



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Department of Economic Security—

Division of Children, Youth and Families—Child
Protective Services—Contractor Payments

March • 2011
REPORT NO. CPS-1101



Debra K. Davenport
Auditor General

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Audit Staff

Dale Chapman, Director

Catherine Dahlquist, Manager and Contact Person

Daniel Hunt

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

March 30, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Mr. Clarence Carter, Director
Department of Economic Security

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Economic Security, Division of Children, Youth and Families—Child Protective Services—Contractor Payments. This report was prepared pursuant to and under the authority vested in the Auditor General by Arizona Revised Statutes §41-1966.

As outlined in its response, the Department of Economic Security agrees with the findings and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on March 31, 2011.

Sincerely,

Debbie Davenport
Auditor General

Attachment

SUMMARY

Our Conclusion

The Division administers Arizona's child welfare program and related services, many of which are provided by contracted caregivers and community service providers. In fiscal year 2010, the Division spent more than \$291.6 million on contracted and nonrecurring services. Auditors selected a sample of 80 payments for review—15 parent aide mileage payments and 65 potential duplicate payments for various other division services—totaling nearly \$282,000 and paid between July 2004 and February 2010. They found that 32 of the payments included errors totaling more than \$39,700. Auditors also identified an additional \$11,759 in payment errors for parent aide hours. The Department and the Division have taken steps to improve the processing of contractor payments and should take some additional actions including conducting ongoing monitoring of contractor and nonrecurring payments. Additionally, the Department paid nearly \$1.4 million for division contractor claims that were 2 to 4 years old without following required procedures, but has taken action to appropriately process these types of claims in the future. Finally, the Division is more consistently safeguarding bus passes.

Agency Comments

The Department agrees with the findings and will implement the recommendations.

This audit was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1966.

Contractor Payments

The Department of Economic Security's (Department) Division of Children, Youth and Families (Division) administers Arizona's child welfare program. The Division uses state and federal monies to provide services that promote the safety, permanency, and well-being of children. This includes Child Protective Services (CPS), which investigates allegations of child abuse and neglect, performs assessments of child safety, and assesses the imminent risk of harm to children. Other services include family support, preservation, and reunification services; family foster care and kinship care services; adoption promotion and support services; and healthcare services for children in out-of-home care. The Division contracts with caregivers and community service providers to provide many of the services. Additionally, the Division pays for nonrecurring services such as housing assistance and respite care. In fiscal year 2010, the Division paid more than \$291.6 million to caregivers and service providers for these contracted and nonrecurring services. The contracted and nonrecurring services payments are processed by two groups of division staff. Division central office staff process the adoption subsidy, foster care, residential living and development, shelter care, and most nonrecurring services payments. Division district staff process the payments for the other contracted and nonrecurring services, including parent aide services.

Division spent some monies inappropriately and should improve contractor payment oversight (see pages 3 through 10)

Although the Division has several controls to help ensure monies are spent appropriately, auditors' review of various payments determined that the Division inappropriately processed some of these payments. Specifically, auditors selected a sample of 80 payments for review—15 parent aide mileage payments and 65 potential duplicate payments for various other division services—totaling nearly \$282,000 and paid between July 2004 and February 2010.¹ Auditors found that 32 of these payments included errors totaling more than \$39,700.

¹ The 80 payments auditors sampled were selected from a targeted population of 946 parent aide mileage payments and 5,036 payments with a high likelihood of being duplicate payments. To determine whether the 65 potential duplicate payments selected for test work duplicated other payments, auditors reviewed both the potential duplicate payment and associated other payments for a total of 130 payments reviewed. See Appendix A, pages a-i through a-ii, for additional information regarding the payments reviewed.

An additional \$11,759 in errors that resulted from inaccurate contractor charges for parent aide hours were also identified during auditors' review of supporting documents for 1 of the 15 parent aide mileage payments.¹ In all, these errors totaled more than \$51,500. Although auditors review of the 80 payments was not designed to establish the amount of error in the general population, the number of inappropriate payments found in the auditors' sample indicates that there is a risk that the Division made other inappropriate payments. Additionally, auditors noted that vague contract language in some existing division contracts may allow some contractors to claim and be paid for excessive or inappropriate mileage costs. For example, not only did the Division reimburse parent aide contractors for mileage costs associated with transporting clients, it also reimbursed some contractors for parent aide commute miles and, in some cases, the travel time and hundreds of miles that parent aides traveled to pick up and transport clients short distances.

To address these issues, the Division should implement the following actions in addition to the activities it has already begun:

- The Division should use its newly allocated internal auditors to conduct ongoing monitoring of division contractor and nonrecurring payments, including conducting targeted reviews of payments made between July 2004 and February 2010. As part of this monitoring, the Division should also take steps to recover the more than \$51,500 paid in error if it determines that it is cost-effective to do so. As of March 9, 2011, the Division had recovered \$30,004.
- The Division should finalize its development and implementation of written payment-processing policies and procedures and ensure they address all critical payment-processing functions.
- The Division should establish unique service authorization codes in its automated system, i.e., Children's Information Library and Data Source (CHILDS) system, for all new client-specific invoiced services to improve the Division's ability to better detect duplicate payments. In October 2010, the Division modified the CHILDS system to automatically create all of the appropriate service authorization codes for parent aide and intensive family services.
- The Department and the Division should ensure that division contracts clearly identify what costs the Division will reimburse.

♦ ¹ Although auditors did not sample and review payments for parent aide hours, these errors were brought to the Department's attention. The Department verified the errors and recovered the monies.

Department paid nearly \$1.4 million in late claims without following required procedures, but has taken action to help ensure it appropriately processes these claims in the future (see pages 11 and 12)

The Department paid nearly \$1.4 million for division contractor claims that were 2 to 4 years old using fiscal years 2008 through 2010 appropriations without following procedures required by state law. Two factors contributed to the Department's inappropriately processing the claims. First, the Division did not consistently require contractors to submit claims in a timely manner for processing. Second, the Department's accounting unit lacked policy and procedures for processing prior year claims. In response, the Department has established policy and procedures to ensure these types of claims are appropriately processed when submitted. The Department should ensure that its staff comply with the policy and procedures. In addition, the Division should develop and implement policies and procedures to ensure payment-processing staff monitor contractors' adherence with contractual time frames for submitting payment claims and alert their supervisors when a pattern of noncompliance occurs so that corrective action can be taken.

Division more consistently managing and safeguarding bus passes (see pages 13 through 15)

In September 2010, the Division adopted formal policy and procedures to more consistently manage and safeguard bus passes from loss and misuse. Between fiscal years 2005 and 2010, the Division spent more than \$3 million on bus passes to assist its clients with their local transportation needs. Although the Division had reasonably managed and safeguarded the bus passes, the methods for doing so were inconsistent among its CPS field offices. To ensure greater consistency, the Division developed formal policy and procedures for securing and issuing the bus passes. The Division should ensure that its CPS staff follow the policy and procedures and periodically reconcile the bus passes to help detect any loss or misuse of the passes.

BACKGROUND

The Division administers Arizona's child welfare program. It uses state and federal monies to provide services that promote the safety, permanency, and well-being of children. The Division contracts with caregivers and community service providers to provide many of these services. Additionally, the Division pays for nonrecurring services such as housing assistance and respite care. In fiscal year 2010, the Division paid more than \$291.6 million for these contracted and nonrecurring services.

Division spends millions annually on contracted child welfare services

The Department of Economic Security's (Department) Division of Children, Youth and Families (Division) administers Arizona's child welfare program. The Division uses state and federal monies to provide services that promote the safety, permanency, and well-being of children such as Child Protective Services, which investigates allegations of child abuse and neglect, performs assessments of child safety, and assesses the imminent risk of harm to children. Other services include family support, preservation, and reunification services; family foster care and kinship care services; adoption promotion and support services; and healthcare services for children in out-of-home care.

The Division contracts with caregivers and community service providers to provide many of the services. Additionally, the Division pays for nonrecurring services such as housing assistance and respite care. As shown in Table 1 on page 2, the Division paid more than \$291.6 million for these contracted and nonrecurring services in fiscal year 2010.

These payments are processed by two groups of division staff. Specifically, in fiscal year 2010, division central office staff processed approximately \$213.7 million for adoption subsidy, foster care, residential living and development, shelter care, and most nonrecurring services payments. During this same period, division district staff processed nearly \$77.9 million for payments for the other contracted and nonrecurring services, including parent aide services. Although there are some procedural differences in how the two groups handle their respective payments, they are all processed through the Division's Children's Information Library and Data Source (CHILDS) system. Auditors' targeted review of contractor and nonrecurring payments included payments processed by both division central office staff and division district staff.

Table 1: Division-Related Expenditures for Contracted and Nonrecurring Services Fiscal Year 2010

	Amount
Adoption subsidy (support for adopted special needs children)	\$ 127,965,807
Foster care monthly maintenance payments	37,051,518
Residential living and development (foster/group care facilities)	31,342,063
Foster/adoptive home recruitment and support	23,112,531
Family support services (e.g., parent aide services)	20,887,163
Specialized services (e.g., interpreters, program evaluation)	11,523,779
Shelter care (temporary emergency placement)	6,703,871
Foster care allowances (e.g., clothing, personal)	6,517,989
Intensive family services (e.g., assessment, safety planning)	5,980,476
Independent living (e.g., educational vouchers, skills training)	5,299,651
Transportation	4,931,951
Psychological services (e.g., counseling, evaluations)	3,213,423
Miscellaneous (e.g., childcare, drug testing)	2,449,312
Receive and visitation (supervised visitation)	281,250
Nonrecurring services (e.g., housing assistance, respite care)	<u>4,351,360</u>
Total	<u>\$ 291,612,144</u>

Source: Auditor General staff summary of division financial data for fiscal year 2010 maintained in the CHILDS system.

FINDING 1

The Division made some inappropriate payments to contractors and needs to improve its contractor payment oversight. The Division is responsible for having the controls in place to ensure monies are spent properly, as required by federal and state laws and regulations. Auditors selected a sample of 80 payments for review—15 parent aide mileage payments and 65 potential duplicate payments for various other division services—paid between July 2004 and February 2010. They found that 32 of the payments included errors totaling more than \$39,700. Auditors also identified an additional \$11,759 in payment errors for parent aide hours. As a result, the Division should conduct ongoing monitoring of contractor and nonrecurring payments, including targeted reviews of payments made between July 2004 and February 2010, finalize development and implementation of payment-processing policies and procedures, ensure that its CHILDS system has proper service authorization codes for all new client-specific invoiced services, and ensure that cost reimbursement language within its contracts clearly specifies what services can be reimbursed.

Division spent some monies inappropriately and should improve contractor payment oversight

The Department of Economic Security's (Department) Division of Children, Youth and Families (Division) is responsible for having the necessary controls in place to ensure monies are spent properly, as required by federal and state laws and regulations. Internal controls serve as the first line of defense in safeguarding assets and preventing and detecting payment errors and fraud.¹ According to the U.S. Government Accountability Office, internal controls are a fundamental component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.² Inadequate internal controls can result in improper disbursing of public monies, including incorrect payment amounts, duplicate payments, and payments for unallowable costs.

The Division has several internal controls to help ensure monies are spent appropriately. For example, the Division's Children's Information Library and Data Source (CHILDS) system, which is used to process contractor payments, has system edits to ensure that the providers are on contract and that the clients are appropriately authorized to receive the services, and will suspend payment claims that appear to be duplicative so that they can undergo a second review. In addition, the personnel assigned to input contractor payments into CHILDS receive on-the-job training and are supervised by assigned staff. The Division has also appropriately segregated contractor payment duties. For example, no single employee authorizes, approves, and processes payments.

Division spent some monies inappropriately

Despite establishing several controls over payment processing, auditors identified several inappropriate contractor payments. Auditors selected a sample of 80 payments for review—15 parent aide mileage payments and 65 potential duplicate payments for various other division services—totaling nearly \$282,000 and paid between July 2004 and

¹ Auditors did not detect any instances of fraud in the sample of payments reviewed.

² United States General Accounting Office. (1999). *Standards for internal control in the federal government* [GAO/AIMD-00-21.3.1]. Washington, D.C.: Author

February 2010.¹ Auditors found that 32 of these payments included errors totaling more than \$39,700. An additional \$11,759 in errors that resulted from inaccurate contractor charges for parent aide hours were also identified during auditors' review of supporting documents for 1 of the 15 parent aide mileage payments.² In all, these errors totaled more than \$51,500. Specifically:

- **Division paid nearly \$24,000 in unsupported parent aide mileage**—The Division contracts with parent aide contractors to deliver services such as parent education, supervised visitation, and transportation to families throughout the State who are involved with CPS. Auditors examined invoices and supporting documents for 15 parent aide mileage payments from 7 contractors totaling \$213,961 and found that 7 of the payments included reimbursement for contractor mileage that lacked adequate supporting documentation.³ The Division paid a total of \$23,694 for the unsupported mileage. The Division had recovered \$12,084 of the monies paid for the unsupported mileage as of March 9, 2011.
- **Division paid more than \$6,500 for duplicate payments**—Auditors examined 130 transactions related to 65 potential duplicate payments totaling \$68,002 and found that 15 of these payments were actual duplicate payments totaling \$6,576. The Division had recovered \$6,160 of the monies paid for the duplicate payments as of March 9, 2011.
- **Division processed more than \$21,000 in inaccurate payments**—Based on their review of the 80 payments, auditors also found additional errors and inaccuracies totaling \$21,236. Specifically:
 - Supporting documents for 1 of the 15 parent aide mileage payments contained inaccuracies regarding the number of hours a parent aide worked and an unallowable charge for training. The document showed a parent aide worked 654 hours for the month instead of the actual 164.5 hours worked and included an unallowable charge for 45 hours of training. These errors totaled \$11,759. Because division parent aide contracts require that contractors provide only summary information with their invoices, division staff did not detect these errors. The Division has recovered this amount.

¹ The 80 payments auditors sampled were selected from a targeted population of 946 parent aide mileage payments and 5,036 payments with a high likelihood of being duplicate payments. To determine whether the 65 potential duplicate payments selected for test work duplicated other payments, auditors reviewed both the potential duplicate payment and associated other payments for a total of 130 payments reviewed. See Appendix A, pages a-i through a-ii, for additional information regarding the payments reviewed.

² Although auditors did not sample and review payments for parent aide hours, these errors were brought to the Department's attention. The Department verified the errors and recovered the monies.

³ Unsupported mileage included miles claimed that were not reported in the detailed mileage logs and miles claimed for serving non-CPS clients.

- In reviewing the 65 potential duplicate payments, auditors found 5 instances of double payments totaling \$9,499. In 2007, a division employee entered into a verbal agreement with several contractors to increase service rates by allowing for the double payments. However, division contracts neither supported nor authorized paying these increased rates. Additionally, these payments violated A.R.S. §41-2513(E), which allows payment for services to be made only under a fully approved written contract. In November 2010, the Department amended all 9 of its District 1 (Maricopa County) parent aide contracts to authorize the increased rates.
- Finally, auditors identified 5 other errors associated with the 65 potential duplicate payments. Specifically, due to lack of supporting documentation, there were 2 payments that could not be ruled out as duplicate payments. Additionally, there were 3 other payments that had calculation errors. The combined errors for these 5 payments netted an underpayment of \$22.

Division should perform reviews of contractor payments

To address the risk that errors may exist in other payments, the Division should conduct targeted reviews of contractor payments made between July 2004 and February 2010 to determine if any additional monies should be recovered. Although auditors reviewed a sample of parent aide mileage and potential duplicate payments, the types of errors auditors identified could have occurred for other payments because they undergo similar payment processing and were subject to similar control weaknesses. The Division should use the 3.5 internal auditors it was recently allocated by the Department to conduct the reviews. Targeted reviews of payments that appear to be improper would allow the Division to more effectively focus its limited resources. Additionally, the Division should analyze and investigate, as appropriate, the potential duplicate payments auditors identified but did not review and recover any monies paid in error. Finally, the Division should take steps to recover the more than \$51,500 paid in error if it determines that it is cost-effective to do so. As of March 9, 2011, the Division had recovered \$30,004.

Department and Division have taken some steps to address control weaknesses, but additional actions needed

The Department and the Division have taken some steps to improve the processing of contractor payments, but the Division should take additional actions to address control weaknesses that allowed improper contractor payments. Specifically, the Division should finalize the development and implementation of written payment-

processing policies and procedures and ensure that these policies and procedures address all critical payment-processing functions. The Division should also use its newly allocated internal auditors to conduct ongoing monitoring of division contractor payments and automated payment data. Finally, the Division modified the CHILDS system to improve its ability to detect potential duplicate parent aide and intensive family services payments and should similarly modify the CHILDS system for all new client-specific invoiced services.

Lack of written payment-processing policies and procedures contributed to inappropriate and inaccurate contractor payments—Despite their importance, the Division lacked adequate written policies and procedures to help its staff prevent and detect billing and payment errors. For example, CHILDS suspends contractor claims that appear to be duplicates until a second review is conducted by designated staff to either deny or approve the claims for payment. Because the Division lacked written policies and procedures outlining the supervisor’s responsibility to review these pending claims, one supervisor reported relying on payment-processing staff to conduct the reviews and deny the duplicate claims. According to federal internal control standards and the *Arizona Accounting Manual*, internal control policy needs to be clearly documented and readily available. It should appear in management directives, administrative policies, or operating manuals. Additionally, accounting policies and procedures make it possible to exercise effective accounting control over assets, liabilities, revenues, and expenditures.

The Division has drafted payment-processing policies and procedures to help ensure that payments are uniformly and appropriately processed. The Division should finalize the development and implementation of these payment-processing policies and procedures and ensure that they address all critical payment-processing functions such as verifying that accurate contracted rates are used when processing payments, when and how to check for potential inaccuracies in claims, and ensuring payments are made in the appropriate time period. Although the Division provided training to its staff on its payment-processing practices in December 2010, once it has established payment-processing policies and procedures, the Division should ensure that all payment-processing staff are trained on these policies and procedures.

Inadequate monitoring contributed to inappropriate and inaccurate contractor payments—The Division did not adequately monitor its payment-processing functions. For example, the Division did not conduct post-payment audits of supporting documentation to verify the accuracy of contractor claims. This contributed to the Division’s paying for unsupported and inaccurate claims. According to federal internal control standards, internal controls should generally be designed to ensure that ongoing monitoring occurs in the course of normal operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, and reconciliations.

The Department and the Division have taken steps to improve the monitoring of division contractor payments. Specifically, the Department allocated 3.5 internal auditors to conduct ongoing reviews of division contractors, identify overpayments, and develop recommendations for operational improvements. To help create a more manageable workload for payment-processing staff and improve monitoring of payment-processing functions, the Division has developed a plan to consolidate its six district payment-processing operations and staff into two units, with one in Phoenix and one in Tucson, by March 2011. The Division also received Department of Administration approval to hire two claims specialist supervisors and a payment-processing manager to oversee these units and ensure staff process payments in compliance with policies and procedures, contracts, and state and federal regulations. The Division should ensure that it finalizes the implementation of the steps it has taken by using its internal auditors to conduct ongoing reviews of division contractors, to identify overpayments, and to develop recommendations for operational improvements; consolidating payment-processing operations; and hiring personnel to oversee its payment-processing units and the staff within these units. Additionally, the Division should use its newly allocated internal auditors to conduct ongoing monitoring of the Division's automated payment data, including producing and reviewing a quarterly report listing potential duplicate payments.

Insufficient service authorization codes in CHILDS system contributed to some duplicate payments—Although the Division has established payment-processing controls within its CHILDS system, the lack of unique service authorization codes for some client-specific invoiced services reduced the effectiveness of these controls and contributed to the processing of some duplicate payments. According to federal internal control standards, system application controls are designed to help ensure contractor claims' completeness, accuracy, authorization, and validity. The CHILDS system has application controls to suspend contractor claims that appear to be duplicates so they can undergo a second review. However, because the Division had not established unique service authorization codes for some client-specific invoiced services within the CHILDS system, the same service authorization code was used to authorize multiple services. For example, if staff wanted to authorize parent aide services, the same service authorization code was used to authorize payment for the referral, the assessment, and the case closure. In some cases, this caused the CHILDS system to flag the second and third claims, which were valid, as potential duplicate claims and suspend their processing. Designated division staff then had to manually review and release the valid claims for payment. Because of the large volume of inappropriately suspended valid claims, the designated staff person for the most populated district, i.e., Maricopa County, reported releasing the claims for payment, including duplicate claims, without reviewing supporting documentation unless the claims looked unusual.

In October 2010, the Division modified the CHILDS system to automatically create all of the appropriate service authorization codes for parent aide and intensive family services. For example, division staff will now need to enter only one service

authorization code for parent aide services, and the system will automatically set up the three needed service authorization codes to pay for the referral, the assessment, and the case closure. This action will allow the CHILDS system's application controls to better detect duplicate claims and reduce the number of suspended valid claims that must undergo a secondary review. The Division should establish unique service authorization codes in the CHILDS system for all new client-specific invoiced services.

Department and Division should ensure contract language clearly specifies reimbursable costs

Finally, the Department and the Division should ensure that division contracts clearly specify the types of costs that the Division will reimburse. For example, the Division's parent aide contracts reimburse mileage for transporting clients.¹ However, the contracts do not clearly specify what this entails, whether it means reimbursement for only those miles driven when a client is in the vehicle, or includes commute miles, miles driven to pick up clients, or miles driven between client trips. Interviews with division management and department procurement officials provided varying interpretations of the language, ranging from "miles driven when a client is in the vehicle" to "all business miles for delivering parent aide services, excluding commute miles to and from an employee's home."

Auditors' review of parent aide mileage logs noted variations in how contractors claimed mileage reimbursement for costs such as commute miles and mileage to attend training. In addition, auditors noted a few instances where workers traveled long distances to transport clients short distances and contractors claimed reimbursement for these long distances. Although the following examples are not typical and are based on the mileage and time logs of one provider, they do illustrate how lack of clear contract language on reimbursable costs may lead to excessive or inappropriate cost reimbursement claims for mileage.

- A parent aide lived in Brawley, California, and commuted 75 miles to work in Yuma, where the contractor had an office. Based on her mileage log, the parent aide always claimed her travel time and miles to Yuma, where she would pick up and transport clients, but not her return trip home. During January 2009, the parent aide claimed 1,425 miles and 28.5 hours for travel time to commute to Yuma. The contractor claimed and the Division paid the contractor \$1,289 for this employee to commute to work in January 2009.
- The contractor, which has offices in East Mesa and Phoenix as well as other locations around the State, assigned a parent aide who lived in Casa Grande to

¹ The Division's parent aide contracts for Districts 2 through 6 also reimburse contractors an hourly rate to provide client services, including transporting clients.

transport a client from Apache Junction to East Mesa. The parent aide drove 62 miles from his home in Casa Grande to Apache Junction to pick up the client and transported the client 17 miles to a location in East Mesa. The parent aide then drove 53 miles to return home to Casa Grande. Within 30 minutes after arriving home, the parent aide drove 53 miles back to East Mesa to pick up the client and drive him/her 17 miles to Apache Junction. The parent aide then drove another 62 miles to return home. The parent aide recorded 264 miles and 4.75 hours in travel time to drive the client a total of 34 miles round-trip. The contractor claimed and the Division paid \$222 for this trip. Of the \$222 claimed, \$91 alone was for the parent aide's mid-trip return home to Casa Grande. Since this trip occurred twice in January 2009, the Division paid \$444 in travel time and mileage to transport the client a total of 68 miles.

- The contractor, which also had offices in Flagstaff and Show Low as well as other areas around the State, assigned a parent aide who lived in Sedona to cases in the Show Low area. In January 2009, the parent aide drove 180 miles from Sedona to Show Low to pick up a client and transport him/her 13 miles to Snowflake and then oversaw a 6-hour supervised visitation. After the visit, the parent aide drove the client 13 miles back to Show Low and then drove another 180 miles to return home. The parent aide recorded 386 miles and 8 hours of travel time to drive round-trip from Sedona to Snowflake, which the Division paid. The reimbursement for travel time and mileage was \$348, which was approximately \$300 more than it would have cost if the contractor had used a parent aide from its Show Low office.

Without clear contract language specifying reimbursable costs, the Division cannot ensure the appropriate use of limited state and federal monies. Contracting best practices includes defining key words and terms in the contract, assigning technical and legal personnel to review the draft solicitation to ensure that it makes sense, and identifying and correcting any unclear, vague, inaccurate, or contradictory language that may exist in the draft.¹ Therefore, the Department and the Division should ensure that its contracts clearly specify the type of costs that the Division will reimburse.

Recommendations:

- 1.1 The Division should use its newly allocated internal auditors to:
 - a. Conduct ongoing reviews of contractor and nonrecurring payments, including targeted reviews of contractor payments made between July 2004 and February 2010, identify and recover overpayments, and develop recommendations for operational improvements;

¹ Garrett, G.A. (2010). *Contract administration, part 3: Contract interpretation guidelines and best practices*. Retrieved November 30, 2010, from <http://www.ncmahq.org/publications/CMMArticleDetail.cfm?ItemNumber=6772>

- b. Analyze and investigate, as appropriate, the potential duplicate payments auditors identified but did not review and recover any monies paid in error; and
 - c. Conduct ongoing monitoring of division automated payment data, including producing and reviewing a quarterly report listing potential duplicate payments.
- 1.2 The Division should take steps to recover the more than \$51,500 paid to contractors in error if it determines that it is cost-effective to do so.
 - 1.3 The Division should finalize its development and implementation of written payment-processing policies and procedures and ensure all payment-processing staff are trained on the policies and procedures.
 - 1.4 The Division should complete consolidating its payment-processing operations and hire additional supervisory personnel to ensure payment-processing staff are properly supervised.
 - 1.5 The Division should establish unique service authorization codes in the CHILDS system for all new client-specific invoiced services to improve the Division's ability to better detect duplicate payments.
 - 1.6 The Department and the Division should ensure that division contracts clearly identify the types of costs that the Division will reimburse.

FINDING 2

The Department paid nearly \$1.4 million for a division contractor's claims that were 2 to 4 years old using fiscal years 2008 through 2010 appropriations without following procedures required by state law. Two factors contributed to the Department's inappropriately processing the division contractor claims: (1) the Division did not consistently require contractors to submit the claims in a timely manner so that they could be processed through the Division's normal payment process and (2) the Department's accounting unit lacked policy and procedures detailing the appropriate processing of prior year claims. In response to this report's findings, the Department developed policy and procedures to ensure prior year claims are processed appropriately. In addition, the Division should develop policies and procedures to ensure payment-processing staff monitor contractors' adherence with contractual time frames for submitting payment claims and alert their supervisors when a pattern of noncompliance occurs so that corrective action can be taken.

Department paid nearly \$1.4 million in late claims without following required procedures, but has taken action to help ensure it appropriately processes these claims in the future

Department used current year appropriations to pay prior year claims

Between June 2008 and May 2010, the Department of Economic Security (Department) paid nearly \$1.4 million to a division contractor using fiscal years 2008 through 2010 appropriated monies for claims that were 2 to 4 years old without obtaining the necessary approvals from the Arizona Department of Administration and/or the Legislature as required by Arizona Revised Statutes (A.R.S.) §35-191(C). These statutorily required approvals are needed because agencies have the authority to use their appropriated funds to pay expenses only in the time period for which the appropriation is made.

Auditors reviewed a random sample of 10 of the 379 manual payment vouchers that constituted the nearly \$1.4 million that the Department paid contrary to state law and determined that these claims had not been previously paid. The Department paid the claims 23 to 43 months after the services were rendered. Although 5 of the claims did not have supporting invoices, the Division was able to provide the reconciliation worksheets it used to investigate the claims. For these payment vouchers, auditors found that the services were provided and had not been previously processed or paid.

Two factors contributed to Department's inappropriately processing claims

Two factors contributed to inappropriately processing these claims. First, the Division did not consistently require contractors to adhere to contractual time frames for submitting payment claims. For example, division contracts generally require contractor monthly invoices to be accurate and submitted within 15 days of the end of the service month, and final invoices, which include all adjustments to prior claims submitted during the contract period, to be submitted within 30 days following the end of the contract.

These requirements are designed to ensure claims are paid in a timely manner using the correct appropriated funds. However, because the contractor was allowed to submit claims more than 2 years after the services were rendered, the claims could no longer be processed through the Division's normal payment process and had to be submitted to the Department's accounting unit for processing.

Second, the Department's accounting unit lacked written policy and procedures addressing the appropriate processing of prior year claims. Instead, its practice was to process claims if they had appropriate program approval. Because of this practice, the Department did not obtain the statutorily required approvals to pay the prior year claims with current year appropriated monies.

Department has taken action to address processing of prior year claims

In response to this report's findings, the Department has taken action to appropriately process prior year claims that contractors submit. In September 2010, the Department established written policy and procedures detailing the proper processing of prior year claims to ensure appropriate approvals are obtained from the Arizona Department of Administration and/or the Legislature. The Department should ensure that its staff comply with the policy and procedures. In addition, the Division should develop and implement policies and procedures to ensure payment-processing staff monitor contractors' adherence to contractual time frames for submitting payment claims and alert their supervisors when a pattern of noncompliance occurs so that corrective action can be taken.

Recommendations:

- 2.1 The Department should ensure that its staff comply with its policy and procedures on processing prior year claims, including obtaining Department of Administration and/or legislative approval, as needed.
- 2.2 The Division should develop and implement policies and procedures to ensure payment-processing staff monitor contractors' adherence with contractual time frames for submitting payment claims and alert their supervisors when a pattern of noncompliance occurs so that corrective action can be taken.

FINDING 3

In September 2010, the Division adopted formal policy and procedures on securing and issuing bus passes to ensure it consistently manages and safeguards the passes from loss and misuse. Between fiscal years 2005 and 2010, the Division spent more than \$3 million on bus passes to assist its clients with their local transportation needs. For example, a bus pass may be issued to a parent without transportation who is required to participate in drug testing and treatment as part of his/her case plan. Although the Division had reasonably managed and safeguarded the bus passes, among its CPS field offices, the methods for doing so were inconsistent. To ensure greater consistency, the Division developed formal policy and procedures on securing and issuing the bus passes. The Division should ensure that its staff follow the policy and procedures and periodically reconcile the bus passes to help detect any loss or misuse of the passes.

Division more consistently managing and safeguarding bus passes

Division obtains and issues bus passes to meet clients' local transportation needs

The Division of Children, Youth and Families (Division) purchases bus passes and issues them to division clients to meet their local transportation needs. Between fiscal years 2005 and 2010, the Division spent more than \$3 million to purchase bus passes from municipalities and transportation companies that operate bus services within the State. The Division distributes the bus passes to its Child Protective Services (CPS) field offices. CPS specialists may then issue the bus passes to parents, guardians, and custodians based on the needs identified in their CPS case plans. For example, a bus pass may be issued to a parent without transportation who is required to participate in drug testing and treatment as part of his/her case plan. Bus passes may also be issued to youths who are seeking employment or working part-time.

As shown in Table 2, division expenditures for bus passes increased from \$124,000 in fiscal year 2005 to nearly \$1 million in fiscal year 2008. Division staff reported that expenditures decreased in fiscal years 2009 and 2010 because of state budget cuts and the decision to purchase 1-day passes instead of weekly or monthly passes.

Table 2: Expenditures for Bus Passes
Fiscal Years 2005 through 2010

2005	\$ 124,009
2006	412,862
2007	742,931
2008	977,908
2009	677,068
2010	<u>115,949</u>
Total	<u>\$ 3,050,727</u>

Source: Auditor General staff analysis of division financial data maintained in the Children's Information Library and Data Source system.

Division reasonably managed and safeguarded bus passes, but used inconsistent practices

The Division reasonably managed and safeguarded bus passes, but its practices were inconsistent. Auditors' observation of division practices in three CPS field offices in Maricopa County and interviews with CPS staff during the summer of 2010 determined that the Division reasonably managed and safeguarded bus passes. For example, division staff in all three offices generally stored unissued bus passes in a locked drawer or room to keep them secure. However, auditors also noted inconsistencies in how the three offices managed and safeguarded bus passes. For example, CPS specialists in only one of the three offices signed a log acknowledging their receipt of bus passes. However, the CPS specialists in this office entered inconsistent information on the log. Specifically, some CPS specialists would list the name of the client who received the bus pass and some staff would list their own name. CPS specialists in the three offices were also inconsistent in how they had clients acknowledge receipt of the bus passes and in whether they documented the client's acceptance of the bus pass in their automated case record. Finally, CPS specialists in one office obtained bus passes for clients based on anticipated rather than actual need, requiring them to secure passes for up to 2 weeks.

Division has taken action to ensure more consistent management and control of bus passes

After auditors' work in this area, the Division established formal policy and procedures for securing and issuing bus passes in its CPS field offices state-wide to ensure it consistently managed and safeguarded the passes. The policy and procedures went into effect in September 2010. Consistent with federal internal control standards, which indicate that agencies should establish physical controls to secure and safeguard assets, the Division's new policy and procedures require division staff to record the assigned bus passes in a log and store the log and any unissued bus passes in a locked, secure location.¹ The policy and procedures also require that clients issued a bus pass sign and date a uniform bus pass affidavit that specifies the client's case number and the bus pass unique identifier. This information must also be recorded on the bus pass log. Further, a note must be entered into the automated case record indicating that the client was issued a bus pass. The Division should ensure that its staff comply with this policy and procedures.

In addition to the policy and procedures, the Division needs to reconcile the bus passes purchased against the bus passes issued to clients. Federal standards indicate that assets should periodically be counted and compared to control records.

¹ United States General Accounting Office. (1999). *Standards for internal control in the federal government* [GAO/AIMD-00-21.3.1]. Washington, D.C.: Author.

Therefore, the Division should periodically reconcile information on the number of issued bus passes and those remaining in its control with information on the number of passes purchased to help detect any loss and misuse of the passes.

Recommendations:

- 3.1 The Division should ensure that its staff comply with its policy and procedures on securing and issuing bus passes.
- 3.2 The Division should periodically reconcile bus pass logs and supporting documents to ensure that the number of passes purchased is reconciled to the number of distributed and undistributed passes.

APPENDIX A

This appendix provides information on the sampling methodology auditors used to select contractor and nonrecurring payments for review. Specifically, auditors sampled:

- 15 parent aide mileage payments
- 65 potential duplicate payments

These payments totaled nearly \$282,000 and were paid from July 2004 through February 2010.

Sampling methodology

Auditors selected a sample of 80 division contractor and nonrecurring payments from a targeted population of parent aide mileage payments and potential duplicate payments for review.

Parent aide mileage payments

- **Analytical procedures**—Auditors reviewed division controls for processing parent aide mileage payments and found that the Division did not require contractors to submit supporting documentation along with their summary invoices.
- **Test work**—Auditors performed test work to establish the significance of the risk for errors. Auditors stratified the parent aide mileage

payments made from July 2004 through February 2010 by contractor and selected 15 payments to test from 7 of the highest-paid contractors. For each of these payments, auditors reviewed the invoice and supporting documentation to determine the adequacy and appropriateness of the payment amount.

Table 3: Parent Aide Mileage Payments Targeted Population and Sample July 2004 through February 2010

Payments	Number	Amount
Population	946	\$ 8,333,783
Sample	15	\$ 213,961

Source: Auditor General staff analysis of division financial data maintained in the Children's Information Library and Data Source (CHILDS) system.

Potential duplicate payments

- **Analytical procedures**—Auditors employed a data mining technique to find potential duplicate payments by searching the Division's automated payment records to find records that matched on key fields that are typically associated with duplicate payments, i.e., service type, dollar amount, number of units, service start date. Additionally, for payments that were client specific, the records were also matched on client identification number. If the payments were not client specific, the records were also matched on provider identification number. This procedure identified 5,036 potential duplicate payments.

- Test work**—Auditors selected a sample of 65 potential duplicate payments and reviewed associated supporting documentation. To determine whether the 65 potential duplicate payments selected for test work duplicated other payments, auditors reviewed a total of 130 transactions, which consisted of both the potential duplicate payment and associated other payments. Auditors did not design the test work to establish the number of duplicate payments or the amount at risk in the general population, but to confirm if the Division is at risk for failing to detect and prevent duplicate payments.

Table 4: Potential Duplicate Payments Targeted Population and Sample July 2004 through February 2010

Payments	Number	Amount
Population	5,036	\$ 2,096,440
Sample	65	\$ 68,002

Source: Auditor General staff analysis of division financial data maintained in the CHILDS system.

AGENCY RESPONSE

AGENCY RESPONSE



DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Janice K. Brewer
Governor

Clarence H. Carter
Director

MAR 25 2011

Ms. Debbie Davenport
Auditor General, Office of the Auditor General
2910 North 44 Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Arizona Department of Economic Security wishes to thank the Office of the Auditor General for the opportunity to respond to the recently completed Division of Children, Youth and Families, Contractor Payments performance audit.

We appreciate the Auditor General's recognition of the Department's work in improving its payment processing and oversight.

The Department will continue to build upon our successful efforts in this area and implement the recommendations in the report. If you have any questions, please contact Veronica Bossack, Acting Assistant Director, Division of Children, Youth and Families, at (602) 542-3598 or me at (602) 542-5757.

Sincerely,

Clarence H. Carter
Director

Enclosure

AGENCY RESPONSE

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY'S RESPONSE
TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT
ON CONTRACTOR PAYMENTS**

Overall, the Department agrees with the recommendations in the report and will continue to build upon its successful efforts in the area of improving contractor payment processing and oversight.

RECOMMENDATION 1.1:

The Division should use its newly allocated internal auditors to:

- a. Conduct ongoing reviews of contractor and nonrecurring payments, including targeted reviews of contractor payments made between July 2004 and February 2010, identify and recover overpayments, and develop recommendations for operational improvements;
- b. Analyze and investigate, as appropriate, the potential duplicate payments auditors identified but did not review and recover monies paid in error; and
- c. Conduct ongoing monitoring of division automated payment data, including producing and reviewing a quarterly report listing potential duplicate payments.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Although the review consisted of payments to 33 vendors, a significant number of the payments were to a single vendor with poor billing practices. Of \$51,506 identified in payment errors, \$35,761 or 69 percent were related to that vendor. Test results for the other 32 vendors revealed errors totaling only \$15,745. Thus, the majority of the audit issues reflect poor billing practices from this specific vendor and do not appear to be indicative of a wider spread problem.

The Division has already taken steps to implement the recommendations. Specifically:

- The Division is monitoring billings of the vendor with poor billing practices. As of March 2011, the Division's internal auditors completed three additional payment reviews that revealed the vendor over-billed \$64,270. Internal auditors will conduct additional payment reviews of the vendor until the vendor improves billing practices at which time the vendor will be subject to standard payment reviews. Similar monitoring activities will be performed when other vendors with poor billing practices are identified through the new audit procedures.
- The Division began analysis in December 2010 of an Auditor General list of potential duplicate payments to plan internal audits of vendors. The list contains 249 lines with a payment of \$0. Therefore, the payments cannot be duplicates and will not be selected for test work.
- The Division's internal auditors completed an audit in March 2011 of a vendor that appeared in the Auditor General list of possible duplicate payments. The review of \$190,056 in payments revealed no duplicate payments. The vendor had over-billed \$125.64 due to other billing errors, a 0.07 percent payment error rate.
- In addition to the current reviews that the Division performs, the Division's internal auditors now also actively monitor automated payment data to identify questionable payment transactions; monitoring activities include identification of potential duplicate payments.

RECOMMENDATION 1.2:

The Division should take steps to recover the more than \$51,500 paid to contractors in error if it determines that it is cost-effective to do so.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Division recovered \$30,004 of the \$51,500 paid to contractors as of March 9, 2011. Recovery of monies can be complex. For example, a vendor was able to produce further documentation to support some of the payments first identified by the Auditor General as payments made in error. These were fully reviewed and all funds paid in error will be recovered. This means that the amount that the Department will ultimately recover may be less than the \$51,500 identified by the Auditor General and still result in 100% of the amount owed being collected.

RECOMMENDATION 1.3:

The Division should finalize its development and implementation of written payment-processing policies and procedures and ensure all payment-processing staff are trained on the policies and procedures.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Division follows policies and procedures outlined in the State of Arizona Accounting Manual (SAAM) when processing claims. The Division has drafted desk procedures to complement policies outlined in SAAM, and those have been implemented in a select number of areas. The drafted desk procedures will be considered final when the Centralized Payment Unit is established. At the time of this response, hiring for the Centralized Payment Processing Manager position and the Centralized Payment Processing Supervisor positions is underway and completion is estimated to occur in April 2011.

RECOMMENDATION 1.4:

The Division should complete consolidating its payment-processing operations and hire additional supervisory personnel to ensure payment-processing staff are properly supervised.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Division has already interviewed and is currently engaged in the next steps in the hiring process for the Centralized Payment Processing Manager position and the Centralized Payment Processing Supervisor positions. Completion is estimated to occur in April 2011.

RECOMMENDATION 1.5:

The Division should establish unique service authorization codes in the CHILDS system for all new client-specific invoiced services to improve the Division's ability to better detect duplicate payments.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

As of October 2010, the Division had established unique service authorization codes for current client-specific invoiced services. Prospectively when a new client-specific service is contracted, the Division will create unique service authorization codes that will help identify potential duplicate payments.

The Department acknowledges that extensive review is necessary, and has expanded its post-payment review process. Clerical errors in supporting documents were not detected because audits of service providers had not been conducted. During the audits, a review of supporting documentation and checks for clerical accuracy were conducted. It has not the role of payment-processing staff to obtain and detect clerical errors in supporting documents. Payment-processing staff checks for clerical errors in invoices through CHILDS, then staff enters units by type of service and the system calculates payments based on uploaded rates.

RECOMMENDATION 1.6:

The Department and Division should ensure that Division contracts clearly identify the types of costs that the Division will reimburse.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department continually strives to ensure contract language is clear and concise. The contracts on which the Auditor General based this recommendation were originally issued several years ago and the contracts are being resolicited with improved language.

The finding is specific to only one of the services in these older contracts, reimbursement of parent aide mileage, and the examples are not typical of the mileage billed for.

The Division has already instituted the process of requesting the Arizona Attorney General's Office review of high profile solicitations to ensure the highest degree of quality and legal clarity. Additionally, the Department's Audit and Management Services (internal audit unit) has already begun to review the language in the Division solicitations to help ensure service delivery requirements and documentation are clear. The language in recently published solicitations has been changed based on the reviews.

RECOMMENDATION 2.1:

The Division should ensure that its staff comply with its policy and procedures on processing prior year claims, including obtaining Department of Administration and/or legislative approval, as needed.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation has been implemented.

The Division completed training sessions with Department accounting staff and Business Administrators on policies and procedures for processing prior year claims. Business Administrators received training on the State relief bill process. When, and if, a situation arises in the future which the Department has prior year claims that require approvals outside the Department, those will be obtained.

RECOMMENDATION 2.2:

The Division should develop and implement policies and procedures to ensure payment-processing staff monitor contractors' adherence with contractual timeframes for submitting payment claims and alert their supervisors when a pattern of noncompliance occurs so that corrective action can be taken.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

RECOMMENDATION 3.1:

The Division should ensure that its staff comply with its policy and procedures on securing and issuing bus passes.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Division will conduct reviews at District offices to ensure compliance with policies and procedures.

RECOMMENDATION 3.2:

The Division should periodically reconcile bus pass logs and supporting documents to ensure that the number of passes purchased is reconciled to the number of distributed and undistributed passes.

DES Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Division will ensure supervisors and other office staff reconcile bus pass logs and supporting documentation to manage and control the distribution of bus passes.

CPS Reports Issued

Performance Audits

CPS-0501	CHILDS Data Integrity Process	CPS-0701	Prevention Programs
CPS-0502	Timeliness and Thoroughness of Investigations	CPS-0801	Complaint Management Process
CPS-0601	On-the-Job Training and Continuing Education	CPS-0901	Congregate Care
		CPS-0902	Relative Placement

Questions and Answers

QA-0601	Substance-Exposed Newborns	QA-0801	Child and Family Advocacy Centers
QA-0701	Child Abuse Hotline	QA-0802	Processes for Evaluating and Addressing CPS Employee Performance and Behavior
QA-0702	Confidentiality of CPS Information	QA-0901	Adoption Program
QA-0703	Licensed Family Foster Homes	QA-1001	CPS Central Registry

Information Briefs

IB-0401	DES' Federal IV-E Waiver Demonstration Project Proposal	IB-0701	Federal Deficit Reduction Act of 2005
IB-0501	Family Foster Homes and Placements	IB-0702	Federal Grant Monies
IB-0502	Revenue Maximization	IB-0801	Child Removal Process
IB-601	In-Home Services Program	IB-0901	CPS Client Characteristics

Future CPS Reports

Performance Audits

In-Home Services Program

