

Audit Report

---

**Department of Human Resources  
Social Services Administration**

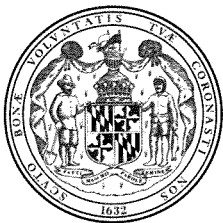
August 2014

---



**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

- 
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
  - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
  - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
  - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

August 7, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Human Resources (DHR) – Social Services Administration (SSA) for the period beginning January 4, 2010 and ending January 27, 2013. SSA supervises, directs, and monitors the social services programs (including the out-of-home placement program) of the State's 24 local departments of social services.

Our audit disclosed that SSA did not maximize the recovery of federal funds to finance certain out-of-home placements. Specifically, SSA was not always pursuing recovery of maintenance funds for children who were also eligible for Supplemental Security Income (SSI). Since maintenance funding is usually greater than SSI benefits, the decision not to pursue maintenance funds when a child is eligible could be costly to the State. For example, our test of 10 cases where maintenance funds had not been received identified 3 cases where SSA had not requested maintenance funds totaling \$266,000, some of which is no longer recoverable because the requests were not made within two years.

SSA did not effectively monitor out-of-home placements made by the local departments of social services to ensure that children were not placed with providers where there was credible evidence of child abuse or neglect. SSA also did not obtain sufficient documentation to substantiate \$4.9 million in payments to a State university for services provided, including training provided to SSA staff.

DHR's response to this audit, on behalf of SSA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by SSA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom J. Barnickel III". The signature is fluid and cursive, with a large initial "T" and "B".

Thomas J. Barnickel III, CPA  
Legislative Auditor

## Table of Contents

<b>Background Information</b>	5
Agency Responsibilities	5
Foster Care Service Outcomes	5
Status of Findings From Preceding Audit Report	6
<b>Findings and Recommendations</b>	7
<b>Out-of-Home Placements</b>	
Finding 1 – SSA Did Not Maximize the Recovery of Federal Funds for Children in Certain Out-of-Home Placements	7
*      Finding 2 – SSA Did Not Effectively Monitor Placements to Prevent Children From Being Placed With Certain Providers	9
<b>Contractual Services</b>	
*      Finding 3 – SSA Did Not Obtain Sufficient Documentation to Substantiate Billings for Services Rendered By a State University	10
<b>Audit Scope, Objectives, and Methodology</b>	11
<b>Agency Response</b>	Appendix

\*      Denotes item repeated in full or part from preceding audit report



## **Background Information**

### **Agency Responsibilities**

The Department of Human Resources (DHR) – Social Services Administration (SSA) supervises, directs, and monitors the social services programs, including the out-of-home placement program, carried out by the local departments of social services (LDSSs), which are located in each of the State's 24 local subdivisions. These programs are designed to prevent or remedy abuse, neglect, and exploitation of children and families. According to the State's records, the fiscal year 2013 operating costs of SSA totaled \$21 million and the applicable services provided by the LDSSs, including payments to group care and foster care providers, totaled approximately \$576 million.

### **Foster Care Service Outcomes**

In our preceding audit report, we commented that SSA did not achieve the required 90 percent success rate for the seven outcome measures in the federal Child and Family Services Review (CFSR) dated January 2010 covering the period from April 2008 through June 2009. The CFSR was conducted by the Children's Bureau (CB) of the Administration for Children and Families within the United States Department of Health and Human Services to assess SSA's performance in outcomes in the areas of child safety, family permanency, and child and family well-being. The 2010 CFSR also showed that SSA's performance declined in each of the outcome measures when compared with the preceding CFSR report dated May 2007.

SSA has not received a subsequent CFSR; however, as required by federal regulations, SSA and DHR developed a Program Improvement Plan (PIP) describing strategies to address each outcome reported in the 2010 CFSR to which improvement was needed. The PIP submitted by SSA and DHR was approved by the CB on April 15, 2011. The successful submission of the PIP allowed SSA to continue to receive federal funding and temporarily avoid federal penalties. As part of the PIP process, during the period from April 2011 through April 2013, SSA was required to report to the CB, on a quarterly basis, the status of the completion of the agreed-upon strategies and associated benchmarks.

Based on the results of its quarterly reporting, in its most recent letter dated December 30, 2013, the CB informed SSA that all of the action steps and program goals in the PIP had been met and, therefore, the penalties had been rescinded.

## **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated March 16, 2011. We determined that SSA satisfactorily addressed four of these findings. The remaining two findings are repeated in this report.



## Findings and Recommendations

### Out-of-Home Placements

#### Background

State law requires the Social Services Administration (SSA) to establish an out-of-home placement program for minor children. The program provides an alternate setting for children who cannot remain in the care of their parents due to various factors (such as abuse or neglect). SSA monitors the program and the local departments of social services (LDSSs) arrange for placement of children, such as in foster care or kinship care.

To assist in monitoring the out-of-home placement program and its other programs, SSA and the LDSSs use the Children's Electronic Social Services Information Exchange (CHESSIE). Its purpose is to provide social services workers at the various LDSSs throughout the State with a common and comprehensive information system and to provide SSA management with comprehensive and consistent monitoring and data reporting capabilities.

According to SSA's records, as of June 2013, there were 5,960 children in the out-of-home placement program and related expenditures totaled \$200 million during fiscal year 2013. Certain of these expenditures (such as maintenance costs for food, clothing, and shelter to the children) are eligible for federal fund reimbursement under Title IV-E of the Social Security Act. According to SSA's records, it received \$67 million in federal fund reimbursement for children in out-of-home placements during fiscal year 2013.

#### **Finding 1**

**SSA did not maximize the recovery of federal funds for children eligible for both out-of-home placement maintenance funds and Supplemental Security Income.**

#### Analysis

SSA did not maximize the recovery of federal funds for children who were eligible for both out-of-home placement maintenance funds and Supplemental Security Income (SSI). Although SSA's formal policy allowed SSA to request maintenance and SSI funds concurrently and to reduce SSI benefits upon receipt of maintenance funds, we were advised by SSA management that maintenance funds were not always pursued for children receiving SSI. Since maintenance funding is usually greater than SSI benefits, the failure to request maintenance funds when a child is eligible could result in the State receiving less funding to support the cost of care.

We tested 10 cases from CHESSIE, as of June 2013, where federal maintenance funds had not been received. In 3 instances the children were eligible for both federal maintenance funds and SSI; however, SSA had not requested maintenance funds totaling \$266,000 as of December 2013. (According to SSA's records, SSI benefits for these 3 children totaled \$6,405 during this same time frame.) Furthermore, SSA is unable to recover \$41,000 of these funds because the request was not made within two years of the expenditure, as required by federal regulations. In the remaining 7 cases, the children were not eligible for federal maintenance funds.

To determine the extent of maintenance funds not pursued, upon our request, SSA provided us with a CHESSIE report, as of May 2013, that purportedly indicated that there were 63 cases where the child was eligible for federal maintenance funds but the funds were not being pursued because of the receipt of SSI. We tested 5 of these cases and confirmed, in 4 cases, that the maintenance funds had not been pursued as of May 2013. Because of our limited testing, we could not conclude on the accuracy and completeness of this report. Nevertheless, the number of cases involved suggests that the SSA's decision not to pursue maintenance funds for children who also received SSI benefits could have been costly. A subsequent report from December 2013 (which we did not verify) indicates 140 children were eligible for federal maintenance funds but were not being pursued due to the receipt of SSI.

We were advised in June 2014 that SSA had been requesting retroactive federal fund reimbursement for the cases which were eligible for both federal maintenance funds and SSI; however, due to the aforementioned two-year federal funding request deadline, SSA may have lost the opportunity to collect all federal maintenance funds related to these cases.

According to CHESSIE, for the quarter ending June 2013, maintenance funds were received for 1,757 children and maintenance funds received totaled \$31 million during fiscal year 2013.

#### **Recommendation 1**

##### **We recommend that SSA**

- a. maximize the recovery of maintenance funds for children receiving SSI, and;**
- b. review all cases eligible for federal maintenance funds, including the aforementioned cases tested, and obtain available federal funds, to the extent possible.**

**Finding 2****SSA did not effectively monitor out-of-home placements to prevent placements with certain providers.****Analysis**

SSA did not establish procedures to effectively monitor the placements arranged by the LDSSs to ensure that children were not placed with certain providers. Specifically, SSA did not use available information in CHESSIE to monitor placements with providers where there was credible evidence of child abuse or neglect. A similar condition was commented upon in our preceding audit report. In response to that report the Department of Human Resources stated that SSA would query CHESSIE on a quarterly basis to identify foster care providers who had children in their custody after a determination was made that there was credible evidence of abuse or neglect. The Department also stated that SSA would then review these cases with LDSS staff to ensure that the policy which allows for continued approval of foster and kinship care has been correctly applied. This quarterly review process was not performed during the current audit period.

At our request, SSA generated a CHESSIE report, covering the period from July 1, 2010 through January 27, 2013, of providers who had children in their custody after a determination was made that there was credible evidence of abuse or neglect. Based on our review of this report and other relevant documentation, we determined there were 15 providers who had cared for 16 children ranging from 2 months to 4 ½ years during this period even though there was credible evidence of abuse or neglect against the providers prior to or during these placements. For example, one provider had received a placement that lasted for 4 ½ months even though there was credible evidence of physical abuse by the provider prior to the placement.

State regulations require that SSA may not approve or continue to approve any provider home in which there was credible evidence of child abuse or neglect. While State regulations do allow for continued approval in instances where the LDSS director reviewed and approved the specific circumstances, SSA was unable to provide documentation of such approval for the aforementioned 15 providers. In addition, while available documentation indicated that 8 of the 16 placements were court ordered, SSA could not provide documentation indicating the LDSS had advised the court of the providers' histories of abuse or neglect.

**Recommendation 2**

**We recommend that SSA establish procedures to monitor the LDSSs to prevent out-of-home placements with providers in which there is credible evidence of child abuse or neglect, unless approval is obtained. For example,**

**to the extent practical, SSA should periodically obtain reports from CHESSIE to help monitor placements (repeat).**

## **Contractual Services**

### **Finding 3**

**SSA did not obtain sufficient documentation from a State university to substantiate the validity of billings for services rendered.**

### **Analysis**

SSA did not obtain sufficient documentation for invoices related to three contracts that SSA entered into with a State university for the period from July 2011 through June 2014. These contracts, which totaled \$16.8 million, required the university to provide training to SSA staff and to measure the efficiency and effectiveness of child welfare services. Under the terms of the contracts, payments to the university were primarily based on the actual time spent and the salary costs of the applicable university personnel. As of January 2013, payments related to these three contracts totaled \$4.9 million.

We noted that SSA did not compare labor charges billed with the university's payroll records. Although SSA obtained biweekly timesheets for one university employee for each monthly invoice, this procedure was not sufficient to ensure that SSA obtained the services billed at the appropriate rate. Our review of three payments totaling \$392,000 (one from each contract) confirmed that the related invoices and timesheets lacked sufficient detail to support the amounts paid. Specifically, the invoices did not identify the specific employees who performed services during the billing periods, the hours worked, and the related salary costs. In addition, the timesheets received with these invoices did not identify whether the work performed was related to the State contracts or for other work.

This condition was commented upon in our two preceding audit reports. In its response to the preceding report, the Department of Human Resources - Office of the Secretary stated that the university would be required to provide documentation, including payroll records, to support the charges to the contracts and the documentation would be reviewed by contract monitors.

### **Recommendation 3**

**We recommend that SSA obtain and review adequate documentation, such as payroll records and invoice details, to support the propriety of amounts billed (repeat).**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Department of Human Resources (DHR) – Social Services Administration (SSA) for the period beginning January 4, 2010 and ending January 27, 2013. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine SSA's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included federal fund reimbursements, out-of-home placements, the Children's Electronic Social Services Information Exchange (CHESSIE), child protective services, adoption and guardianship subsidies, and contracts. We also determined the status of the findings included in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of SSA's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from CHESSIE for the purpose of testing out-of-home placements, federal fund recoveries, child protective services investigations, and adoption and guardianship subsidies. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Our audit did not include certain support services provided to SSA by DHR's Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the Office of the Secretary. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of SSA's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including SSA.

SSA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect SSA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to SSA that did not warrant inclusion in this report.

DHR's response, on behalf of SSA, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DHR regarding the results of our review of its response.

## APPENDIX



**Maryland's Human Services Agency**

Department of Human Resources

Martin O'Malley, Governor | Anthony G. Brown, Lt. Governor | Theodore Dallas, Secretary

July 31, 2014

Mr. Thomas J. Barnickel III  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Barnickel:

Please find enclosed the Department of Human Resources' (DHR) responses to the draft legislative audit report on the Department of Human Resources – Social Services Administration (SSA) for the period covering January 4, 2010 through January 27, 2013.

If there are any questions regarding these responses, please contact the Acting Inspector General, Marva M. Sutherland at 443-378-4008 or [Marva.Sutherland@maryland.gov](mailto:Marva.Sutherland@maryland.gov).

Sincerely,

Theodore Dallas  
Secretary

Enclosures:

cc: Carnitra White  
William E. Johnson Jr.  
Stafford Chipungu  
Erin Easton  
Debbie Ramelmeier  
Marva Sutherland

*Equal Opportunity Employer*

## Findings and Recommendations

### **Finding 1**

**SSA did not maximize the recovery of federal funds for children eligible for both out-of-home placement maintenance funds and Supplemental Security Income.**

### **Recommendation 1**

**We recommend that SSA**

- a. maximize the recovery of maintenance funds for children receiving SSI, and;**
- b. review all cases eligible for federal maintenance funds, including the aforementioned cases tested, and obtain available federal funds, to the extent possible.**

### **Department's Response:**

The Department of Human Resources (DHR) respectfully disagrees that this issue constitutes the definition of an audit finding since we are in compliance with our written policy. Since we are following our written policy, we believe that this issue would instead be more appropriately classified as a discussion note only item.

Title IV-E Policy and Procedure indicates that Maryland must request to become the representative payee for any child that enters foster care in receipt of SSI funds. The policy also states that the child may receive benefits from both SSI and Title IV-E simultaneously as there is no prohibition against such practice. If the state chooses to dually claim SSI and Title IV-E funds, the SSI will be reduced "dollar for dollar". There is no requirement that the State dually claim in these situations. An excerpt of the relevant portion of the policy is included at the end of this response.

The primary consideration in determining which federal funds to obtain is the best interest of the child and assuring that the supportive finances for the child's needs (including SSI and Medical Assistance) continue after the child leaves foster care. It is important to maintain the child's SSI eligibility so that it will not be to a child's detriment to exit foster care and wait for reinstatement of SSI benefits. Below are procedures the Department follows in determination of IV-E reimbursement while safeguarding the best interests of the children.

The Department's centralized Title IV-E Funding Unit oversees IV-E eligibility determinations, which are performed within 60 days of a child entering foster care. A child may meet eligibility requirements for federal Title IV-E and federal Supplemental Security Income (SSI); however, SSI benefits are reduced by the child's Title IV-E benefit, making many of these children ineligible for SSI. In order to maximize federal fund receipts, Title IV-E performs a cost benefits



analysis to determine, for the Title IV-E eligible child, which would be the most beneficial. While this has been a Title IV-E practice, it was not, at the time of the audit, a statewide written procedure. The methodology is now detailed in the *Title IV-E SOP: Performing Cost Benefit Analysis for Federal Funding Reimbursement*.

SSA/Title IV-E Unit is continuing in the ongoing process of standardizing the application of practice and policy for Title IV-E statewide. Included in this process is improving the review of cases with dual federal funding eligibility, both as part of the annual redetermination process and part of the Quality Assurance process that is currently under development. On a continual basis all cases are reviewed to determine if the child is IV-E eligible and reimbursable, and a retroactive IV-E claim is filed as appropriate.<sup>1</sup>

*Policy excerpt*

- (iv) SUPPLEMENTAL SECURITY INCOME (SSI): If a child is receiving SSI in the month of removal and is in out-of-home placement with a fully licensed provider the State must apply to become the representative payee. A IV-E eligible child may receive benefits from both programs simultaneously. There is no prohibition in title IV-E against claiming Federal financial participation (FFP) for foster care maintenance payments or adoption assistance payments made on behalf of a child who is receiving SSI benefits. In cases where the child is eligible for both SSI and title IV-E and there is concurrent receipt of payments from both programs, "the child's SSI payment will be reduced dollar for dollar without application of any exclusion" thus decreasing the SSI benefit by the amount of the title IV-E payment.

**CWPM 8.4D TITLE IV-E, General Title IV-E Requirements,  
Concurrent Receipt of Federal Benefits**

---

<sup>1</sup> **Auditor's Comment:** DHR disagreed with this finding because there is no requirement for DHR to receive federal out-of-home placement maintenance funds for children who are also eligible for SSI. We agree there is no requirement; however, claiming maintenance funds in these instances is allowable and would result in maximizing the receipt of federal funds and reduce the State funds needed to pay for services. Ultimately, DHR has agreed in its response to perform cost benefit analyses in order to maximize federal fund recoveries.

**Finding 2**

**SSA did not effectively monitor out-of-home placements to prevent placements with certain providers.**

**Recommendation 2**

**We recommend that SSA establish procedures to monitor the LDSSs to prevent out-of-home placements with providers in which there is credible evidence of child abuse or neglect, unless approval is obtained. For example, to the extent practical, SSA should periodically obtain reports from CHESSIE to help monitor placements (repeat).**

**Department's Response:**

The Department respectfully does not agree that SSA did not effectively monitor out-of-home placements to prevent these placements. This finding was based on the auditor's review of some files that did not contain all the written documentation that was listed in policy.

Our review of the 15 providers noted in the audit report indicated that the CPS histories were known at the time of placement, by the agency and by the Court. Documentation, in the form of court orders, was provided during the audit. The court orders documented that evidence was presented by the local department to the court with a subsequent order that the child be placed in the specific home, but did not include the details of what information was shared. The auditors deemed the documentation inadequate to demonstrate adherence to the state regulation. DHR is putting in place procedures to address this issue.

All of the providers were kinship placements, relatives identified as best suited to provide care for the children. The local department reviewed the histories and presented the information to the Court. In most cases, the Court specifically ordered the children to be placed with the identified relative. Safety assessments completed for each child indicated that there were no safety or risk issues relating to the placement with the kinship provider. At no time, were any of the children harmed or placed at risk of harm by their placement with their relative.

While they are rare, State regulations do allow local departments to approve these types of placements in instances where the LDSS reviewed and approved the specific circumstances. These circumstances are spelled out in COMAR 07.02.25.04 and a policy memo was issued in March 2011 providing further guidance. In addition, it is important to note that the child welfare system and the placement of any child are subject to several "checks and balances" that are designed to ensure that the placement of child is appropriate. Specifically:

- Safety assessments are completed at time of placement or at the initiation of a CPS investigation for every child in the care and custody of the local department. Regulations do not permit the development of safety plans

for providers which means that identified safety issues are resolved by removing the children from the care of the provider.

- All children in the Department's custody are represented by independent counsel that can assess the appropriateness of the Department's decision and challenge the decision in court should they feel that the child's placement is inappropriate;
- The Court can order a specific placement, even in circumstances where the local director did not issue a waiver of the CPS history. The CPS case history for these placements is shared with the Court at the shelter hearing so that the Court can weigh the information in the best interest determination for the child relating to their placement. Local practice did not include the generation of a waiver letter when the Court took said action.

To help ensure that proper documentation is being included in these cases, DHR will:

- 1) Obtain and review quarterly reports from MD CHESSIE
- 2) Distribute reports to local departments of social services
- 3) Request and review appropriate documentation for each case
- 4) Ensure local departments of social services take corrective action as necessary<sup>2</sup>

## Contractual Services

### Finding 3

**SSA did not obtain sufficient documentation from a State university to substantiate the validity of billings for services rendered.**

### Recommendation 3

**We recommend that SSA obtain and review adequate documentation, such as payroll records and invoice details, to support the propriety of amounts billed (repeat).**

---

<sup>2</sup> **Auditor's Comment:** While DHR agreed that its files did not include all written documentation to support the placements tested, DHR's response noted that the LDSSs reviewed the histories and presented information to the courts about the providers before the children were placed with them. However, over the course of several months, we requested such evidence and, as noted in our finding, this documentation was never provided. Ultimately, DHR agreed with our recommendation to establish monitoring procedures to prevent out-of-home placements with providers in which there is credible evidence of abuse or neglect, unless prior approval is obtained.

**Department's Response:**

The previous audit of SSA for the period from June 2007 through January 2010 recommended that DHR obtain and review adequate documentation, such as payroll records to support the propriety of amounts billed. DHR developed procedures to include such a review of payroll records as indicated in the below process.

Based on this audit finding, OLA seems to be stating that these procedures are not sufficient. While DHR would like to report that no inappropriate expenses were found in relation to three university-based contracts totaling \$4.9 million, we will expand our procedures to meet the new standard in the audit finding.

**Current Procedures**

- Calendar Year 2010 and 2011 – For each quarter, one month was randomly chosen for each contract, and the DHR project manager reviewed at least 2 invoice items (where one must always be for labor) to assure that the invoice was correct for contract staff listed for that month's labor (using time sheets collected during that month to verify time worked), and correct for the travel, supplies, and/or miscellaneous invoice item that was chosen for that quarter's month.
- Starting Calendar Year 2012 – Starting January 2012, every month's invoice was reviewed by the project manager, wherein the labor item was always reviewed (for which time sheets were supplied by the University to support the invoice labor item), in addition to one other invoice item for that month.

The new finding is that DHR did obtain sufficient supporting documentation, which the DHR will take steps to collect: Specifically, DHR will:

1. Obtain University contract invoices on a monthly basis,
2. For labor costs, compare the invoice amount to the contract budget.  
Variances found will be investigated by DHR to determine reason for variance, and DHR will take corrective action as necessary.

For other cost items, DHR will request and review in detail supporting documentation for items that are deemed to be material (e.g. over 5% of the total contract amount for the given month).

Moreover, aforementioned material amounts will be compared to budgeted amounts, variances found will be investigated by DHR to determine reason for variance, and DHR will take corrective action as necessary

With these new procedures in place, the Department expects to meet the standard of ensuring the propriety of the services charged.

**AUDIT TEAM**

**Joshua S. Adler, CPA, CFE**  
Audit Manager

**Nelson W. Hopkins, CPA**  
Senior Auditor

**Peter C. Flack**  
**Nathan H. Suffin, CPA**  
Staff Auditors