits, examining source documents for each payment request, or using internal auditors to do frequent surprise contract compliance audits of contractors that receive $100,000 or more in state funds. The department has elected to require audits.

The department has not developed a comprehensive monitoring system to ensure that all audit reports are received and reviewed. Failure to ensure that federal subrecipients or cost-reimbursement contractors are audited in accordance with *Government Auditing*

Standards increases the risk that federal subrecipients or cost-reimbursement contractors will not expend federal financial assistance or state funds, respectively, in accordance with applicable laws and regulations.

The Department of Social Services should establish a monitoring system to ensure that federal subrecipients and cost-reimbursement contractors are audited as required by federal and state laws and regulations. In a letter dated August 14, 1996, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding and outlined a plan of corrective action.

Advanced Governmental Purchasing System Internal Control Deficiency

The Department of Social Services does not have adequate segregation of duties in the Advanced Governmental Purchasing System (AGPS). Segregation of duties is necessary to safeguard assets, to ensure that accounting data is both accurate and reliable, and to ensure that errors and irregularities are detected within a timely period. Our review of 24 employees disclosed that 12 employees (50 percent) had both data entry and approval capabilities. Employees were assigned incompatible function capabilities during the training for AGPS, which occurred in May and June of 1995. The department became aware that it had failed to remove these incompatible capabilities in January 1996. However, at the time of our examination (July 1996), this condition still existed although the department had been aware of the problem for approximately six months. A good internal control structure should provide for adequate segregation of duties so that no one employee would be in a position to both initiate and conceal errors or irregularities and would require prompt action to correct any weaknesses identified in the system. Without adequate segregation, there is increased risk that errors or irregularities could occur and not be detected in a timely manner.

The Department of Social Services should ensure that incompatible functions such as data entry and approval of the same transaction are not assigned to the same employee and should take prompt action to correct weaknesses in internal control when they are identified. In a letter dated September 16, 1996, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding. Mr. Joseph included documentation to show the errors noted in the audit had been corrected and stated that the department is in the process of developing a policy that will mandate duties and access capabilities to maintain proper internal control.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

AWW:MWB:dl

[DSS]

Food Stamp Underissuance

The Department of Social Services, Office of Family Support, did not ensure that changes in federal regulations for Food Stamps (CFDA 10.551) were implemented in a timely manner. During the year, the U.S. Department of Agriculture made changes regarding eligibility for the Food Stamp program as well as changes in the amount of benefits received under the program. These changes are contained in the Code of Federal Regulations (7 CFR Subchapter C, Part 273) and were to take effect October 1, 1995. Because the department misinterpreted the standards, the department did not comply with the new regulations until March 15, 1996. Failure to implement the new federal standards timely resulted in underissuance of benefits to many active food stamp recipients as follows:

- For the period October 1, 1995, to February 29, 1996, an additional $10,527,658 of food stamps should have been issued. These benefits were due to 303,921 recipients. Supplemental authorization to participate (ATP) cards were issued to these recipients in May 1996.

- Lost benefits for the period March 1, 1996, to March 15, 1996, were calculated at $1,956,844 and affected 245,998 recipients. However, supplemental ATP cards were mailed to these recipients in April 1996.

- A total of 457 applicants were either denied benefits or had their cases improperly closed during the period the department failed to affect the new regulations. The benefits for these recipients/applicants are calculated to be $86,487.

In addition to the disservice to food stamp clients, failure to issue food stamps properly causes losses because of the employee time needed to correct the error and increases the risk that further errors in issuance will occur. The department should ensure that changes in Food Stamp policy are implemented in a timely manner. In a letter dated October 10, 1996, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding. To prevent a recurrence of this type of error, Mr. Joseph stated that direct supervision of the program has been assigned to the deputy assistant secretary of the Office of Family Support. Furthermore, monitoring procedures, including time tables for implementation of mandatory changes, have been enhanced. Mr. Joseph also said that mandatory changes that were effective October 1996 have been successfully and timely implemented.