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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
DEPARTMENT OF SOCIAL SERVICES
JULY 1, 2007 TO JUNE 30, 2008

OFFICIAL AUDIT
REPORT
APRIL 7, 2009

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The Department of Social Services (DSS), established by Chapter 18B, Section 1, of the Massachusetts General Laws, provides services to children and families who are at risk of or have been victims of abuse or neglect. DSS administers comprehensive social services programs. These services are administered through 29 area-based offices, and include counseling, protective services, parent aid, and other in-home supports to reduce risks to children, and legal and adoptive services. During fiscal year 2008, DSS administered approximately \$920 million, of which federal funds totaled approximately \$281 million. Chapter 176 of the Acts of 2008, An Act Protecting Children in the Care of the Commonwealth, changed the name of the Department of Social Services to the Department of Children and Families as of July 8, 2008.

In accordance with Chapter 11, Section 12 of the General Laws, the Office of State Auditor conducted an audit of DSS in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2008.

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The Department of Social Services (DSS), in accordance with the Cash Management Improvement Act (CMIA) of 1990, did not fully comply with the Treasury-State Sub-Agreement signed with the Office of the State Comptroller (OSC) acknowledging and agreeing to the federal funding techniques listed in the Treasury-State Agreement (TSA) signed by OSC with the United States Department of the Treasury for the drawdown of federal funds in accordance to federal regulations. Our audit disclosed that the DSS drawdown process for the Foster Care, Adoption Assistance and Social Services Block Grant (SSBG) programs does not replicate the draw techniques defined in the TSA. DSS completes the drawdown of federal funds on a bi-monthly basis, while the TSA requires funds be drawn on a three-day average clearance pattern. Further, the DSS federal draw requests process took between 10 and 63 days to complete resulting in the Commonwealth losing the use of revenue as well as potential investment income. In response to the audit report, DSS indicated that it was committed to meeting the requirements of the recently approved TSA, which is to prepare federal draw requests for SSBG and Title IV-E funds on a bi-weekly basis.

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INTRODUCTION

Background

The Department of Social Services (DSS), established by Chapter 18B, Section 1, of the Massachusetts General Laws, is mandated to provide and administer a comprehensive social service program, including the following services: casework or counseling, including social services to families, foster families, or individuals; protective services for children, unmarried mothers, the aging, and other adults; legal services for families, children, or individuals as they relate to social problems; foster family care and specialized foster family care for children, the aging, the disabled, and the handicapped; adoption services; homemaker services; day care facilities and services for children, the aging, the disabled, and the handicapped; residential care for children with special needs or aging persons not suited to foster family care or specialized foster family care; informal education and group activities as needed for families, children, the aging, the disabled, and the handicapped; training in parenthood and home management for parents, foster parents, and prospective parents; social services for newcomers to an area or community to assist in adjustment to a new environment and new resources; camping services; family services intended to prevent the need for foster care and services to children in foster care; temporary residential programs providing counseling and supportive assistance for women in transition and their children who, because of domestic violence, homelessness, or other situations, require temporary shelter and assistance; information and referral services; and social services for families and individuals in emergency and transitional housing.

The mission of DSS is to strengthen family/parent/child relationships to ensure the safety and long-term integrity of the adult/child bond and, when that cannot be achieved, to support the child through the establishment of alternative family/parent/child relationships through adoption, guardianship, or lifelong connections. To achieve this goal, DSS's mission is to conduct a child welfare practice that is child-driven; family-centered; community-focused; strength-based; and committed to diversity, cultural competence, and continuous learning.

Through six regional and 29 area-based offices, DSS seeks to strengthen families by assisting parents in meeting their parental responsibilities and, when necessary, through court orders or voluntary agreements, to place the child with foster parents or in group homes to provide safety from abuse and neglect. When a child is removed from his or her home, DSS develops a service plan to provide

a long-term stable resolution as soon as possible. During fiscal year 2008, approximately 8,979 children were living in foster care or some type of residential facility.

Section 6 of Chapter 18B of the General Laws places DSS under the direction, supervision, and control of the Commissioner of Social Services, who is appointed by the Secretary of Health and Human Services, with the approval of the Governor, serves at the pleasure of the secretary, and may be removed by the secretary at any time, subject to the approval of the Governor. Chapter 176 of the Acts of 2008, An Act Protecting Children in the Care of the Commonwealth, changed the name of the Department of Social Services to the Department of Children and Families approved as of July 8, 2008.

For fiscal year 2008, DSS administered approximately \$920 million, of which federal funds totaled approximately \$281 million.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of DSS for the period July 1, 2007 to June 30, 2008. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2008. The Commonwealth's Fiscal Year 2008 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- [Office of Management and Budget] OMB Circular A-133 Report

The audit results contained in this report are also reported in the Fiscal Year 2008 Single Audit of the Commonwealth of Massachusetts, OMB Circular A-133 report as mentioned above. Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133 and the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our audit evaluated DSS's compliance with Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our audit of DSS's activities, we referred to OMB Circular A-133 and the March 2008 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon our audit, we determined requirements applicable to the Title IV-E Foster Care, Adoption Services, and Social Services Block Grant Programs and designed appropriate tests to determine DSS's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at DSS during the review period.
- Assess and evaluate the program for compliance with the requirements of the Compliance Supplement, the federal Department of Health and Human Services, and the OSC.

The criteria for our audit were drawn from OMB Circular A-133 and the March 2008 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with the DSS administration and operation of the programs tested above for compliance with laws and regulations governing:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement, Suspension and Debarment
- Program Income
- Reporting
- Subrecipient Monitoring

We examined, on a test basis, evidence about DSS's compliance with the applicable requirements and performed other procedures as we considered necessary. Based on these tests, we have concluded that, except as reported in the Audit Results section of this report, DSS had adequate internal controls in place and complied with the requirements of the federal Department of Health and Human Services, OMB Circular A-133 and the Compliance Supplement and other applicable laws, rules, and regulations, for the areas tested.

AUDIT RESULTS

NONCOMPLIANCE WITH CASH MANAGEMENT IMPROVEMENT ACT

In accordance with the Cash Management Improvement Act (CMIA) of 1990, the Office of the State Comptroller (OSC), on behalf of the Commonwealth of Massachusetts, enters into a Treasury -State Agreement (TSA), with the United States Department of the Treasury. This agreement, used to improve the transfer of federal funds between the Federal government and the Commonwealth, specifies the applicable federal programs, entities covered, and the funding techniques to be used for the drawdown of federal funds. The Department of Social Services (DSS) enters into an annual sub-agreement with the OSC acknowledging and agreeing to the federal funding techniques listed in the TSA.

DSS receives federal funds for the Foster Care, Adoption Assistance and the Social Services Block Grant (SSBG) programs on a reimbursement basis. These federal programs are not part of the Commonwealth's Automated Central Draw process. For these programs, the Commonwealth has implemented a non-central draw process where the DSS notifies the Office of the State Treasurer (OST) of the amounts to drawdown for reimbursement to the Commonwealth's General Fund. The process consists of using the Massachusetts Management Accounting and Reporting System (MMARS) to identify disbursements paid with Commonwealth funds eligible for Federal reimbursement. The disbursements are divided into two components; benefit/service payments (MMARS Payments) and direct and indirect administrative costs (Cost Allocation Plan (CAP)).

The Executive Office of Health and Human Service's Federal Revenue Claiming Unit (EOHHS FRC) initiates the DSS drawdown process by completing queries of MMARS expenditures, summarizing the data, and preparing the Cash Deposit (CD) and Smartlink payment request documents for DSS. Upon the review and approval by the EOHHS FRC Director, these documents are forward by electronic mail to the DSS Budget Director, who reviews, completes and approves the forms. The CD and payment request for the federal funds drawdown are faxed to the OST. Our review of the Foster Care and Adoption Assistance programs noted the queries were processed as of the 15th and 31st of each month. The SSBG was processed once per quarter for the first three quarters of fiscal year 2008 and twice in the fourth quarter of fiscal year 2008.

The TSA documents the accepted funding techniques and methods for calculating interest agreed upon by the Federal government and a State. Section 6.1.2 of the Commonwealth's TSA requires the receipt of federal funds in accordance with the clearance patterns specified in Exhibit II-List of State Clearance Patterns. The Commonwealth's Treasury-State Agreement for the Foster Care program states for vendor payments (service providers/benefit payments) and payroll costs, the Commonwealth must drawdown funds from the United States Treasury using the average clearance technique as defined in the TSA and use the monthly draw (reallocated costs) technique for indirect administrative costs (CAP costs) as defined in the TSA. The Adoption Assistance program was not specifically included in the TSA which was based on federal programs over \$30,000,000 for the Commonwealth's Single Audit for fiscal year ending June 30, 2006. However, the program exceeded \$30,000,000 during fiscal years-2007 and 2008, and requires the same draw process as Foster Care. For the SSBG program, the TSA states that for vendor payments the Commonwealth must drawdown funds from the United States Treasury using the average clearance technique.

Section 6.2.1 of the TSA defines the funding techniques as follows:

The average clearance technique is defined such that the Commonwealth shall request funds such that they are deposited by ACH [Automated Clearing House] on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified in Exhibit II of the TSA. The dollar-weighted average day of clearance for each of the programs is 3 days.

The monthly draw (reallocated costs) technique is defined such that the Commonwealth shall draw down funds for reallocated costs once a month on the 11th business day, in conjunction with its internal cost accounting system. The amount of the drawdown will be based on the actual costs of the prior month that have been allocated in accordance with the Department's approved cost plan. This funding technique is defined as interest neutral.

Our audit procedures noted that the drawdown techniques used by DSS does not replicate the average clearance or monthly draw (reallocated costs) techniques defined in the TSA. Further, our audit also noted that the timely basis for processing the reimbursement requests from the MMARS expenditure query as-of-date by the EOHHS FRC to the completion and submission of the federal draw request to the OST by DSS varied significantly. Our audit noted that while some requests were processed timely by both EOHHS and DSS, DSS's historical record for

processing the drawdown of federal funds has been every two weeks for Foster Care, Adoption Assistance, and for SSBG funds, other requests were delayed by either or both EOHHS in processing or forwarding the documents to DSS and/or DSS not processing the documents timely to the OST. Examples follow:

Program	Voucher Number	Draw Date	Amount	Number of Processing Days		
				EOHHS to DSS ¹	DSS to Draw Request ²	Total Days
Foster Care	005	08/31/2007	\$7,310,736.15	7	5	12
Foster Care	040	04/15/2008	\$3,311,142.51	8	37	45
Adoption Assistance	008	09/30/2007	\$5,141,838.26	3	7	10
Adoption Assistance	039	03/31/2008	\$2,477,210.52	9	54	63
SSBG	036	03/15/2008	\$8,904,954.00	12	4	16
SSBG	048	05/15/2008	\$2,439,354.14	18	24	42

¹Number of days between the EOHHS prepared MMARS Expenditure Query as-of-date and the date documents were e-mailed to DSS.

²Number of days between DSS receipt date and the submittal of the drawdown request to the Office of the State Treasurer.

Based on the above, DSS was not in full compliance with the requirements of the TSA, and with the delays in processing the reimbursement requests, the Commonwealth has lost the use of revenue as well as potential investment income.

Recommendation

We recommend that the DSS and EOHHS, working with the OST should strengthen existing policies and procedures to ensure that the TSA agreement drawdown techniques agree with the actual methods used to drawdown Federal funds. In addition, DSS and EOHHS should improve the timeliness of the drawdown process to ensure that the Commonwealth receives the funds to the General Fund on a timely basis.

Auditee's Response

In its response, DSS indicated that it was committed to meeting the requirements of the recently approved TSA, which is to prepare federal draw requests for SSBG and Title IV-E funds on a biweekly basis.

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard H. Kiah*, Governor.