Management and Financial Audit of the Foster Board Payment Program

A Report to the Governor and the Legislature of the State of Hawai'i

Report No. 94-28
December 1994

THE AUDITOR
STATE OF HAWAI'I

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits,* which are also referred to as *performance audits,* examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits,* when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits,* when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

THE AUDITOR
STATE OF HAWAII

Kekuanao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Management and Financial Audit of the Foster Board Payment Program

Summary

In response to the Legislature's request, we conducted a management and financial evaluation of the Child Foster Care Payment Program administered by the Family and Adult Services Division (FASD) of the Department of Human Services (DHS). We examined how foster board payments are formulated, projected and budgeted, approved, issued, and accounted for, and evaluated expenditures made under the program. We also assessed the impact of the Families Together Initiative on Foster Board Payment Program expenditures. We contracted with the firm of KPMG Peat Marwick LLP (KPMG) to conduct a financial audit of the Child Foster Care Services Program.

We found that the department is not managing the Foster Board Payment Program so that it can budget for it responsibly. Program administrators have not paid sufficient attention to budgeting, and they have not scrutinized the requirements of the program as they have other DHS entitlement programs. We found that the department lacks guidelines to control expenditures as well as complete and consistent data on foster children. Even the scope of the payment program is unclear. DHS does not have readily available information on children for whom it makes payments.

We found that the impact of the Families Together Initiative on foster care remains unclear. The current implementation of FTI does not permit a direct cause and effect relationship to be made between FTI and foster care. Furthermore, FTI is viewed by DHS as only a part of a continuum of services available for children and youth.

The financial audit by KPMG found that the department has not adequately monitored and administered the financial operations of the program. Deficiencies in the department's financial accounting and control practices were sufficiently serious to result in two reportable conditions. Deficiencies of this magnitude are rare. In addition, one condition is of such magnitude as to be a material weakness. This means that errors or irregularities in financial transactions may occur and not be detected.

One reportable condition is that DHS is not adequately monitoring payments. Overpayments have occurred and DHS is unable to determine the extent of

weakness—DHS has no system to monitor and recover reimbursements. It cannot determine the total amounts owed to the State and from whom they should be recovered. Even when recovered, DHS does not record properly or deposit them on a timely basis.

Recommendations and Response

We recommend that the director of DHS ensure that the department begins to budget responsibly for the Foster Board Payment Program. Responsibility for developing budget projections should be assigned to the DHS Committee on Payment Projections. Also, the scope of the program should be clearly identified in terms of DHS' responsibilities for making payments for children placed by other agencies.

The Family Adult Services Division (FASD) should implement uniform and consistent internal expenditure guidelines. It should conduct timely reviews of case files and monthly reports. FASD should require a second or supervisory review of authorization for payment and data entered into the computer system and develop a checklist of documentation required for client files. It should coordinate with the Child Support Enforcement Agency to monitor child support collections and with the DHS Administrative Services Office to receive reports regularly on collections and receipts.

We recommend that the DHS Administrative Services Office establish appropriate internal controls over collections and expenditures for the Foster Board Payment Program. It should develop written procedures manual clearly defining responsibilities of each position in its Collections and Recovery Section and adequately train and supervise its staff. Subsidiary ledgers detailing all board overpayments, Supplemental Security Income payments, and individual private fund accounts should be prepared.

We recommend that the department maximize Title IV-E reimbursements by converting adoption cases to federal funding, examining and coordinating child placement responsibilities with other agencies, obtaining accurate and complete information for board payments, and continuing discussions with the federal government to maximize the recovery of administrative costs.

DHS responded that it found the points made in our report to be very useful and that, in general, it agrees with our comments and recommendations. DHS also added comments and clarified and updated information provided in the draft. We incorporated some of the clarifications in the report.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

Management and Financial Audit of the Foster Board Payment Program

A Report to the Governor and the Legislature of the State of Hawaii

Conducted by

The Auditor
State of Hawaii
and
KPMG Peat Marwick LLP

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 94-28
December 1994

Foreword

The Hawaii State Legislature, through a provision in Act 252 of the 1994 legislative session, the Supplemental Appropriations Act, requested the State Auditor to conduct a financial and management audit of the State's Foster Board Payment Program administered by the Department of Human Services (DHS).

This audit evaluated the expenditures under the program and how foster board payments are formulated, projected and budgeted, approved, issued, and accounted for. We also contracted with the certified public accounting firm of KPMG Peat Marwick LLP to conduct a financial audit of the Child Foster Care Services Program with a concentration on the Foster Board Payment Program.

We wish to express our appreciation for the cooperation and assistance extended to us by officials and staff of the Department of Human Services. We also appreciate the assistance of the Department of Health, Family Court, private providers of services and the staff of the Senate Committee on Ways and Means.

Marion M. Higa
State Auditor

Table of Contents

List of Exhibits

Chapter 1
Introduction

The Hawaii State Legislature, through a provision in Act 252 of the 1994 legislative session, the Supplemental Appropriations Act, requested the State Auditor to conduct a financial and management audit of the State's Foster Board Payment Program administered by the Department of Human Services (DHS). The Legislature, particularly the Senate Committee on Ways and Means and the House Committee on Finance, expressed concern about DHS' inability to justify sufficiently its request for an emergency appropriation to cover a shortfall in FY1993-94 for foster board payments.

DHS has attributed the shortfalls in its Foster Board Payment Program to an increase in case load which has resulted in an increase in expenditures. DHS initially estimated that it would need $1.16 million to cover the shortfall; subsequently, it increased its request to $1.96 million. The Legislature granted the request in the Supplemental Appropriations Act and also granted an emergency appropriation of $1.16 million to cover an anticipated shortfall in FY1994-95.

Section 54.1 of the Act requests the Auditor to assess the Foster Board Payment Program. The Auditor's report is to include descriptions of the program's purposes and goals, descriptions of demographic characteristics of foster board payment recipients, explanations of how foster board payments are determined and projected, descriptions of how overpayments may occur and be recovered, a review of expenditure reports, a review of how DHS has maximized federal fund reimbursements for board payments, and an analysis of the impact of the Families Together Initiative on the expenditures of the foster care program.

This report presents our findings and recommendations in response to the Legislature's request.

Background

The Foster Board Payment Program is strictly a payment system for child foster care. Payments are made for a foster child's room and board and other items or services a child might need while in foster placement. Payments are also made for adoption assistance to those parents who adopt children with special needs. Under the State's budgeting system, the Foster Board Payment Program is categorized as HMS 303 WP, which falls under the larger program category HMS 303, Child Foster Care Services Program.

The larger HMS 303 program category is administered by the DHS Family and Adult Services Division (FASD). The program funds child foster care services staff, including child welfare services personnel at the FASD state office and in units within various branch offices on Oahu, Hawaii, Maui, and Kauai. At the state office, staff includes three program managers, while staff at the branch offices are clerical, income maintenance, and social workers assigned to units called Child Welfare Services Units, Social Services Units, or Foster Home Certification Units. Social workers and clerical workers may license foster homes, process payments, and income maintenance workers determine eligibility for federal reimbursements.

HMS 303 also funds various purchase of services contracts, and other current expenses for these services.

Accounting and collection functions for the program are carried out by the department's Accounting and Collection and Recovery Sections in the Administrative Services Office within the Office of the Director.

Program appropriations

The Foster Board Payment Program is largely state-funded, but federal reimbursements under Title IV-E of the Social Security Act are available for foster care payments, administrative and training costs, and adoption assistance payments.

Exhibit 1.1 presents the history of appropriations for the Foster Board Payment Program from FY1986-87 to FY1994-95. Over the past nine years, appropriations have increased more than fivefold, from less than $3 million in FY1986-87 to more than $15 million for FY1994-95.

Changes made over the years have contributed to increases in the cost of the program. Beginning July 1, 1990, payments were made to foster children pursuing higher education retroactive to July 1, 1987. In July 1989, the payment rate was changed from a variable rate based on age to a flat rate of $504 per month, and permanency assistance payments were added. In the following year, the flat rate increased to $529. Two significant changes occurred in FY1991-92. The Foster Board Payment Program became a part of Child Foster Care Services under HMS 303, thereby combining administrative and staff costs with payment costs. Also, on March 3, 1992, the Hawaii Supreme Court ordered DHS to make board payments for foster children/youth under the care of relatives.

Demographic characteristics of foster children

Exhibit 1.2 shows the number of children in foster care and their geographic representation according to data in the DHS Child Protective Services System (CPSS) on August 9, 1994. Since we had to compile

Exhibit 1.1 Appropriations for Foster Board Payments

Year	Program ID	Program	Appropriations	Comments
1987	SOC 203	Child Foster Board Payments	$2,920,920 (A) 77,436 (N)	Variable payment rate based on age
1988	SOC 203	Child Foster Board Payments	3,332,844 (A) 77,436 (N)	
1989	SOC 203	Child Foster Board Payments	3,724,356 (A) 77,436 (N)	
1990	HMS 203	Child Foster Board Payments	8,266,458 (A) 77,436 (N)	Variable rate revised to flat rate of $504; DHS makes permanency assistance payments with a ceiling at the current board rate; DHS payment required for foster children in higher education retroactive to 7/1/87 (HRS 346-27.4)
1991	HMS 203	Child Foster Board Payments	10,010,128 (A) 77,436 (N)	Payment rate increased to $529
1992	HMS 303	Child Foster Care Services	20.00* 12,848,421 (A) 931,462 (N)	Administrative costs added
1993	HMS 303	Child Foster Care Services	22.00* 12,687,931 (A) 931,462 (N)	3/3/92 -- payments required for relative foster care per Hawaii Supreme Court decision
1994	HMS 303	Child Foster Care Services	28.17* 14,931,052 (A) 5.83* 1,126,261 (N)	Emergency appropriation of $1,960,333
1995	HMS 303	Child Foster Care Services	29.17* 15,565,405 (A) 5.83* 935,821 (N)	Projected payment shortfall of of $2.7 million

Legend

A = general funds
N = federal funds
* = position count

Source: Session Laws of Hawaii, 1987 to 1994 the data ourselves, the numbers are unofficial. The exhibit shows a total of 1,869 children or youth (including those placed by other agencies) in foster care. Approximately 1,454, or 78 percent, of the cases are on Oahu; 220, or 12 percent, are on the Big Island; and Kauai and Maui each has about 2.5 percent of the cases. Molokai has less than 1 percent, and 5 percent are not designated by island. The number of male and number of female foster children are about equal.

Exhibit 1.2
Foster Children by Sex and Geographic Areas

Island	Male	Female	Blank	Total	%
Oahu	724	723	7	1,454	77.8
East Hawaii	71	71	0	142	7.6
West Hawaii	27	51	0	78	4.1
Kauai	26	22	0	48	2.6
Maui	23	23	0	46	2.5
Molokai	3	1	0	4	0.2
Not designated	40	56	1	97	5.2
	914	947	8	1,869	100.0

Source: Unofficial totals manually compiled; DHS CPSS printouts, August 9, 1994.

Exhibit 1.3 shows the racial extraction of foster children. The larger categories are the Hawaiian/part-Hawaiian category, which represents 43.7 percent of cases on all islands; the mixed/not part-Hawaiian category, which represents 29.3 percent of all cases; and the white category which represents 9.7 percent of the cases. Most of the other categories each represent 2 percent or less of all cases.

Types of payments

Payments are made for children who are in foster care or in the care of relatives or living with permanent custodians. Payments are made until age 18, or age 21 if the child is a full-time student at an accredited institution of higher education.

Exhibit 1.3
Foster Children by Racial Extraction

Race	Oahu	East Hawaii	West Hawaii	Kauai	Maui	Molokai	Blank	Total	%
American Indian/Alaskan	16	0	0	0	1	0	0	17	0.9
Black	39	0	0	0	0	0	0	39	2.1
Chinese	2	1	0	0	0	0	0	3	0.2
Filipino	58	5	9	0	3	0	3	78	4.2
Hawaiian/Part-Hawaiian	616	79	41	19	14	1	47	817	43.7
Japanese	13	0	1	1	0	0	2	17	0.9
Korean	6	2	0	0	0	0	1	9	0.5
Laotian	5	0	0	0	0	0	0	5	0.3
Mixed/not part-Hawaiian	457	32	11	15	10	1	22	548	29.3
Other Pacific Islander	4	0	1	0	0	1	0	6	0.3
Puerto Rican/ Hispanic	10	0	1	0	0	0	1	12	0.6
Samoan	48	0	0	0	0	0	3	51	2.7
Vietnamese	3	0	0	0	0	0	0	3	0.2
White	127	7	13	9	10	1	14	181	9.7
Other	7	1	0	0	0	0	0	8	0.4
Unknown	21	2	0	4	8	0	0	35	1.9
Blank	22	13	1	0	0	0	4	40	2.1
Total	1454	142	78	48	46	4	97	1869	99.7

Source: Unofficial totals manually compiled; DHS CPSS printouts, August 9, 1994.

DHS administrative rules set a flat rate of $529 for the monthly board payment that is paid to foster parents and other caretakers licensed or approved by DHS (i.e., family homes, group homes, and child caring institutions). Emergency shelters may also receive monthly or per diem payments calculated on length of stay. The flat board payment covers the following costs: food, shelter, use of household furnishings, and equipment, expenses involved in household operations, personal essentials, reading and educational supplies, recreational and community activities, transportation (for shopping, church, and school events), medical supplies, allowance, babysitting, and infant care.

In addition to the flat rate, DHS will pay for "special circumstance" items on an as-needed basis. These items include clothing--initial supplies to meet immediate needs, and for maintenance and special circumstances; additional transportation costs for medical care, school transport when free school transport is not available, child placement, and family visitations. DHS will also pay for medical care and treatment for the foster family up to $500 a month and cleaning supplies, related to the physical condition of the child.

DHS also pays for special services needed by foster children with physical, emotional, or behavioral disabilities. DHS pays foster parents who participate as treatment team members to modify a disturbed child's behavior, train a developmentally disabled child in personal care and self-help skills, or provide physical therapy/special exercises to a handicapped child. The foster parent is paid $4.75 per hour for no more than 120 hours per month, or a maximum of $570 per month. The amount of time to be spent by the foster parent on special services is determined by the social worker and the parent.

Children living with permanent custodians receive "permanency assistance payments" and are allowed additional payments for further costs on an as-needed basis. Such costs are for clothing for maintenance and special circumstances and transportation to school, for medical care, or for moving to a new state of residence with a permanent custodian/ legal guardian.

Although not considered part of foster care, adoption assistance payments are part of the HMS 303 WP budget. DHS pays subsidies to parents who adopt a child with special needs. This payment, not to exceed the flat board rate of $529, is made on a monthly basis until the child reaches age 18, or age 21in special circumstances. DHS also pays for nonrecurring adoption expenses (reasonable and necessary adoption fees, court costs, attorney fees, and other costs directly related to the adoption of a special needs child); and other adoption-related expenses (adoption home study, health and psychological exams, supervision of placement prior to adoption, transportation and lodging costs, and food during the adoption process). Both nonrecurring and other expenses are limited to $2000.

Problems with foster care programs

Questions about case load, client characteristics, and actual and projected expenditures amount to common and long-standing problems with foster care programs. On both federal and state levels, foster care programs have come under fire for improper management. A joint audit report on foster care programs in seven states, published by the National State Auditors Association in June 1994, raised numerous concerns.[1] A major concern was the lack of adequate management information systems to track cases.

An earlier report issued by the State Auditor in 1990, *Study of Foster Care In Hawaii*, raised issues that remain relevant for this audit.[2] Our prior study found that Hawaii did not have a "system" but rather "a series of discrete and uncoordinated programs." We also found that Hawaii used foster care more often than other jurisdictions on the mainland, that the program suffered from high staff turnover, and that it was deficient in capturing federal fund reimbursements. We reported that the exact number of children in foster care was impossible to determine. "Children are counted separately by different programs and often appear as duplicates on records maintained by DHS. In addition, DHS has come up with different figures for the same date . . . ."[3]

DHS has attempted to correct these deficiencies. To reduce the overuse of foster care, DHS developed the Families Together Initiative program to prevent out-of-home placements and reunite families through intensive, home-based services. DHS has also made an effort to capture more federal fund reimbursements. In FY1993-94, it applied for approximately $7.6 million in Title IV-E funds. DHS is also pursuing Title IV-A (Social Security Act) reimbursements for clients served under the Families Together Initiative.

DHS is still attempting to improve its record keeping. It plans to replace its current payment system with a payment system added to its Child Protective Services System (CPSS). The CPSS is designed to provide information on expenditures by case. The system is expected to be fully operational by January 1995.

Objectives

The objectives of this study were to:

1. Conduct a financial evaluation of the Child Foster Care Services Program (HMS 303) with a concentration on the Foster Board Payment Program (HMS 303 WP) to determine the propriety of expenditures; evaluate accounting procedures and internal controls; and test the reliability of computer information.

2. Conduct a management evaluation of the Foster Board Payment Program to evaluate how foster board payments are formulated, projected and budgeted, approved, issued, and accounted for, and to evaluate the expenditures under the program.

3. Assess the impact of the Families Together Initiative on Foster Board Payment Program expenditures.

Scope and Methodology

To accomplish these objectives, we engaged the certified public accounting firm of KPMG Peat Marwick LLP (KPMG) to examine the financial records and transactions and the related systems of accounting and internal controls for the Child Foster Care Services Program, HMS 303, for the fiscal year ended June 30, 1994. Although this report focuses on the Foster Board Payment Program, HMS 303 WP, it was necessary for KPMG to conduct a financial audit of the larger HMS 303 program category for accounting purposes. HMS 303 is made up of six separate organizational categories for child foster care services as follows: State Office (HMS 303 WA); Hawaii Branch (HMS 303 WH); Kauai Branch (HMS 303 WK); Maui Branch (HMS 303 WM); Oahu Branch (HMS 303 WO); and Foster Board Payments (HMS 303 WP).

Our management evaluation focused strictly on HMS 303 WP. We reviewed program expenditures since 1987; examined the roles and responsibilities of DHS personnel involved with foster board payments; evaluated how the Foster Board Payment Program was developed and managed; and obtained demographic information for the foster care population.

We reviewed federal statutes and rules, state statutes and rules, and relevant literature, memoranda, documents, and forms. We interviewed personnel of all state agencies involved in the Foster Board Payment Program as well as private providers who receive foster board payments from DHS. We also compiled computer generated demographic information and reviewed case files.

Our case file review was based on a sample size that would result in a 90 percent confidence level, with a standard error rate of plus or minus 4 percent, that the findings would provide an attributes sampling of the entire program population. We sampled 77 cases for Oahu and took a 10 percent sample of cases on Kauai, Maui, East Hawaii and West Hawaii.

Our work was performed from June through September 1994, in accordance with generally accepted government auditing standards.

In Chapter 3, we present KPMG's independent auditors' report on the statement of revenues and expenditures of the Foster Care Services for Children Program and the related reports on the program's internal structure and compliance. This financial audit was conducted by KPMG from August through October 1994 in accordance with *Government Auditing Standards* (1988 revision) issued by the Comptroller General of the United States, as well as generally accepted auditing standards.

Chapter 2

Findings and Recommendations

In this chapter, we present our findings and recommendations on the management of the Foster Board Payment Program by the Department of Human Services (DHS). The program consists of foster board and board-related payments and adoption assistance payments. We find the department's management of the program, especially its financial management, in need of considerable attention and improvement.

Summary of Findings

1. The department is not managing the Foster Board Payment Program so that it can budget for it responsibly.

2. The department has not adequately monitored and administered the financial operations of the program such that our financial auditors found deficiencies in the department's internal control structure sufficiently serious to be deemed reportable conditions. Reportable conditions are rarely found. In addition, one condition is of such magnitude as to be a material weakness. This means that errors or irregularities in financial transactions may occur and not be detected.

3. Federal reimbursements could be increased.

4. The impact of the Families Together Initiative on foster care remains unclear.

DHS Is Not Properly Managing the Foster Board Payment Program

The Foster Board Payment Program (HMS 303 WP) is the payment component of child foster care services. The program's budget consists entirely of funding for board and board-related payments for children and youth placed in foster care as well as payments for adoption assistance.

DHS has not planned or managed the program so that it can budget for it in a responsible manner. This became evident when it reported a shortfall in the program's budget for FY1993-94 and projected a further shortfall for FY1994-95. The department requested emergency appropriations to cover the shortfalls during the 1994 legislative session. DHS gave several different projections of the amounts needed. The department's initial estimate of $1.16 million for FY1993-94 was short of its final estimate of $1.96 million by almost 70 percent. Its current projected shortfall for FY1994-95 is $2.7 million, which is above and beyond the emergency appropriation made at the 1994 session.

The failure to budget properly can be attributed to the lack of attention given by program administrators to the financial requirements and constraints of the payment program. Additionally, the department has not scrutinized the program's budget like it has other entitlement programs. Administrators also have not developed the data on foster children that would enable it to make accurate budget projections, and they have not made clear the scope of the payment program.

Program administrators have not paid sufficient attention to budgeting

The functional statement for the DHS Family and Adult Services Division (FASD) makes the division administrator responsible for determining priorities and allocating resources, coordinating and reviewing the multi-year program and financial plans, and preparing the division's budget. In addition, under the direction of the FASD administrator, the administrator of the Social Services Program Development Office (SSPD) oversees the development of the sub-program budget for child foster care services. But FASD administrators have not paid sufficient attention to these budgeting functions. There are few controls on expenditures and major shortcomings in the budgeting process.

To properly develop a budget for this program, the FASD administrator must coordinate and pull together data from a number of different DHS offices. Currently, budget projections involve a department-wide committee and staff in the director's Planning Office. Payment processing and tracking of expenditures involve the department's Accounting and Collections and Recovery Sections in the Administrative Services Office in the director's office. While these units under the director's office must implement changes, as discussed below, to improve their roles in the program's budget, FASD administrators must pay more attention to coordinating these functions in developing the budget.

Requirements of the program have not been scrutinized

DHS has not scrutinized the funding requirements of the Foster Board Payment Program as it has other DHS entitlement programs. Continued failure to analyze funding needs will result in future shortfalls.

DHS has established a department-wide Committee on Payment Projections (COPP) to examine the funding requirements of its other entitlement programs. The committee is responsible for developing budget projections for payments to Assist Families with Dependent Children (AFDC), payments to Assist the Aged, Blind, and Disabled (AABD), and other General Assistance (GA) payment programs.

The department-wide committee is comprised of staff from DHS' planning, budget, research, accounting, and program development offices and meets on a monthly basis to discuss the budgets of entitlement programs. The committee refines budget projection (regression) formulas on a continuous basis. The regression formulas include factors such as average case load, average expenditure, standard of need, federal financial participation rate, and the impact of the State's economic condition on case load.

DHS is only now developing a budget projection model for the Foster Board Payment Program. The current model is a time series regression model that tracks expenditures over time, but does not take into consideration factors other than expenditures. The model is inadequate because, as will be discussed in the following section, FASD does not have the necessary data that would enable the committee to make better projections. For example, they are unsure of the expenditures for the children/youth of other agencies and institutions.

In addition, the director has not clearly assigned responsibility for budget projections for the Foster Board Payment Program to the committee. The committee discusses the Foster Board Payment Program largely in relation to federal Title IV-E and Title IV-A reimbursements during its subcommittee meetings on child welfare services—known as Child Welfare Services - COPP meetings.

We believe that, like other entitlement programs, budget projections for the Foster Board Payment Program should be clearly recognized as a responsibility of the committee. It is critical for members of the committee to give the program close scrutiny and to develop reliable budgets and forecasts for the program. The FASD administrators must work with the committee and concentrate on generating good data and developing and refining the program's projection methodology. The DHS director must ensure that this is done.

A separate program identification will help

DHS is planning to create a separate budget program category for the Foster Board Payment Program, apart from the larger HMS 303 program category for child foster care services. This means that costs of the payment program will be separated from administrative costs for foster care services. We believe that this will be an improvement that can help give the program greater clarity and emphasis.

Guidelines to control expenditures are lacking

FASD has not developed guidelines for social workers that would ensure consistency in making payments and managing expenditures to stay within budget. Expenditures for board-related payments, other than the flat monthly board payments, are made largely at the discretion of individual social workers. Budget constraints are not recognized and there are few limits on spending.

Currently, social workers and some assistants in any FASD unit providing child welfare services can initiate foster board payments. The extent of their responsibility for payments varies with the unit. For example, units with case management responsibilities handle foster board payments on a regular basis, whereas those in crisis/intake units do so only in emergency situations. Social workers, unless they are new, and some social services assistants are authorized to issue payments without prior approval from their supervisors.

Social workers are allowed varied discretion in making payments. For example, while special service costs are based on a formula which allows a maximum of $570 per child each month, the clothing allowance is more subjective and varies in expenditures from unit to unit. There is an unofficial range of $50 to $350 with an average at $250 per child per year.

FASD units feel the need for guidelines. One of the units asked DHS administration about DHS' responsibility for clothing allowances and what is considered "necessary maintenance" for clothing. The administrative response was unclear and stated that although there is a recommended clothing guide, it should simply be used as a "tool" and any decision is ultimately left to the discretion of the individual social worker.

Guidelines to supplement the rules on transportation payments are also needed. Approval of the type of transportation, need for transportation, and frequency of the transportation is discretionary with the social worker. Guides to social workers based upon available funding could be implemented.

Additionally, while there are limits to the monthly payments that may be issued for adoption assistance and permanency assistance, payments for other allowable expenses are discretionary with the social worker. Social workers have few guidelines to assist them in determining the amount they should authorize.

To control expenditures and to stay within budget, FASD needs to develop expenditure guidelines based on funding available. According to DHS "Functional Statements," the FASD administrator is responsible for prescribing and developing policies, standards, and procedures as may be necessary. The FASD administrator also oversees fiscal control of funds allocated to the Foster Board Payment Program. FASD is responsible for seeing that these duties are carried out and that internal guidelines are issued, uniformly and consistently implemented, and amended when necessary to account for such factors as inflation.

Complete and consistent data on foster children are lacking

Budget projections are based on historical expenditure and demographic data. Good projections on future funding needs are difficult to make without accurate information on the number of cases and background information on each case.

FASD produces varying caseload totals which are dependent upon how caseload is defined. For example, a clarification must be made between foster board payment recipients and the total number of children in out-of-home placements. This is due to the fact that no complete and consistent centralized system of recording demographic information on each foster child is available. This hampers the development of accurate budget projections. For example, data are lacking on types of clients having varying financial needs, such as the number of children for whom special needs payments have to be made.

Due to difficulties during a data conversion process, FASD was unable to generate updated, aggregated demographic information. Except for data on age, the demographic information was deleted during a code conversion on the CPSS and FASD is in the process of reentering the data into the system. Thus, we had to compile the demographic data in Chapter 1 manually from a list of cases provided by FASD.

We found the current data bases to be limited and of questionable accuracy. We also found the documentation in case files to be incomplete.

Limited data bases

Data on case load and types of demographic information vary depending on the computer data base used. Currently, two separate computer systems contain data on case load and clients.

One is the Public Welfare System-5 (PWS-5)/Oklahoma payment system, which contains information on how many clients receive board and board-related payments. The PWS-5/Oklahoma system generates checks and has records on all clients receiving foster board and some clients receiving board related payments through the system. Although the system can provide information in aggregated numbers, it cannot provide information on expenditures per child. Additionally, the system does not record any transactions made by purchase order. DHS considers the system to be outdated and cumbersome and plans to discontinue it at the end of the year.

A second way of determining case load is the Child Protective Services System (CPSS) which contains information on foster children regardless of whether they are receiving payments. One of the problems with the CPSS is that information is not entered or updated regularly.

Questionable data

The accuracy of demographic data entered into the system is also questionable. In our review of a sample of case files, we found inconsistencies at all four FASD branches. In comparing data in CPSS with data in client files, we found discrepancies in such data as sex, birthdate, and race. For example, one client was shown as "mixed" in the case file while entered as "Hawaiian" in CPSS. One showed the wrong sex and another an incorrect birthdate. In our sample, we found discrepancies in 11 of 77 cases reviewed on Oahu, 1 of 5 on Kauai, 1 of 4 on Maui, 2 of 8 in West Hawaii, and 4 of 14 in East Hawaii.

Incomplete documentation

We found that the case files did not contain sufficient documentation to show compliance with state and federal eligibility requirements. We found that 14 of the 20 case files examined did not have adequate documentation that certified the licensing of the foster care facility or parents. We also found that the level of documentation within the case files for AFDC and Supplemental Security Income (SSI) eligibility was inconsistent.

Social workers are required by state and federal guidelines to obtain certain kinds of documentation to verify that recipients meet eligibility requirements. Case files should contain the documentation needed to verify eligibility. Program administrators should identify the standard documents needed and develop a checklist to ensure file documentation is complete. Social workers should complete and sign the checklist for each case file.

New payment component

FASD hopes that its plan to add a payment component to the CPSS system will enable it to obtain payment information by client, such as how many payments are made to whom, and on behalf of whom, as well as generate purchase orders. Until the new system becomes operational, however, how much background information will be readily accessible is not known.

The FASD administrator is officially responsible for providing direction in developing and implementing a data processing system that will provide a systematic, analytical basis for making program decisions. In carrying out these duties, the administrator should work with the DHS Information Systems Office (ISO), and Systems Operations and Requirements Office (SORO), to ensure that the new component to the CPSS will have the features necessary to assist the department in making accurate budget projections for the program.

The FASD administrator should also ensure that data entered into the system is accurate and that documentation is complete and consistent.

Scope of payment program is unclear

To further complicate the difficulty of budgeting for the program, program administrators cannot provide detailed information on how much DHS pays for foster children placed by other agencies. DHS makes foster board and board-related payments for foster children placed by the Department of Health (DOH), some Family Court children, and those under the care of private institutions. DHS also makes payments for the Office of Youth Services (OYS) which is administratively attached to DHS. There is no clear identification of the children for whom DHS is responsible.

DHS does not have readily available a list of children placed in foster care by other agencies and private institutions for whom it makes payments. It attempted to generate information for this audit on the number of clients and expenditures by agency, using both the PWS-5 and CPSS systems. But the case loads and expenditures did not match up by agency because the systems are not linked.

Exhibit 2.1 is an estimate that we developed of the total number of clients from other agencies and institutions on whose behalf DHS makes board and board-related payments. We estimate that in June 1994, DHS made payments for 80 children in foster care at a total cost of approximately $40,000.

Exhibit 2.1
Estimated DHS Board and Board-Related Payments for Children of Other Agencies/Institutions in June 1994 (only estimates available)

Type of payment	# of clients	Expenditures	Avg. cost per client
Child welfare foster care	71	$ 34,553.19	$483.72
Relative foster care	9	$ 4,066.40	$468.43

Source: Compiled from Department of Human Services printouts, June 30, 1994.

DHS' responsibility for OYS placements is particularly confusing. OYS is responsible for foster group homes and has a budget for slots in those homes. However, since OYS is administratively attached to DHS, DHS has been covering any funding shortages in the group homes/emergency shelters under OYS' jurisdiction. For FY1993-94 and FY1994-95, the Legislature authorized an additional 16 group home slots for OYS. Since OYS did not have the money to pay for board and board-related costs for these additional slots in FY1994-95, DHS is making the board payments.

The director should clearly identify DHS' responsibilities for making payments for foster children placed by other agencies. DHS should ensure that it has sufficient data on these children in the centralized information system.

DHS Is Not Adequately Controlling Expenditures or Collections, Resulting in Reportable Conditions

DHS is not adequately controlling expenditures or collections. Our financial auditors, KPMG Peat Marwick LLP (KPMG) found significant weaknesses in the program's financial accounting and internal control practices and procedures. These weaknesses resulted in two reportable conditions:

- Payments are not adequately monitored since social workers do not review case files and monthly payment reports on a timely basis. Authorization of board payments is not subject to supervisory review. Overpayments have occurred and DHS is unable to determine the extent of these overpayments.

- DHS has no system to monitor and recover reimbursements to the Foster Care Payment Program, including overpayments. It cannot determine the total amounts owed to the State and from whom the reimbursements should be recovered. Even when reimbursements are recovered, they are not recorded properly or deposited on a timely basis. In addition, private fund accounts are not reconciled on a timely basis.

Deficiencies of this magnitude are rare. These deficiencies make sound budgeting difficult since DHS cannot factor into the budget information on reimbursements—consisting of collections for overpayments, Supplemental Security Income (SSI) receipts, and child support—because it does not know how much is owing.

Foster Board Payments Are Not Adequately Monitored

DHS is not adequately monitoring board and board-related payments. KPMG found this to be a reportable condition in the program's financial accounting and internal control practices and procedures. Financial auditors use the term "reportable condition" to describe a significant deficiency that could adversely affect the organization's ability to record, process, summarize, and report financial data.

Foster board payments totaled more than $16 million in FY1993-94, but there is no assurance that all payments were authorized or proper. Overpayments have occurred. We were informed that the department is unable to determine the extent or total amount of overpayments. Furthermore, identified overpayments are not tracked and recovery efforts are practically non-existent.

Board overpayments are not adequately monitored since: (1) case files are not reviewed on a timely basis, (2) monthly payment reports are not reviewed by social workers, and (3) authorization of board payments and data entry of turnaround forms (TAFs) are not subject to a supervisory or second review.

Poor case file review

Payments are made when social workers prepare a TAF which details the name of the applicant, type of payment, and the amount, and forwards the form to be entered on-line to the PWS-5/Oklahoma payment system. Once the TAF is entered into the system, monthly payments are automatically generated and continue indefinitely until a new TAF effects a change or terminates the payment. This means that if a social worker does not prepare a TAF for any change in eligibility or level of required assistance, the Oklahoma system will continue to process incorrect board payments indefinitely.

Social workers have not adhered to established procedures that require case folders to be reviewed at least once every six months. Timely reviews of case files would enable social workers to periodically re-evaluate the status and eligibility of each recipient and to adjust board payments in a timely manner. But we were informed that social workers have approximately a one-year backlog for case file reviews. We were informed by unit supervisors that, consequently, (1) payments are being issued to ineligible recipients, and (2) inappropriate payments are being made because the circumstances of the recipient have changed; for example, payments made for special needs that are no longer necessary. In a testing of 18 case files, we found that 13 had not been reviewed every six months. Timely reviews must be done to check on whether all payments generated are proper.

Monthly payment reports are not reviewed

Monthly payment reports generated by the Oklahoma system are not compared to case file documentation by social workers or unit supervisors. Performance of this established procedure ensures that payments processed are properly authorized by the social worker and may identify potential payments to ineligible recipients. We were informed by unit supervisors that they neither have the time nor manpower to perform this task. As a result, there is no assurance that all payments generated by the Oklahoma system are authorized and proper, which may result in board overpayments.

FASD should make sure that the appropriate social worker or unit supervisor reviews monthly payment reports.

No supervisory review

Furthermore, no second, supervisory review is made of authorizations for payments or data entered into the Oklahoma system. Although KPMG found no evidence of improper authorization or significant data entry errors, a review by FASD unit supervisors (or other designated employees) of the TAFs, related case file information, and data input would improve controls over the authorization and accuracy of board payments and reduce the likelihood of mistakes.

Quality control reviews undocumented

Quality control staff at the DHS Evaluation Office perform monthly reviews of the Foster Board Payment Program case files to ensure the accuracy of eligibility and payments. They bring exceptions, or problems, found during these reviews to the attention of the appropriate FASD unit via Form DHS 235 "Quality Control Investigative Report."

The FASD units are left with the sole responsibility of investigating and correcting all the exceptions noted. No written reports are prepared to summarize the findings of the quality control staff or corrective actions taken by the units. The quality control staff should follow up on corrective actions taken and prepare reports that summarize the results of its reviews and the corrective actions taken by the FASD units. Similar reports are done biannually for other entitlement programs such as AFDC.

Procedures for Reimbursements Are Inadequate; Private Fund Accounts Are Not Maintained

KPMG found that financial accounting and internal control practices over board reimbursements are sufficiently poor to be not only a reportable condition but also a material weakness. A material weakness is the worst possible condition; that is, a situation where significant errors or irregularities could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Cash receipts of the program consist primarily of state appropriations and federal assistance. Other types of cash receipts are foster board reimbursements, which include board overpayments, collections from the Child Support Enforcement Agency (CSEA) for child support, and SSI receipts.

DHS is unable to determine the total amount of board reimbursements that are owed to the State and from whom to recover the reimbursements since it does not have a system to adequately monitor and recover the reimbursements due. Even when board reimbursements are recovered by DHS' Collections and Recovery Section (CRS), the section does not properly secure, record, and deposit the reimbursements on a timely basis. Furthermore, CRS is not carrying out its fiduciary responsibility to maintain private fund accounts for foster children whose child support and SSI payments exceed their foster care expenditures.

Board overpayments are not adequately monitored

Identified overpayments are not tracked. A social worker who identifies a board overpayment notifies CRS using the "Notice of Refund Plan" form. CRS enters this information into the department's Accounts Recovery System for billing and collection purposes. However, neither the FASD units nor CRS monitors these board overpayments.

The FASD administrator should require FASD unit supervisors to maintain a record of overpayment information. The information should be checked on a regular basis to make sure that corrections have been made. The information should also help supervisors to identify social workers who make overpayments since they may need additional training or supervision.

Extent of SSI payments due is not known

Neither the FASD units nor CRS monitors SSI payments. As with board overpayments, DHS is unable to determine the extent or total amount of SSI payments owed the State.

Foster care children who have special needs may qualify for SSI payments from the federal government. Children in the foster care program can receive either federally funded board payments or SSI payments. Children in the adoption assistance program can receive both federally funded board payments and SSI payments.

When a child with special needs enters the adoption assistance program, the case worker will immediately process an application for SSI. SSI checks take roughly six weeks to process and are made out to DHS. A report detailing the name and amount for each recipient is attached to the checks. But whether the payments are received for each child applied for is not tracked.

CRS has no subledger for overpayments and SSI

A first step in developing a system to properly record and process board overpayments and SSI payments would be to develop a subledger detailing the amounts owed. Under the direction of the Administrative Services Office, CRS is responsible for monitoring and collecting board overpayments and SSI payments; however, it does not have a report detailing the status (in terms of number of days and amounts) of outstanding board overpayments and SSI payments to be collected. Personnel of both CRS and the Foster Board Payment Program said they were unaware of any subledger identifying total board overpayments and SSI payments to be collected and the length of time these receivables are outstanding.

The Administrative Services Office (ASO) should make sure that CRS generates an aged receivables subledger detailing all board overpayments and SSI payments to be collected and the length of time these receivables have been outstanding. This aged subledger should be updated and reconciled on a monthly basis.

Additionally, FASD should work with ASO to implement procedures to receive reports on all outstanding receivables. The director's office, in its oversight and coordination function, must engage in management reviews of aged and appropriate collections procedures.

Child support collections not monitored

Legally responsible parents or guardians are required to contribute to their child's foster care costs. Payments received from financially able parents or guardians are used to reimburse the program for foster care costs. When a child enters the program, the FASD foster care income maintenance unit prepares a CSEA referral form. This form is then forwarded to CSEA and CSEA is responsible for determining and collecting foster board payment refunds from parents and guardians.

These child support payments, if monitored and collected properly, could reduce program expenditures and the amount of emergency appropriations that may be required. However, no one in FASD or DHS is monitoring CSEA collection and remittance functions. CSEA does not provide FASD with a report detailing board refunds due from financially able parents or guardians. Consequently, no one at FASD has knowledge about the total amount of board refunds owed to the program.

Additionally, CSEA personnel contend that the information it receives from FASD units is often incomplete or inaccurate. CSEA personnel say that forms from FASD units often have missing or erroneous information. CSEA has a difficult time obtaining correct information from the FASD units. CSEA also has difficulty obtaining historical expenditure data on cases. It could pursue payments from the parent/guardian for retroactive board payments if it had this type of expenditure information.

FASD should work with CSEA and ASO to coordinate and monitor child support collections. It should request reports from CSEA on those children for whom child support is collectible. It should ensure that program staff fill out CSEA referral forms completely and accurately. FASD should also ensure that its new payment system can generate the type of expenditure data that CSEA needs to pursue reimbursements for retroactive board payments.

Collections are not properly recorded nor deposited on a timely basis

DHS has significant internal control deficiencies relating to the cash receipts function. CRS is responsible for collecting, recording, securing, and depositing all cash receipts and monitoring all receivables for DHS, including the Foster Board Payment Program. CRS sorely needs to ensure proper recordation, deposits, and security for foster board reimbursements. CRS has multiple problems that need immediate attention.

A specific problem area is deposits of child support receipts from CSEA for the Foster Board Payment Program. CSEA submits to CRS monthly reports along with the monthly receipts for the program as well as receipts for the AFDC and Medicaid programs. CSEA attaches a cover letter to the report showing the specific amounts collected for AFDC, Medicaid, and foster care. However, CRS ignores these breakouts of receipts and has been depositing all receipts into the AFDC general fund account. For FY1993-94, approximately $50,000 collected for the Foster Board Payment Program has been deposited in the AFDC account.

KPMG's audit, conducted with the assistance of the department's Evaluations Office (EVO), also found other significant internal control deficiencies that were similar to an earlier report prepared by EVO. KPMG found that:

- 790 checks amounting to $1,292,000 were not deposited. Deposits were not processed until receipts were logged in; however, the logging of receipts was at least two months behind.
- Cash amounting to $3,100 was received on August 12, 1994, and not deposited until August 18, 1994.
- Cash, checks, and food stamps were kept in a safe or locked in file cabinets; however, most of the CRS employees knew the combination to the safe and had access to the keys for the file cabinets.

- Checks that were about to become non-negotiable because of age (also known as stale dated checks), including SSI checks, were deposited into DHS' suspense account. However, no one in DHS was responsible for reconciling this account. As of June 30, 1994, $487,453 of unidentified funds were in this account.

- CRS has no supervisor and continues to experience high employee turnover.

These conditions occurred because the Administrative Services Office has not developed clear policies and procedures to ensure that cash receipts are recorded properly and deposited on a timely basis. ASO has also failed to provide adequate supervision and guidance for CRS personnel. Staff are unsure of their responsibilities and are not directed to do their work properly.

Although we are unable to determine the direct quantitative impact of the problems in CRS on the Foster Board Payment Program, timely recording and depositing of cash receipts would ensure that the program's expenditures are properly reimbursed and that funds become available for other program expenditures.

The ASO is responsible for CRS and should establish policies and procedures to ensure that all cash receipts are properly recorded and deposited on a timely basis. It should prepare a written policies and procedures manual to clearly define the responsibilities of each CRS position and to specifically describe how each process or task is performed. All CRS employees should be adequately trained and supervised. A qualified and properly trained supervisor should be hired to manage CRS. Further, access to receipts in the safe or locked filed cabinets should be limited to designated authorized CRS personnel.

Private fund accounts are not maintained

DHS is not carrying out its fiduciary responsibilities to children who receive payments in excess of the cost of their foster care. Section 17-828-7, Hawaii Administrative Rules, requires the department to set up a private fund account for each foster child who receives resources in excess of the amount expended by the department. Available resources include SSI collections and child support collections by CSEA. However, DHS is not properly maintaining these private fund accounts.

CRS is responsible for establishing private fund accounts. Upon receipt of SSI checks, CRS clerks will contact the appropriate social worker to determine whether any portion of a check should be deposited into a private fund account. If the social worker can determine whether a portion of the check should be deposited into a private fund account, CRS clerks will deposit the amount into the private fund control accounts. These control accounts should represent the total of all of the individual private fund accounts. An individual private fund account is created by entering the information into the DHS Accounts Recovery System and depositing the money into a trust account.

But CRS clerks often have difficulty determining whether to deposit SSI checks into private fund accounts or use them to reimburse program expenditures because social workers do not provide the necessary information on a timely basis. Thus, numerous SSI checks have been deposited into DHS' suspense account to avoid becoming stale dated.

No private fund accounts have been created for foster children who have received child support payments in excess of foster board costs. As noted previously, CRS deposited all CSEA collections directly into the AFDC account for FY1993-94. CRS made no determination of whether any portion of the collections should be deposited into private fund accounts.

We found that no one within CRS or anyone else in DHS can identify which foster children have deposits in the private fund control accounts (general ledger accounts). The accounts amounted to approximately $297,000 at June 30, 1994. DHS administration has not required that a subsidiary ledger of all private fund accounts detailing the account balance by foster child be maintained and reconciled to the cash balance of these private fund control accounts. In addition to being used to identify amounts in the control account, a subsidiary ledger could be used to provide program administrators and social workers with information on the resources held for these foster children.

CRS should immediately develop a subsidiary ledger of all individual private fund accounts by going back as far as possible in the accounting records and case files to trace collections. It then should attempt to reconcile those individual accounts with the private fund control accounts and perform reconciliations thereafter on a monthly basis. Listings detailing the account balances by foster child could be generated from the subsidiary ledger on a periodic basis and distributed to appropriate social workers as information on the children's resources.

Federal Fund Reimbursements Are Not Fully Utilized

Child Foster Care Services received approximately $8.5 million in federal financial assistance for FY1993-94. Based on our review, it appears that the program is maximizing its allocated portion of flat grants under Title IV-B and Title XX of the Social Security Act. However, program administrators have acknowledged that there are ways in which federal financial assistance could be increased through Title IV-E of the Social Security Act, as follows:

1. Recipients of state-funded adoption assistance could be made eligible for Title IV-E funding. Currently, 210 out of 329 (or 64 percent) adoption assistance recipients are solely state-funded. The conversion of these adoption cases from state funding to Title IV-E funding is a time-consuming task and has not been initiated due to staffing constraints.

2. Title IV-E reimbursements have not been pursued for foster placements by other state agencies/institutions. Board costs are reimbursable if DHS is responsible for the child's placement or an interagency agreement is developed between DHS and the other state agency.

3. The State's FAMIS system, which processes board and board-related payments by purchase order, was not designed to and does not maintain a detailed breakdown of all board costs. Also, payments for more than one child may be included on a single purchase order and presented as a lump sum. Because detailed information by client is required when applying for Title IV-E reimbursements, the maximum amount for Title IV-E board payments processed through the FAMIS system may not be claimed. Program administrators, however, believe that the new payment component to the CPSS will maintain all of the necessary information to maximize IV-E federal fund reimbursements.

4. A portion of administrative costs is reimbursed through the Title IV-E grant. This amount is determined by using a penetration rate that is factored into the formula to arrive at the federal reimbursable amount. The penetration rate is essentially the total of Title IV-E eligible recipients divided by the total recipients in the program. As noted in item 3 above, there are problems in determining the correct number of foster care recipients which in turn affects the accuracy of the penetration rate. Also, it appears that certain individuals, such as those who are referred to but never enter the program, are currently included in the reported number of program recipients used as the denominator in determining the penetration rate. DHS is currently discussing the exclusion of these individuals with the federal government. Exclusion of these individuals would substantially increase the penetration rate, thus resulting in more claimed administrative costs and federal reimbursements.

Although we are unable to estimate the maximum amount of Title IV-E funds that could be reimbursed, we recommend that DHS maximize reimbursements by converting state-funded adoption cases, examining and coordinating child placement responsibilities with other agencies, obtaining accurate and complete information for board payments, and continuing discussions with the federal government to maximize the recovery of administrative costs.

FTI's Impact on Foster Care Remains Unclear

The current implementation of the Families Together Initiative program (FTI) does not permit a direct cause and effect relationship to be made between FTI and foster care. In theory, FTI should contribute to a reduction in foster care placements, case load, and expenditures. However, the referring workers do not always use the FTI criterion of serving families having children at imminent risk of being placed out-of-home (in addition to serving families who are intended to be reunited within seven days). Thus it cannot be said that without FTI, all children at risk of placement in families referred to FTI would be in foster care.

Furthermore, FTI is viewed by DHS as only a part of a continuum of services available for children and youth. Since most FTI families need continuing services after FTI and concerted efforts are made to link families up with continuing services, a family's "success" in remaining intact may not be attributable to FTI alone. Finally, even with the implementation of FTI, the foster care case load has continued to increase.

Recommendations

We recommend the following:

1. The director of human services should make sure that the department begins to budget responsibly for the Foster Board Payment Program. Specifically, the director should:

   a. Direct the administrators of the Family and Adult Services Division and Social Services Program Development Office to oversee and coordinate efforts to generate accurate demographic data on foster children and their expenditures so that a sound data base is available for budgeting. The data should include foster children and youths placed by other agencies and private institutions;

   b. Assign responsibility for developing budget projections for the Foster Board Payment Program to the Committee on Payment Projections; and

   c. Clearly identify the scope of the program in terms of DHS' responsibilities for making payments for children placed by other agencies.

2. The Family and Adult Services Division should:

   a. Implement internal expenditure guidelines based on funding available to keep spending within budget. These guidelines should be uniformly and consistently implemented and amended when necessary;

   b. Ensure that case files are reviewed on a timely basis;

   c. Ensure that monthly payment reports are reviewed by the appropriate social worker or FASD unit supervisor;

   d. Require a second or supervisory review of authorization for payment and data entered into the computer system;

   e. Develop a checklist of documentation required for client files of the DHS Family and Adult Services Division;

   f. Work with the Child Support Enforcement Agency to coordinate and monitor child support collections. It should ensure that referral forms to CSEA are completely and accurately filled out and that historical expenditure data can be provided to CSEA. It should also request reports from CSEA on those children for whom child support is collectible; and

   g. Work with the Administrative Services Office to receive reports regularly on collections and receipts.

3. The quality control staff of the Evaluation Office should provide written reports on its monthly reviews of the Foster Board Payment Program and prepare semi-annual reports that summarize the actions resulting from the reviews.

4. The Administrative Services Office should establish appropriate internal controls over collections for the Foster Board Payment Program. Specifically, it should:

   a. Establish policies and procedures to ensure that all amounts due are properly monitored and recovered, and receipts are properly recorded, deposited, and secured; and that private fund accounts are maintained;

   b. Create a written procedures manual that defines clearly the responsibilities of each position in its Collections and Recovery Section and describes specifically how each process and task is to be performed;

c. Adequately train and properly supervise all Collections and Recovery Section employees;

d. Immediately hire a qualified and properly trained supervisor to manage the Collections and Recovery Section;

e. Limit access to receipts in the safe or locked file cabinets to authorized personnel;

f. Develop an accounts receivable subledger detailing all board overpayments and Supplemental Security Income payments to be collected and the length of time these receivables have been outstanding. This aged subledger should be updated and reconciled on a monthly basis;

g. Conduct management reviews of aged receivables and appropriate collection procedures; and

h. Prepare a subsidiary ledger for all individual private fund accounts detailing the account balances by foster child. Reconcile amounts from the subsidiary ledger to the private fund control accounts balances and perform monthly reconciliations thereafter. A listing of the private fund accounts should be distributed to the appropriate social workers.

5. The department should maximize Title IV-E reimbursements by converting state-funded adoption cases to federal funding, examining and coordinating child placement responsibilities with other agencies, obtaining accurate and complete information for board payments, and continuing discussions with the federal government to maximize the recovery of administration costs.

Chapter 3
Financial Audit

This chapter presents the results of the financial audit of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services (program), for the fiscal year ended June 30, 1994. It includes the independent auditors' report and reports on the internal control structure and tests of compliance with laws and regulations. It also displays the statement of revenues and expenditures of the program.

Summary of Findings

In the opinion of KPMG , based on their audit, the statement of revenues and expenditures present fairly, in all material respects, the results of operations of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, for the year ended June 30, 1994, in conformity with generally accepted accounting principles.

KPMG noted matters involving the internal control structure and its operation that they considered to be reportable conditions, including a material weakness as defined in the report on the internal control structure. They also noted that, with respect to items tested, the program has complied, in all material respects, with laws and regulations applicable to the program.

KPMG Peat Marwick LLP

P.O. Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statement of revenues and expenditures of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, for the year ended June 30, 1994. This financial statement is the responsibility of the Program's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenues and expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues and expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of revenues and expenditures referred to above present fairly, in all material respects, the results of operations of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, for the year ended June 30, 1994, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Honolulu, Hawaii
September 29, 1994

KPMG Peat Marwick LLP

P.O. Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report on the Internal Control Structure
Based on an Audit of the Statement of Revenues and Expenditures
Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited the statement of revenues and expenditures of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, for the year ended June 30, 1994, and have issued our report thereon dated September 29, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenues and expenditures is free of material misstatement.

In planning and performing our audit of the statement of revenues and expenditures of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, for the year ended June 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of revenues and expenditures and not to provide assurance on the internal control structure.

The management of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

<u>Cycles of the Program's Activities</u>:
- Revenues and cash receipts
- Purchases and cash disbursements
- Payroll
- External financial reporting

<u>Accounting Applications</u>:
- Billings
- Encumbrances
- Interfund transfers

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Program's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions that we noted are described in Chapter 2.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described in Chapter 2 relating to the monitoring and recovery of foster care board reimbursements is also a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the Auditor, State of Hawaii, and the management of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, which are described in Chapter 2.

This report is intended for the information of the Auditor, State of Hawaii, and the management of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

Honolulu, Hawaii
September 29, 1994

KPMG Peat Marwick LLP

P.O. Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report on Compliance Based
on an Audit of the Statement of Revenues and Expenditures
Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited the statement of revenues and expenditures of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, for the year ended June 30, 1994, and have issued our report thereon dated September 29, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenues and expenditures is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, is the responsibility of the Program's management. As part of obtaining reasonable assurance about whether the statement of revenues and expenditures is free of material misstatement, we performed tests of the Program's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the statement of revenues and expenditures was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services, had not complied, in all material respects, with those provisions.

This report is intended for the information of the Auditor, State of Hawaii, and management of the Foster Care Services for Children Program of the State of Hawaii, Department of Human Services. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

Honolulu, Hawaii
September 29, 1994

Notes to Statement of Revenues

(1) Financial Reporting Entity

The Foster Care Services for Children Program (Program) is administered by the Family and Adult Services Division, an operating division of the State of Hawaii, Department of Human Services (Department).

The Program provides children with foster care services in an effort to (1) achieve self sufficiency, including reduction or prevention of dependency; (2) prevent or remedy neglect, abuse or exploitation of children or to preserve, rehabilitate or reunite families; and, (3) prevent or reduce inappropriate institutional care. The objective of the Program is to assure optimal health, safety and development for children who cannot remain safely in the area of their own parents by providing these children with nurturing substitute care.

For financial reporting purposes, the Program includes all funds that are controlled by the Program. This was determined on the basis of statutory authority and moneys flowing through the Program to each fund. The Program's operations are reported in the general and special revenue funds.

(2) Summary of Significant Accounting Policies

Basis of presentation

The financial transactions of the Program are recorded in individual funds which are reported by type in the statement of revenues and expenditures and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts. The Program accounts for and reports only its portion of those fund types maintained by the State. The State Comptroller maintains the central accounts for all state funds and account groups and publishes financial statements for the State annually. Governmental resources are allocated to and are accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The total column on the accompanying statement of revenues and expenditures is captioned "memorandum only" to indicate that it is presented only to facilitate financial analysis. Information in this column does not purport to present the results of operations of the Program in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund transactions have not been eliminated.

The Program uses the following governmental fund types:

General Fund

Accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Account for the proceeds of specific revenue sources (federal grants) that are legally restricted to expenditures for specified purposes.

Basis of Accounting for Governmental Fund Types.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Program uses the modified accrual basis of accounting for the general and special revenue funds. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year-end. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor.

(3) Federal Financial Assistance

Federal financial assistance provided to the Program are reported in the special revenue funds as revenues-intergovernmental-federal in the statement of revenues and expenditures. Federal financial assistance for the fiscal year ended June 30, 1994 consist of the following:

Social Security Act Title IVE	$ 7,481,791
Social Security Act Title IVB	741,000
Social Security Act Title XX	260,249
Independent Living - B	21,868
	$ 8,504,908

For federal financial assistance reporting purposes only, the Program was allocated departmental general and administrative expenditures of $12,404,401, of which $5,831,669 was reimbursed by Title IVE funds. In addition, the Program received $1,650,122 of Title IVE funds for board and board-related expenditures. Other federal financial assistance amounting to $1,023,117 (i.e., from Title IVB, Title XX and Independent Living-B) were received to reimburse foster care board and board-related expenditures and program general and administrative expenditures.

The general fund recorded operating transfers in from the special revenue funds as follows:

Operating transfer out of special revenue funds	$ 8,435,221
Title IVE funds deposited directly into the State Treasury	(7,481,791)
Operating transfers in from the special revenue funds	$ 953,430

FOSTER CARE SERVICES FOR CHILDREN PROGRAM
DEPARTMENT OF HUMAN SERVICES
STATE OF HAWAII

Statement of Revenues and Expenditures

Year ended June 30, 1994

	General Fund	Special revenue Fund	Total (memorandum only)
Revenues:			
State allocated appropriations	$ 16,644,734	$ -	$ 16,644,734
Intergovernmental-federal (note 3)	-	8,504,908	8,504,908
Total revenues	16,644,734	8,504,908	25,149,642
Other financing sources - operating transfers in (note 3)	953,430	4,259	957,689
Total revenues and other financing sources	17,598,164	8,509,167	26,107,331
Expenditures:			
Foster care board and board-related expenditures (note 3):			
Board payments	14,814,338	-	14,814,338
Emergency shelter home per diem and retainer	689,435	-	689,435
Therapeutic foster home care	164,352	-	164,352
Clothing	159,389	-	159,389
Pre-place preventive reunification services	92,322	-	92,322
Transportation	61,461	-	61,461
Other	61,844	-	61,844
	16,043,141	-	16,043,141
Program general and administrative (note 3):			
Salaries and wages	1,445,560	73,946	1,519,506
Other	109,463	-	109,463
	1,555,023	73,946	1,628,969
Total expenditures	17,598,164	73,946	17,672,110
Other financing uses - operating transfers out (note 3)	-	8,509,167	8,435,221
Total expenditures and other financing uses	17,598,164	8,509,167	26,107,331
Excess of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	$ -

Notes

Chapter 1

1. National State Auditors Association, *Joint Audit on Foster Care*, June 1994.

2. Hawaii, Legislative Auditor, *Study of Foster Care in Hawaii*, February 1990, Overview.

3. Ibid, p. 18.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Human Services. A copy of the transmittal letter to the Department of Human Services is included in this report as Attachment 1. The response of the department is included as Attachment 2.

The Department of Human Services found our study to be very useful and says it generally agrees with our comments and recommendations. DHS also noted that corrective actions have already been taken and that it plans to strive towards improving the management of the Foster Board Payment Program. It reported that refund and reimbursement payments are being properly recorded and deposited on a timely basis and procedure manuals for both handling of cash and related internal controls are being formalized. FASD has stated that it will institute formal internal expenditure guidelines to keep spending within budget. DHS also added comments, clarifications, and updated information, some of which we incorporated into the report.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

December 9, 1994

COPY

The Honorable Leslie Matsubara, Acting Director
Department of Human Services
Liliuokalani Building, Room 209
1390 Miller Street
Honolulu, Hawaii 96813

Dear Mr. Matsubara:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Management and Financial Audit of the Foster Board Payment Program.* We ask that you telephone us by Tuesday, December 13, 1994, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, December 19, 1994.

The Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR

ATTACHMENT 2

LESLIE S. MATSUBARA
DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P O Box 339
Honolulu, Hawaii 96809-0339

December 22, 1994

RECEIVED
DEC 22 11 12 AM '94
OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you very much for the opportunity for us to respond to the audit report, *Management and Financial Audit of the Foster Board Payment Program.* We find the points made in it very useful.

In general, we agree with the comments and recommendations. Corrective actions have already been taken by this Department and we will continue to strive towards improving the management of the Foster Board Payment Program.

We wish to present our responses to some of the comments and recommendations in the attached paper and ask that our views be taken into consideration in your final report.

Sincerely,

Leslie S. Matsubara
Acting Director

Enclosure

Responses from Department of Human Services (DHS)

Auditor's comments: DHS needs to have adequate control of expenditure or collections. (Page 18)

Response:

Presently, the department employs a computer based system to track and account for Foster Care Payment Program reimbursements and overpayments. Under this system, program reimbursements are posted to the Automated Recovery System (ARS) housed on an IBM System 36 mini-computer using program codes T1 to T3, and overpayments are posted under program codes T4 to T8 and K4 to K8. Refunds of reimbursements are processed through a trust fund account (appropriation T-903) and the corresponding transactions are posted to the ARS. The department has implemented plans to redistribute current workloads and priorities among existing staff to complete the account reconciliations by March 1995.

Refund and reimbursement payments are being properly recorded and deposited on a timely basis. Since October 1994, the duties and responsibilities of the Collections and Recovery Section supervisor position have been performed by an Accounting Staff member on a temporary assignment basis. The supervisor reviews the daily receipts log on a daily basis and checks the entries with the Treasury Deposit Receipt (TDR) forms to ensure the timely depositing of all receipts. All daily receipts are recorded and deposited, and any receipts that are not deposited during that day are secured in a safe that can be accessed only by both combination and key.

Auditor's comments: DHS needs to know the extent of SSI payments. (Page 21)

Response:

It should be noted that the CRS is functionally responsible for receiving board overpayments and SSI payments and the entry of the accounting transactions into the automated system. The department will be formulating plans to review the data in the automated systems and the related program and fiscal processes, in order to produce subledger detail. It will be a coordinated effort between FASD, ISO and ASO, and is targeted for completion by March 1995.

Auditor's comments: Collections should be properly recorded and deposited on a timely basis. (Page 23)

Response:

Effective this fiscal year, the Accounting Staff has implemented procedures to deposit the child support receipts according to the categorical breakouts provided by the Child Support Enforcement Agency.

Since October 1994, the Accounting Staff has appointed a supervisor on a temporary assignment arrangement. The supervisor position, for all intents and purposes, has been vacant since January 1994 and the Chief Accountant has been attempting to provide supervisory oversight over the CRS which is one of three sections in the Accounting Staff. Through the coordinated efforts of the acting supervisor and CRS staff, there presently is a minimal backlog of receipts logging, and checks and cash are being deposited on a timely basis. For instance, on December 2, 1994, checks being processed for deposit by the CRS amounted to $7,143, and these checks were all deposited within 5 working days.

Procedures have been implemented to ensure that cash is deposited within one working day. For example, on November 30, 1994, cash in the amount of $180.55 was received and it was deposited on December 2, 1994, within two (2) working days. The CRS supervisor reviews the log of cash receipts on a daily basis to monitor that deposits are being done timely.

The Accounting Staff has been following procedures in which only two account clerks are provided the combination of the safe, and only two of the cashiers have custody of the safe keys. The safe can only be opened with both the proper key and combination. For emergency situations, the CRS supervisor has access to the safe key and the Chief Accountant has knowledge of the safe combination. Locking file cabinets are used to temporarily secure "walk-in" receipts, but only the cashiers have keys to the cabinets and all receipts are secured in the safe at the end of the day.

The Accounting Staff has completed reconciliation of the trust account for fiscal year 1994 and is continuing this effort, targeting January 1995 for completion. It should be noted that the balance of the trust account as of June 30, 1994 was $365,372.51.

Recruitment for the Accountant III is currently pending due to budgetary considerations but the position is expected to be filled by February 1995. In addition, there is an ongoing effort to explore the redescription of the position to a higher level to attract qualified applicants and minimize turnover.

The Chief Accountant is presently coordinating and overseeing the ongoing effort to formalize and develop the procedures manuals for both handling of cash and the related internal controls, and the processing and recording of all types of cash receipts. Written procedures and directions to staff are currently in place and the implementation of comprehensive and formal manual procedures is targeted for completion in February 1995. The manuals will also serve as a basis for new staff and ongoing training.

Auditor's comments: Private fund accounts should be maintained. (Page 24)

Response:

The department agrees with the need to develop a subsidiary ledger. However, it should be noted that the CRS alone cannot accomplish this substantial task requiring research of case files and accounting records, and analysis of information in the existing automated systems. The department will pursue a coordinated effort by FASD, ISO and ASO in developing a basic plan and approach by March 1995. It is anticipated that this plan will utilize the automated capabilities of the CPSS which is expected to be operational in April 1995.

Auditor's comments: DHS should identify the scope of the program in terms of DHS's responsibilities for making payments for children placed by other agencies. (Page 27)

Response:

DHS has always tried to comply with its role as defined in the eligibility requirements specified in Chapter 17-828-3, HAR, regarding children placed into the Department's foster homes by other agencies who have case management responsibilities.

Auditor's comments: FASD should implement internal expenditure guidelines based on funding available to keep spending within budget. These guideline should be uniformly and consistently implemented and amended when necessary. (Page 28, Item 2)

Response:

FASD will institute internal expenditure guidelines to keep spending within budget. At present the social work staff have the discretion to determine individual monetary assistance needs based on the social service needs of the client, i.e. what resources are needed to either reunite the child with its family or arrange for alternative placement. Formal internal expenditure guidelines will now be instituted as a part of this placement activity.

Auditor's comments: FASD should require a supervisory review of authorization for payment and data entered into the computer system. (Page 28, Item 2)

Response:

Effective immediately, the FASD supervisors will review the monthly payment reports and take corrective action. Currently, to facilitate payments, staff are authorized to initiate payments once the supervisor determines they have sufficient knowledge to do so independently. Monthly payment reports generated for supervisory review provides a safeguard.

This concern will be resolved with the implementation of the CPSS payment system. The payment system will:

- require supervisory authorization for all purchase orders,
- discontinue board payments to the provider when the six month eligibility redetermination is not completed by the social worker, and
- track and direct the recovery of overpayments.

Auditor's comments: The Quality Control Staff (QC) should provide written reports of its monthly reviews to Foster Care Payment Program and prepare semi-annual reports that summarize the action resulting from the reviews. (Page 28)

Response:

QC has established procedures to provide analyses of its review findings and to facilitate corrective actions by FASD units. Every defective finding is documented and shared with the unit staff. Copies of these investigative reports (IV-E Quality Control Investigative Report) are sent to:

- Foster Care (FC) IM Units that are responsible for reconciling and monitoring all social services unit's payment changes.
- The Social Service Program Development Staff (PD-SS) that administers the function's of the FC IM units and is the office responsible for ensuring corrective action is taken.

A copy of the error report is also kept in the QC case folder. All replies from the FC Units that indicates corrective actions taken are placed in a QC log folder that is monitored by the FC QC Reviewers and the QC Supervisors. If the FASD unit or the PD-SS disagrees with the QC findings, they have 14 working days to rebut the findings. The QC Staff will reconsider and try to resolve differences with PD-SS.

PD-SS is converting their foster care cases to a modified coding system. When this is completed PLNG will be able to generate sample listings for QC to prepare the summary reports. PD-SS will be the lead to carry out this corrective action.

Auditor's comments: The ASO should establish appropriate internal control over collections for Foster Care Payment Program. (Page 28)

Response:

The department generally agrees with the recommendations.

DHS also wishes to add the following comments:

Page 2, paragraph 1. This paragraph has erroneous personnel descriptions. It should read:

"The larger HMS 303 program category is administered by the DHS Family and Adult Services Division (FASD). The program funds child foster care services staff, including child welfare services personnel at the FASD state office in units within various branch offices on Oahu, Hawaii, Maui and Kauai. At the state office, staff include three program managers while staff at the branch offices are clerical, income maintenance, and social workers assigned to units called Child Welfare Services Units, or Social Service Units or Foster Home Certification Units. Social workers and clerical staff are involved in the licensing of foster homes, process payments and income maintenance workers determine Title IV-E eligibility."

Page 2, paragraph 2. Remove "... the Families Together Initiative" as it <u>not</u> part of HMS 303.

Page 2, paragraph 6, sentence 2. Change the initiation date of foster board for those children pursuing higher education. The sentence should read:

"Beginning July 1, 1990, payments were made to foster children pursuing higher education retroactive to July 1, 1987."

Page 3, Exhibit 1.1, comments on Year 1988. Delete as information is incorrect.

Page 3, Exhibit 1.1, comments on Year 1990. Add information to read:

"07/01/90 - DHS payment required for foster child in higher education retroactive to 07/01/87 (HRS 346-27.4)"

Page 4, paragraph 1, sentence 2. The number "120" is incorrect. The number should be 220. There is no need to change the percentage figure.

Page 4, last paragraph is incomplete. The paragraph should read:

"Payments are made for children who are in foster care or in the care of relatives or living with permanent custodians or adoptive families. Payments are made until age 18, or through age 21, if the child is a full-time student at an accredited institution of higher education."

Page 6, first paragraph, last sentence is incorrect. The flat board rate does not include household activities but does include other items not covered in the sentence. The sentence should read:

"The flat board payment covers the following costs: food, shelter, use of household furnishings and equipment, expenses involved in household operations, personal essentials, reading and educational supplies, recreational and community activities, transportation (for shopping, church, school events), medical supplies, allowance, baby-sitting and infant care."

Page 6, second paragraph, second sentence needs clarification or the reader could misconstrue that the foster parent is paid under the flat board rate <u>and</u> special circumstances for school transportation expenses. The sentence should read:

"These items include clothing--initial supplies to meet immediate needs, and for maintenance and special circumstances; additional transportation costs for medical care, school transportation when free school transportation is unavailable, child placement and family visitations."

Page 7, third paragraph, last sentence is incomplete as DHS <u>earned</u> the $7.6 million in Title IV-E funds.

Page 7, fourth paragraph, last sentence needs modification as the target date for the CPSS Payment System has changed since the audit. The sentence should read:

"Since conducting the audit, the Department made a decision to change the implementation date to April 1995. Additional time was needed to allow for comprehensive acceptance testing and training to FASD social service staff."

Page 14, second paragraph, last sentence is incorrect. The sentence should be eliminated as the Foster Home Finding Unit (FHFU) does not issue clothing allowances via a semi-annual replacement clothing formula. The $18/day per diem paid to the ESH is for room, board and food. It does not include the basic essentials covered under the foster care room and board. Depending on availability of funding, FHFU issues semi-annual allowances to the emergency shelter homes to replenish the supply of clothing and personal essentials.

Page 15, sixth paragraph, second and fourth sentences are incorrect. Although the PWS-5/Oklahoma system <u>does</u> generate checks, it does not keep records <u>on all</u> clients receiving foster board related payments. Board related payments can be generated through the PWS-5/Oklahoma system or purchase orders. The sentences should read:

Second sentence: "The PWS-5/Oklahoma system generates checks and has records on all clients receiving foster board and some clients receiving board related payments through the system."

Fourth sentence: "The system does not record any transactions including board related payments by purchase order."

Page 17, second paragraph, second sentence is incorrect. DHS does not make foster board and board related payments for foster children placed by the Department of Health. Rather, DHS pays foster board and board related payments for children under the placement responsibility of the Judiciary and private agencies after DHS determines the child meets the eligibility requirements specified in Chapter 828, HAR.

Page 17, fourth paragraph, first sentence exhibit number should be Exhibit 2.2 rather than Exhibit 2.1.

Page 26, #2, first sentence suggests DHS can claim Title IV-E reimbursements for other agencies/institutions. It should be noted that Title IV-E reimbursements are limited only to other <u>state</u> government agencies/institutions.

Page 26, #4, fifth/sixth/seventh sentence discusses the penetration rate and states "DHS is currently discussing the exclusion of these individuals with the federal government. Exclusion of these individuals would substantially increase the penetration rate..."

This issue was resolved effective September 30, 1994.