



TEXAS
Department of Family
and Protective Services

Internal Audit Annual Report

Fiscal Year 2018

October 2018

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Executive Summary

This report provides information about the activities of the Internal Audit function within the Department of Family and Protective Services (DFPS). Internal auditing is an independent assurance and consulting activity designed to improve an organization's operations by assessing and making recommendations to enhance the effectiveness of risk management, control, and governance processes.

Key internal audit activities for fiscal year (FY) 2018 and planned work during FY 2019 are described in this report. Annual audit plans are based on an agency wide risk assessment developed with input obtained through surveys and interviews with executives and management, as well as auditor assessment.

This report fulfills annual reporting requirements in the Texas Internal Auditing Act (*Texas Government Code*, Sections 2102.009, 2102.0091, and 2102.015) and is aligned with State Auditor's Office guidelines that prescribe the form and content of the annual report. In accordance with requirements, DFPS will make the report, which includes the FY 2019 Annual Audit Plan, available on its publicly accessible website.

For further information about the contents of this report and Internal Audit activities, please contact Chance Watson, DFPS Internal Audit Director, by email at Chance.Watson@dfps.state.tx.us or by telephone at (512) 438-3365.

I. Compliance with Texas Government Code, Section 2102.015

In November 2018, DFPS will post on the agency's public website the FY 2018 Internal Audit Annual Report, which includes the approved FY 2019 Annual Audit Plan. The DFPS Internet site is located at: <http://www.dfps.state.tx.us/>.

The Annual Audit Report (see Section II) summarizes the FY 2018 Internal Audit recommendations for each audit and reports on the progress towards the implementation of those recommendations.

The FY 2019 Annual Audit Plan was approved by the DFPS Commissioner on September 13, 2018 and was posted to the agency's public web site on September 19, 2018.

II. Internal Audit Plan for FY 2018

Audit Project	Project Status
Audit of Family-Based Safety Services (Report 2017-03)	Completed Report Date: January 24, 2018
Follow-up on Prior Audit Findings Implemented on or before August 31, 2017 (Report 2017-08)	Completed Report Date: February 26, 2018
Audit of Statewide Intake	Removed from the “Risk Areas Not Included in the Plan” Section of the FY 2018 Annual Audit Plan and added to the FY 2018 Annual Audit Plan with the Commissioner’s Approval Status – Reporting Phase Carried Forward to FY 2019
Audit of Overtime Hours	Status – Planning Phase Carried Forward to FY 2019
Audit of Administrative Purchasing	Removed from the FY 2018 Annual Audit Plan with Commissioner’s Approval
Audit of Adult Protective Services	Removed from the FY 2018 Annual Audit Plan and Added to the "Risk Areas Not Included in the Plan" Section of the FY 2019 Annual Audit Plan with Commissioner's Approval

<p>Follow-up on Prior Audit Findings Implemented on or before May 31, 2018</p>	<p>Removed from the FY 2018 Annual Audit Plan and Added to the FY 2019 Annual Audit Plan as “Follow-up on Prior Audit Findings” with Commissioner's Approval</p>
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2017-03 *Audit of Family-Based Safety Services*

The audit identified several steps CPS management has taken to improve FBSS outcomes through various initiatives, such as the creation of an FBSS Quality Improvement Plan, coordination of a Safety Summit focused on the Signs of Safety practice model, initiation of random PD case reviews, and revision of its case read tools to better identify concerns with casework quality. CPS has an opportunity to maximize the effectiveness of its strategies for improving FBSS processes by setting clear expectations for the following:

- Implementation of initiatives across regions
- Follow-up to ensure plans are executed as intended
- Distribution and utilization of data obtained

Additional opportunities were identified to improve the supervision and practice of FBSS casework. Developing a more formal structure for case documentation may facilitate supervisor oversight and increase focus on three issues vital to the success of FBSS:

- Addressing root causes of families’ issues prior to case closure
- Engaging families to support and evaluate progress
- Following up consistently with service providers to confirm families’ progress throughout the case

Moving forward with a risk reassessment and requiring commitment to plans for long-term safety may also help increase child safety.

Management continues to make progress toward implementing the recommendations included in the report. Internal Audit will validate the implementation of audit recommendations in future follow-up audits as noted in the FY 2019 Annual Audit Plan.

2017-08 *Follow-up on Prior Audit Findings Implemented on or before August 31, 2017*

The Internal Audit Division completed a follow-up review of 27 management action plans from eight audit reports for which management indicated implementation would be completed on or before August 31, 2017. A total of 14 management action plans were considered implemented and 11 were in progress with new estimated completion dates. Also, there were

two that will not be implemented by management as the program area, Child Care Licensing has transferred from DFPS to HHSC.

III. Consulting Services and Nonaudit Services Completed

Consulting engagements and nonaudit projects may be conducted at the request of executive management. These services are a means of assessing risk quickly for management and providing feedback on potential weaknesses and related recommendations for improvement. This approach often allows management to address issues proactively before launching systems or newly developed processes. The following table identifies the consulting services and nonaudit services completed during FY 2018.

Consulting Service or Nonaudit Service	Project Status
Consulting Engagement on the Structure and Processes of Purchased Client Services (Contracts Division) (Report 2018-01)	Completed Issued: May 7, 2018
Consulting Engagement for the Review of Prevention and Early Intervention Contract Management (Report 2018-02)	Completed Issued: July 2, 2018

Consulting Engagement on the Structure and Processes of Purchased Client Services (2018-01)

The objectives of the engagement included the following:

- Identify potential opportunities for improvement in communication, coordination and critical processes in PCS to strengthen division infrastructure.
- Identify staff strengths, roles and responsibilities as they relate to critical PCS processes.

Internal Audit identified improvement opportunities related to leadership communication, organizational structure, succession planning, access to systems and technology resources, and coordination and quality assurance in critical contract processes. In addition, Internal Audit has compiled an inventory of staff talent as it relates to critical PCS processes to assist in decision-making.

In an effort to improve contracting processes, management has implemented organizational changes to provide a reporting structure and more direction for staff, as well as allow more time

for advising staff and quality assurance over critical processes. Examples of these developments include reassignment of an internal staff person to manager over the State Office Contracts Performance Area and reassignment of an internal staff person to manager in Residential Childcare Contracts (RCC).

In addition, staff expressed the following strengths related to critical contract processes:

- An appreciation for the leadership style and direction of the new PCS director.
- Good communication with supervisors and teamwork with coworkers.
- Sufficient written procedures to perform day-to-day duties.

Management has made strides to improve consistency and standardization of the information flow process throughout the agency.

Consulting Engagement for the Review of Prevention and Early Intervention Contract Management (2018-02)

The objectives of the engagement included the following:

- Research best practices in the areas of contract financial structures; contractor budget review, negotiation, and approval; and client feedback and service data validation.
- Assess PEI key contract management functions to identify activities for evaluating efficiency and effectiveness.

Internal Audit provided deliverables in the following areas for PEI management's consideration:

- Best practices and effective use for different types of contract financial structures.
- Budgetary guidance and other best practices related to the budget review process and criteria.
- Potential approaches for validating client service data and obtaining client feedback.
- Best practices and approaches for assessing internal performance.

Many of the business deliverables and measures of success outlined in PEI's FY2018 Business Plan represent progress toward strengthening internal processes. In FY2018, PEI initiated a contracting improvement project with the end goal of developing a handbook for use by PEI staff throughout the contract lifecycle. This will provide a more systematic approach and promote consistency of PEI contract management practices. PEI has also made recent strides toward alignment with data validation best practices through the implementation and ongoing enhancement of the PEIRS data system.

IV. External Quality Assurance Review

An external peer review of DFPS Internal Audit was conducted in FY 2017, in accordance with professional standards, using the State Agency Internal Audit Forum (SAIAF) Peer Review guidelines. The primary objective of the quality assurance review was to evaluate Internal Audit's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvements may be needed. The review covered all completed audit and management assistance projects performed by Internal Audit from September 2013 through August 2016.

Anthony Chavez, CIA, CGAP, CRMA, Director of Internal Audit, Employees Retirement System of Texas was the SAIAF Peer Review Team Leader. Other members of the team included Beth Gilbert, CFE, CGAP, Internal Auditor, Employees Retirement System of Texas and Kent Heath, CGAP, Internal Auditor, Texas Commission of Environmental Quality.

Excerpt from "Report on the External Quality Assurance Review of the Department of Family and Protective Services Internal Audit Department" December, 2016.

OVERALL OPINION

"Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Family and Protective Services Internal Audit Department receives a rating of **"Pass/Generally Conforms"** and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (*Texas Government Code, Chapter 2102*). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Staff members collectively are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well-managed internally. In addition, the Department has effective relationships with the Commissioner and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations."

V. Internal Audit Plan for FY 2019

The approved FY 2019 Annual Audit Plan includes projects in the table below. The Annual Audit Plan may be revised as needed to adjust for emerging issues and risks, and changes in resource availability. Any modifications to the Annual Audit Plan must be approved by the Commissioner and will be presented to the DFPS Executive Team for informational purposes.

Internal Audit has allocated 8,900 budgeted hours to projects in the FY 2019 Annual Audit Plan. The FY 2019 budgeted hours is based on 4.75 auditors, 1 audit coordinator, 2 audit managers, and 1 assistant director which totaled 8,869 hours.

Audit Area	Preliminary Audit Objectives
Statewide Intake (SWI) Carried Forward from FY 2018 Annual Audit Plan	Audit Objectives: Assess whether Statewide Intake processes effectively utilize the electronic reporting of allegations of abuse and neglect, and prioritization of reports for processing. Assess the process of handling hotline calls and identify potential operational efficiencies that may decrease call times, call hold times, and abandonment rates.
Overtime Hours Carried Forward from FY 2018 Annual Audit Plan	Assess the reasonableness of overtime hours charged by staff in CPS, INV, and APS.
CPS Mentor Program	Evaluate the effectiveness of controls over the CPS Mentor Program to ensure processes are efficient, consistently performed, and meeting agency needs.
Investigations (INV)	Assess the efficiency and effectiveness of Investigations operations to ensure processes within the new division are working as intended.
Finance – Children’s Income Accounts	Evaluate controls over the management of children’s income accounts to ensure payments are accurate, timely, and in compliance with agency policies and procedures and state and federal regulations.

Audit Area	Preliminary Audit Objectives
Information Technology (IT) Risk Assessment	Perform a risk assessment focusing on the newly structured IT division and identify the IT areas of highest risk for consideration in future IA projects.
Follow-up on Prior Audit Findings	Determine the status of management actions in response to audit recommendations.

Additionally, three consulting and/or special projects were included in the FY 2019 Annual Audit Plan.

Consulting Service or Special Project	Objectives	Comments
Community Engagement	Review the structure, roles, and coordination of agency community engagement functions and identify potential opportunities to gain efficiencies.	Status - Planning Phase
CPS – Preparation for Adult Living (PAL)	Research best practices information in the areas of PAL workload and structure.	Status - Not Yet Started
Adult Protective Services (APS)	Review APS District Review process and identify efficient and effective controls to ensure appropriate and consistent follow-up of results is performed.	Status - Not Yet Started

Other Internal Audit Activities

Other Internal Audit Activities include the following:

- Training and Staff Development (CPE)
- Internal Audit Annual Report
- Internal Audit Staff Meetings

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- Risk Assessment and Annual Audit Plan for FY 2020
- External Audit Coordination - Internal Audit provides an external audit liaison service that includes coordinating and providing a single point of contact for all audits of DFPS by external audit entities (e.g., KPMG, SAO, federal audits, etc.)
- Legislative Coordination
- Internal Audit quality assurance and improvement program
- Internal Audit process and TeamMate Enhancements

Internal Audit also participates in committees and workgroups in an advisory role, such as:

- Executive Team Meetings
- Texas Family and Protective Services Council
- Data Council
- IT Governance Workgroup
- Critical Case Meetings
- Human Resources Manual Policy Workgroup
- DFPS Wellness Council
- DFPS SEE Workgroup
- Accessibility Workgroup
- DFPS Grants Council
- State Agency Internal Audit Forum (SAIAF)

Risk Assessment Methodology

In June 2018, the Internal Audit Division sent a risk assessment survey to various levels of DFPS management for purposes of assessing risk on agency activities and functions identified for the risk assessment process. The Internal Audit Division also interviewed executive management and other key staff from June to August 2018, to discuss potential risk issues for their respective divisions and gain their perspective on risks to DFPS. The results from these communications, along with auditor assessment, were used to inform the likelihood and impact scoring for the risk factors identified below.

- Service Delivery
- Potential Fraud, Waste or Abuse
- Extent of State/Federal Requirements
- Negative Publicity/Loss of Credibility
- Fiscal Operations
- Security, Confidentiality and Privacy
- Performance Indicators
- Complexity of Operations
- Extent of Oversight/Monitoring
- Executive Management Input and Other Considerations

The results of the scoring were used to identify the activities and functions that were included in the FY 2019 Annual Audit Plan.

Auditing standards require the Internal Audit Director to communicate periodically to senior management on significant risk exposures, control issues, corporate governance issues, and other matters as appropriate. By communicating these high-risk areas, management has the opportunity to review and assess operations to mitigate risk. The audit plan is one of the mechanisms used to communicate risk exposures.

High Risk Areas Not Included in the Plan

Additional high risk areas listed below were identified in the risk assessment process and could be added to the annual audit plan as projects are completed and resources become available. Projects on the plan may also be replaced with projects related to higher risk areas, if there are significant changes to the risk environment during the year.

- Finance – Accounts Payable
- Management Reporting & Statistics (MRS)
- Purchased Client Services (PCS)
- Grants Management

DFPS management understands the limitations of audit coverage and the risks assumed by management in the areas not audited and may take steps to review controls in these areas.

VI. External Audit Services Procured in FY 2018

DFPS did not procure external audit services in FY 2018.

VII. Reporting Suspected Fraud and Abuse

Regarding requirements of the General Appropriations Act, Section 7.9, Fraud Reporting, 84th Legislature, the home page of DFPS internet and the Internal Audit Division's intranet page provide instructions for reporting suspected fraud, waste and abuse involving DFPS programs directly to the State Auditor's Office (SAO). The home page includes a link to SAO fraud hotline information and a link to the SAO website for fraud reporting.

Health and Human Services (HHS) enterprise policy concerning fraud, waste, and abuse was established in HHS Circular C-027, *Health and Human Services Enterprise Fraud Waste, and Abuse Reporting, Responsibilities, and Coordination*. The circular includes instructions for reporting suspected fraud, including involving state funds, to both the SAO and the Health and Human Services Commission (HHSC) Office of Inspector General. DFPS Internal Audit

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coordinates with DFPS General Counsel, the SAO, and the HHSC Office of Inspector General to address the responsibilities of the respective agencies in meeting this requirement.

DFPS Internal Audit also works with the SAO, as well as the HHSC Office of Inspector General, to ensure compliance with fraud reporting requirements in Chapter 321, Texas Government Code, Section 321.022.