CITY OF SAN ANTONIO

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April 7, 2006

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Sheryl Sculley
City Manager

Michael Bernard
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Frances A. Gonzalez
Assistant City Manager

Dennis J. Campa
Director, Department of
Community Initiatives

Ladies and Gentlemen:

RE: City Management's Corrective Action Plan Report and the Report on the Audit of the Department of Community Initiatives' (DCI) Child Care Delivery System (CCDS)

We are pleased to attach for your review the report for an audit of the CCDS. This audit began in late spring 2005 and was concluded with an exit conference with DCI Management in February 2006. The issues identified in the draft report were further evaluated with DCI Staff in early March 2006. The draft report, which includes detailed recommendations, and City Management responses are attached for your review. DCI Management and Staff should be commended for their cooperation and assistance during this audit. DCI's Corrective Action Plan indicates acceptance of the audit recommendations, for the most part.

DCI has expressed concern regarding two matters that at this time appear unresolvable; however, they do not impact the recommendations. One of their concerns is the 19% error rate in case file documentation that is included in the audit report, which exceeds the 5% error rate allowed in the contract with Alamo Workforce Development, Inc. (AWS).

The other concern relates to Exhibit A of the audit report, page 2, which summarizes an assessment of management and internal controls. There is a misunderstanding, and Exhibit A has been further clarified.

The Internal Audit Department appreciates the opportunity to have performed this review because it has highlighted areas for improvement in compliance with AWS contract requirements, process efficiencies, and internal controls. We are available to discuss this material with you individually at your convenience.

Sincerely,

Patricia M. Major CPA, CIA, CGFM, CTP
City Internal Auditor
San Antonio, Texas

Cc: Leticia Vacek, City Clerk
Michael Armstrong, Assistant City Manager / Chief Information Officer
Ben Gorzell, Acting Finance Director

CITY OF SAN ANTONIO

INTERNAL AUDIT DEPARTMENT

Audit of Department of Community Initiatives

Child Care Delivery System

Project No. AU05-023

Issue Date: April 7, 2006

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Audit of Department of Community Initiatives (DCI)
Child Care Delivery System (CCDS)

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Audit of Department of Community Initiatives (DCI)
Child Care Delivery System (CCDS)

Executive Summary

Overview

A review of the Department of Community Initiatives' (DCI) Child Care Delivery System (CCDS) was completed. The objectives of this project were to:

- Evaluate the adequacy and appropriateness of the internal control environment and risk management processes used for CCDS
- Assess if the CCDS is in compliance with applicable laws and regulations, including Contract requirements

The audit included the time period of October 1, 2004 through April 30, 2005. Fieldwork was conducted primarily from May 2005 through October 2005.

The report includes background information to assist the reader in understanding the levels of partnership that exist between various governmental and non-profit entities to provide child care delivery services in the Alamo Local Workforce Development Area. **Exhibit B** on page 5 shows the flow of Child Care and Development Block Grant Funds from the U.S. Department of Health and Human Services to child care providers. Federal funding allocated to the State of Texas is distributed among twenty-eight Local Workforce Development Area (LWDA) Boards as shown on **Exhibit C**, page 6.

Local contractors manage the CCDS Program for each of the twenty-eight LWDA Boards. The City of San Antonio, Department of Community Initiatives (DCI), was contracted for fiscal year 2005 to administer $33.9 million of the CCDS Program for Alamo Workforce Development, Inc. (AWS). AWS is the LWDA Board for Bexar and eleven surrounding counties. DCI, through its CCDS Division, subsidizes child care for families in the Temporary Assistance for Needy Families Program, for children placed by Child Protective Services, and other income eligible families.

This Program is overseen by eighty-six grant funded City Staff, and it serves a daily average of over 11,000 children. Child care services are provided for qualifying families residing in the City of San Antonio and the surrounding counties. CCDS clients choose from a list of approximately 1,900 pre-approved providers or may "self-arrange" care with other providers, including eligible family members.

Child Care Services Staff pre-screen prospective clients. Income eligible clients are placed on a waiting list. When openings occur and funding is available, the client's eligibility is confirmed by the City's Child Care Resource Specialists. Depending on the type of Program for which the client qualifies, the length of child care participation may be established from six months to one year. Clients are required to provide documents to establish their eligibility; this documentation is further described in Section 3.2 of this report on Page 17.

Eligibility information is documented in the client's file and in the State's Child Care Management System (CCMS) Database. The CCMS Database is a proprietary system, created and managed by the Texas Workforce Commission (TWC) to be used by the twenty-eight statewide contractors.

Providers can submit invoices for child care to the City through paper invoices or electronically through an online connection to the CCMS Database. Since the CCMS Database and the City's ERM/SAP System do not interface, the City's CCDS Staff performs several levels of review prior to entering the information manually into the EMR/SAP Accounts Payable Module. The City's Finance Department is responsible for issuing checks to the Providers.

CCDS will create an electronic file of the claims held in the CCMS Database for transfer to the State's Budget and Payment Application (BAPA) System, another proprietary information system. The electronic transfer, referred to as the upload, is performed several times per week. AWS uses the uploaded information to request reimbursement from the State. After AWS receives payment from the State, they reimburse the City by check.

If payments are made to providers due to clerical errors or based on deceptive information, steps must be taken to recover the funds. CCDS refers to these amounts as recoupments. The CCDS Fiscal Officer tracks these recoupments in a subsidiary ledger outside of the ERM/SAP System. Amounts recovered due to error are deducted from the quarterly City administrative expense reports sent for reimbursement to AWS. If recouped funds related to deceptive information are recovered, they are submitted to the State through AWS.

Results In Brief

Overall, DCI oversight of the CCDS Program has not been adequate. Management and internal control deficiencies are responsible for the issues noted during this audit. This conclusion was based on several key facts about the Program, such as the inadequacy of procedures, as shown in **Attachment B**. Many of the issues of this audit were previously reported to CCDS Management in external audit reports as reflected in **Attachment C** and in DCI's internal Quality Assurance reports as shown in **Attachment D**. Based on the framework of internal controls established by the Committee of Sponsoring Organizations, known as COSO, **Exhibit A** shows an evaluation of the internal control environment of the CCDS Program.

Exhibit A

Assessment of CCDS' Internal Controls
As of October 31, 2005

A = Adequate, NI = Needs Improvement, I = Inadequate, N/A = Did Not Review or Observe

	Overall	Fiscal Management	Case Management	Quality Assurance
Employee Full-time Equivalents-Budget	86.0	13.0	69.0	4.0
Employee Full-time Equivalents-Actual	71.5	12.0	56.5	3.0
Internal Control Components				
Control Environment:				
Management's control philosophy	I	I	I	I
Organizational structure	A	A	A	A
Commitment to staff competence (job skills and knowledge)	I	I	I	I
Method of assigning authority to staff	I	I	I	N/A
Control Activities:				
Approvals and authorizations	NI	A	I	N/A
Verifications	I	I	I	N/A
Reconciliations	I	I	N/A	N/A
Safeguarding assets	I	I	A	N/A
Segregation of duties	I	I	I	N/A
Procedures	I	I	I	I
Information and Communication:				
Information systems	NI	I	A	N/A
Transfer of new information	NI	I	I	I
Report generation and distribution	I	I	A	I
Transaction records and files	I	I	I	N/A
Monitoring:				
Management and supervisory activities	I	I	I	I
Reporting deficiencies to City Management (City Manager, Assistant City Manager, DCI Director)	I	I	I	NI

Source: Prepared by the City Internal Audit Department using Internal Control Components from the AICPA Internal Control Primer on pages 1-2 and the Enterprise Risk Management - Integrated Framework of the Executive Summary pages 3-4

The weak control environment of the CCDS Program has allowed the following conditions to exist:

As of August 31, 2005, approximately $2.8 million in recoupments or recovery of funds were owed to the City and AWS from clients and/or providers. CCDS cannot support $2.6 million of this balance. The remaining balance of $234,000 of transactions seems to be the supportable balance due from recoupment accounts.

DCI Management does not require CCDS Financial Staff to follow generally accepted accounting principles in recording receivables. The AWS accounts receivable is not recorded in the ERM/SAP System until payment has been received. This practice is used for recording receivables for child care claims submitted through BAPA, and also for the City's administrative expenses billed directly to AWS. Accounts receivable entries should be based on amounts paid to providers and actual administrative expenses that are recorded in the proper period. Consequently, the result is inaccurate financial information with understated accounts receivable and overstated availability of grant funds.

Instead of relying on financial reporting from the ERM/SAP System, CCDS uses a paper filing system to track payments received from AWS. The CCDS Fiscal Management relies on a system of visually scanning copies of upload reports to identify outstanding amounts. However, this method allowed twenty-one uploads to remain unpaid for periods exceeding 30 days. In fact, three uploads this year totaling $186,642 approached 60 days before reimbursements were received. The significant delays in reimbursement result in opportunity costs to the City.

The City experienced other opportunity costs because CCDS Financial Staff does not deposit checks timely. Of the ninety-nine AWS reimbursement checks deposited during the year, CCDS took an average of twenty-four days to deposit reimbursement checks. One check for $390,465, dated January 31, 2005, was not deposited until March 30th, sixty days later. A July check in an amount approaching $1 million was not deposited for sixteen days. Using a two percent annual percentage rate, the City faces approximately $48,000 in annual loss of interest for CCDS' delay in depositing the AWS reimbursement checks.

The CCDS Financial Accounting Services Staff do not perform reconciliations of the City's ERM/SAP System provider payments and the State's CCMS provider invoices. When two information systems are used to process provider invoices, reconciliation of this information should be performed at least monthly. Audit tests identified six cases of overpayments in the ERM/SAP System totaling $6,074 that remained undetected due to lack of reconciliations. CCDS is in the process of recovering these funds due to the City.

There are improper disbursement controls in the issuance of provider checks. Various CCDS Financial Accounting Services Staff are allowed to pick up provider payments from the City's Accounts Payable Section. The Grants Management Officer ultimately takes possession of these checks for distribution to providers. This same employee receives AWS reimbursement checks, prepares the deposit, and posts the transactions. These responsibilities create improper segregation of duties.

Other Issues regarding lack of segregation of duties were noted in the Child Care Services and another area of the Financial Accounting Services Sections.

In the Child Care Services Section, twenty-one of 112 case files tested did not have the required documents to determine eligibility. Child care services for these clients totaled $42,640 during the period of October 2004 through September 2005. **Exhibit H** on page 17 shows a categorization of the types of issues identified in the case files.

Even though four of the seven positions in DCI's Quality Assurance (QA) Section are grant funded, they are not performing quarterly monitoring of the CCDS Program as required by the AWS Contract. There were no monitoring reports on fiscal operations issued and only one monitoring report issued on client services for the period of October 2004 to March 2005.

The Enterprise Risk Assessment model, shown as **Attachment E** on page 27, ranks an organization's maturity level by the capabilities exhibited by the organization. Based on this model, the level of maturity for the CCDS Program was determined to be at the *Repeatable Stage*. Given the length of time that DCI has managed the CCDS Program, it would seem that the organization's capabilities should be at a higher level. By implementing the recommendations presented in this audit, the DCI should be able to improve the capabilities ranking of the CCDS Program to the *Defined Stage*.

This audit report recommends the following action plan for the City Manager to improve child care service delivery through the CCDS Program and compliance with the Alamo WorkSource (AWS) Contract:

- Improve the internal control environment:
  - Define procedures for proper fiscal administration and case management
  - Provide routine training to Financial Accounting Services and Child Care Services Staff to ensure procedures are being followed
  - Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments
- Improve processes in the Financial Accounting Services unit:
  - Interface the State's BAPA Database to the City's ERM/SAP System to eliminate duplicative efforts needed to input provider invoice information
  - Record receivables for AWS reimbursements based on provider payments reflected in the City's ERM/SAP System
  - Reconcile provider claims in the State's BAPA Database and provider payments in the City's ERM/SAP System to AWS reimbursements
  - Adjust the recoupment subsidiary ledger for the $2.6 million unexplained amount
  - Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day
- Ensure that all required documents to support eligibility are maintained in the client's file
- Ensure that the Quality Assurance Section implements the monitoring plan required by the AWS Contract

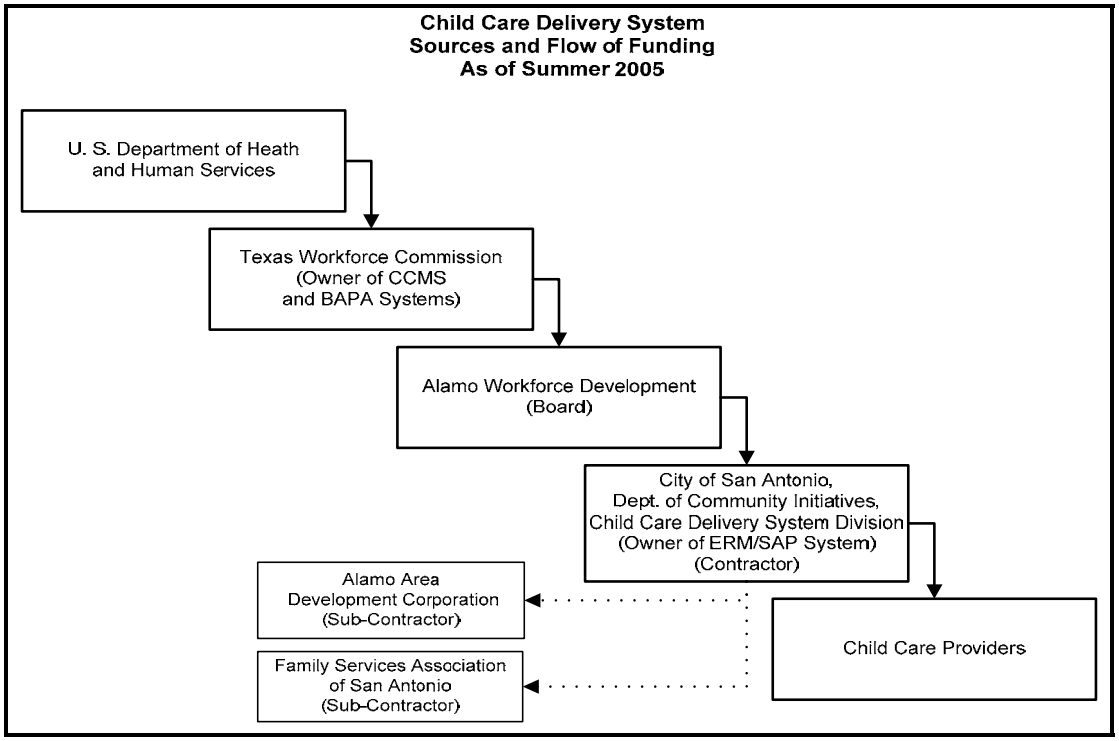
Background

The Child Care Delivery System (CCDS) was designed to provide subsidies to low-income families in need of child care services. Child care services are offered for full-time and part-time care of children under the age of thirteen. Children with disabilities are able to qualify up to the age of nineteen. Families may utilize child care services of licensed day care centers, registered homes, or certain family members.

Parents who receive CCDS assistance are required to pay a portion of the cost of child care, with the exception of those families who are receiving Temporary Assistance for Needy Families (TANF) or are referred by Child Protective Services. The amount of payment is based on the parent's gross income and the number of children receiving care. Families must be working, in school, or training for a minimum of 25 hours per week for a single parent household, or 50 hours for a two parent household in order to be eligible for these services. Additionally, families must meet income requirements to be eligible for service. For example, a family of four must have a monthly income of $4,010 or less to qualify.

The U.S. Department of Health and Human Services provides $4.8 billion of funding through the Child Care and Development Block Grant to supplement state funding of child care assistance for these eligible families. **Exhibit B** reflects the flow of grant funds from the U.S. Department of Health and Human Services to the City of San Antonio (COSA), and ultimately, payment to the child care provider.

Exhibit B



Source: Prepared by City Internal Audit Department

Local Workforce Development Area Boards

As part of its mission of workforce development, the Texas Workforce Commission (TWC) allocates funds for the CCDS. These funds subsidize child care for families in the TANF Program, children placed in care by Child Protective Services, and families eligible based on income requirements. Funding is allocated across the State among twenty-eight Local Workforce Development Area (LWDA) Boards to implement employment and training programs of the TWC.

Alamo Workforce Development, Inc., a nonprofit entity, was designated as the local Board for Bexar County and eleven surrounding rural counties: Atascosa, Bandera, Comal, Frio, Gillespie, Guadalupe, Karnes, Kendall, Kerr, Medina, and Wilson. On June 28, 2004, Alamo Workforce Development began to conduct business as Alamo WorkSource (AWS).

In terms of CCDS funding allocated in fiscal year ending September 30, 2005, AWS is the third largest Board in the State of Texas. As shown in **Exhibit C,** TWC allocated $38 million to AWS for child care delivery services in fiscal year 2005.

Exhibit C

State of Texas
Child Care Allocations from Department of Health and Human Services
Fiscal Year Ending September 30, 2005

Rank	LWDA #	Local Workforce Development Area (LWDA)	Population Under Poverty Level	Contractor Entity Type	Allocation Amount	Percent of Allocation
1	28	Gulf Coast	703,819	Private, Non-profit	$ 98,875,501	22.81
2	6	Dallas	307,376	Private, Non-profit	45,133,389	10.41
3	20	Alamo	286,524	Government (City)	37,929,643	8.75
4	5	Tarrant County	162,186	Private, Non-profit	26,522,823	6.12
5	4	North Central	139,324	Private, Non-profit	26,285,084	6.06
6	23	Lower Rio Grande	256,964	Private, For-profit	25,428,750	5.87
7	10	Upper Rio Grande	173,888	Private, For-profit	20,251,462	4.67
8	8	East Texas	116,219	Private, For-profit	13,643,964	3.15
9	14	Capital Area	105,586	Private, Non-profit	13,101,881	3.02
10	22	Coastal Bend	110,671	Private, Non-profit	12,072,937	2.79
11	24	Cameron County	118,335	Private, Non-profit	11,952,446	2.76
12	15	Rural Capital	52,770	Private, For-profit	8,669,927	2.00
13	11	Permian Basin	65,642	Private, Non-profit	8,094,605	1.87
14	1	Panhandle	58,273	Private, Non-profit	7,930,498	1.83
15	2	South Plains	71,450	Private, Non-profit	7,931,351	1.83
16	21	South Texas	71,329	Private, Non-profit	7,841,581	1.81
17	26	Central Texas	46,814	Private, Non-profit	7,526,131	1.74
18	18	Southeast Texas	61,220	Faith-based	7,081,761	1.63
19	17	Deep East Texas	67,579	Private, Non-profit	6,813,768	1.57
20	13	Heart of Texas	56,935	Private, Non-profit	6,349,794	1.46
21	9	West Central	52,958	Private, Non-profit	5,996,763	1.38
22	7	North East	46,989	Private, For-profit	5,240,089	1.21
23	27	Middle Rio Grande	47,444	Government (Dev. Council)	4,920,942	1.14
24	16	Brazos Valley	62,253	Private, Non-profit	4,860,345	1.12
25	3	North Texas	30,029	Private, Non-profit	3,828,960	0.88
26	19	Golden Crescent	28,002	Private, Non-profit	3,538,976	0.82
27	25	Texoma	22,806	Private, For-profit	2,927,214	0.68
28	12	Concho Valley	23,595	Private, For-profit	2,737,202	0.63
		Texas Total Allocation			$ 433,487,787	100.00

Source: Prepared by City Internal Audit Department from Three Texas Workforce Commission Reports

Local Contractors

Local contractors manage the CCDS Program for each of the twenty-eight LWDA Boards. AWS contracts with the City of San Antonio, Department of Community Initiatives (DCI) to implement the CCDS Program throughout the Alamo LWDA. The original Contract amount for fiscal year ending September 30, 2005 was authorized at $32.7 million. This amount was increased throughout the year to $33.9 million. As a result of the Contract modifications, the targeted average number of children served per day increased from 8,249 to 9,730.

DCI, through its CCDS Division, provides client services, provider management, fiscal management, and conducts provider training. CCDS provides child care services for qualified families residing in the City of San Antonio and the surrounding Bexar County area. The Program also provides qualified clients with eligibility and certification services, counseling on the selection of quality child care, and referrals to all participating child care facilities from which parents can choose.

DCI subcontracts with the Alamo Area Development Corporation (AADC) to provide similar services to the eleven rural counties of the Alamo LWDA. The Contract with AADC includes a budget for administrative and operating costs for this purpose. All direct child care costs for Bexar and the eleven rural counties are paid by CCDS. DCI also subcontracts with Family Services Association to provide quality improvement activities that enhance the quality of child care in the Alamo area. These services include training to early care and education professionals, scholarships to child care providers, training events for Texas Rising Star child care providers, and curriculum materials for early childhood classroom sites.

The CCDS Program for the LWDA Boards requires contractors, including the City, to meet certain performance measures. DCI must meet a 95% standard in maintaining client eligibility documentation and provider agreements; accuracy and timeliness of determination or re-determination of client eligibility; and assessment of parent fees. Additionally, DCI must meet a 90% accuracy rate regarding the processing of child care provider claims. **Attachment A** summarizes the performance measures that are evaluated monthly by DCI including the performance measure required as part of the AWS Contract (i.e., the average number of children in care).

Contractor information was obtained from the Dallas and Capital LWDA Boards to perform a comparison with COSA's CCDS Program. A comparison of the average annual direct child care costs per child, the annual administrative and operating costs per child, and the annual total CCDS Program funds per employee full-time equivalent was performed. **Exhibit D** reflects reasonable annual administrative and operating costs per child as compared to the contractors for the Dallas and Capital LWDA Boards.

Exhibit D – DCI's CCDS Program Comparison with Other Contractors

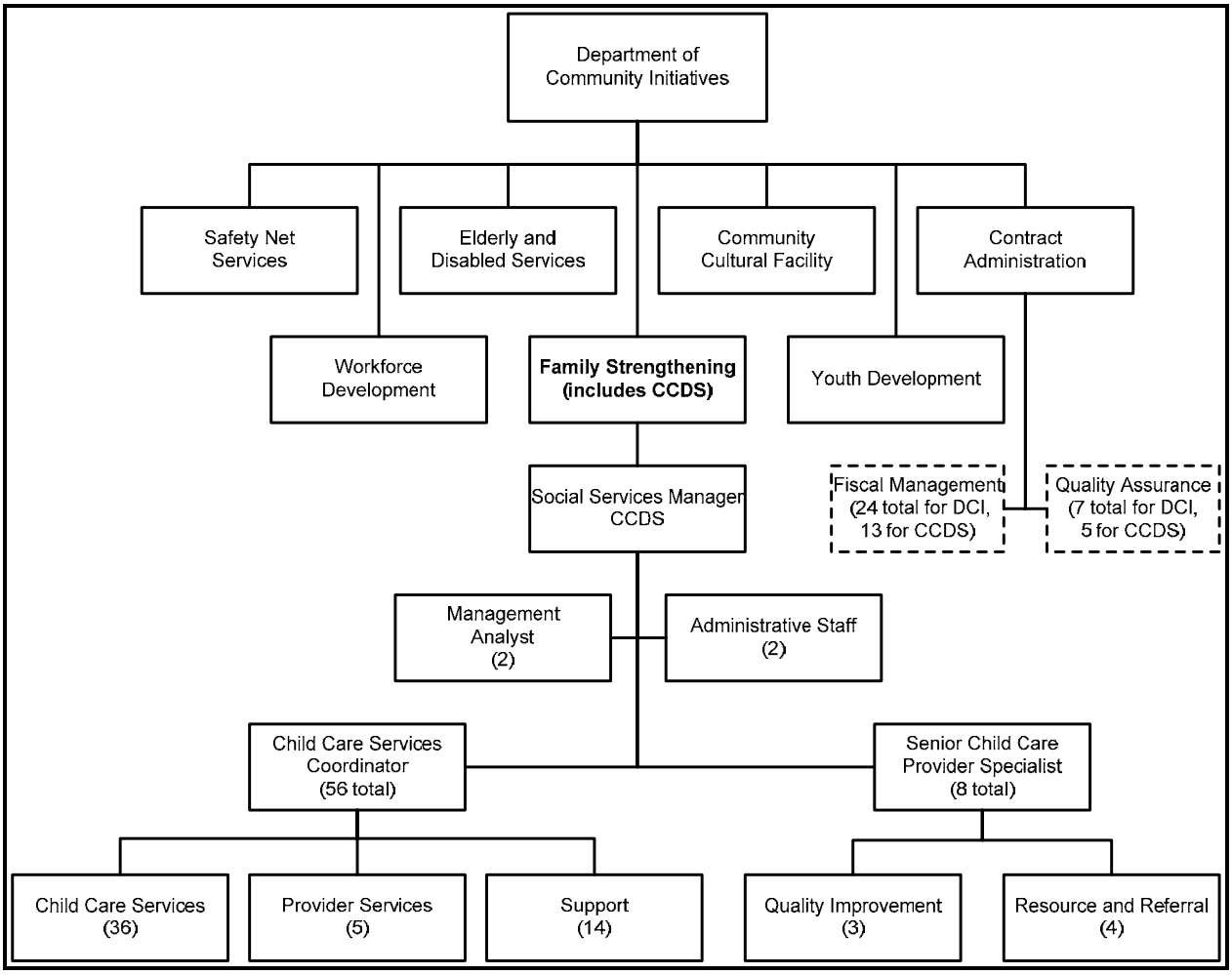
	Actual			Projected		
	City of San Antonio (COSA), DCI[1]			COSA, DCI[2]	Child Care Solutions[3]	ChildCare Group[4]
	Grant Year 2003 (12 Months)	Grant Year 2004 (13 Months)	Grant Year 2005 (12 Months)	Grant Year 2005 (12 Months)	Grant Year 2005 (12 Months)	Grant Year 2005 (12 Months)
Direct Child Care Payments	$28,369,315	$34,621,116	$36,635,092	$28,012,469	$9,636,190	$41,457,846
Administrative and Operating Costs	4,510,779	5,447,159	4,994,073	4,683,887	1,382,560	4,975,000
Other - Workforce Investment Act	-0-	45,114	59,175	-0-	unknown	unknown
Other - Quality Improvement Activities	2,068,517	821,866	280,016	-0-	unknown	unknown
Total CCDS Program Funds	$34,948,611	$40,935,255	$41,968,356	$32,696,356	$11,018,750	$46,432,846
Average Number of Children Served Per Day	9,286	10,123	10,162	8,249	2,794	9,253
Full-time Equivalent Employees (FTE)	101	85.5	70.5	84.5	30	82.5
Annual Direct Child Care Costs Per Child	$3,055	$3,157	$3,605	$3,396	$3,449	$4,480
Annual Administrative and Operating Costs Per Child	$709	$576	$525	$568	$495	$538
Annual Administrative and Operating Costs Per FTE	$65,142	$68,169	$75,649	$55,431	$46,085	$60,303

Note: Grant Year 2003 ended August 31st and Grant Years 2004 and 2005 ended September 30th
The 2004 Grant Year amounts were annualized from a 13-month period.

Source:
Prepared by the City Internal Audit Department. The unaudited data was provided by:
(1) Grants Management Officer, CCDS – Year end grant close-out reports submitted to the Grantor Agency
(2) Grants Management Officer, CCDS – Fiscal Year 2005 Contract
(3) Child Care Solutions (Non-profit Contractor for the Capital LWDA in Austin, Texas) – Original Fiscal Year 2005 Contract
(4) ChildCareGroup (Non-profit Contractor for the Dallas LWDA in Dallas, Texas) – Original Fiscal Year 2005 Contract

This audit primarily focused on the Child Care Services, Provider Services, Financial Accounting Services, and Quality Assurance Sections of the CCDS Program. **Exhibit E** reflects an organizational chart for the CCDS Program.

Exhibit E – CCDS Staffing as Projected in the Summer of 2005



Source: Prepared by the City Internal Audit Department. Projected CCDS Program Staff total is 86.

Criteria

This audit compared the CCDS Program functions with applicable laws and regulations; with the Alamo WorkSource (AWS) Contract; with City and DCI Departmental policies; with prior internal monitoring reports; and with audit reports by the Texas Workforce Commission, AWS, and external firm.

Audit Objectives and Scope

The objectives of the audit were to determine the following:

- Evaluate the adequacy and appropriateness of the internal control environment and risk management process used to manage the Child Care Delivery System
- Assess if the CCDS is in compliance with applicable laws and regulations, including Contract requirements

The scope of the audit focused mainly on case files maintained in the Cypress Tower. Child care transactions between October 2004 and April 2005 for San Antonio were tested. Based on these results, testing was expanded to include reimbursements to the City from October 1, 2004, to November 17, 2005.

A limited review of the child care provider payments in the City's new Enterprise Risk Management (ERM/SAP) System were compared to the invoices input in the Child Care Management System (CCMS) Database used by the State. The scope focused on child care provider payments to identify fraud. Although limited test work was performed on the second audit objective, the work performed did relate to compliance with the Contract.

Testing of the following areas was deferred for a subsequent audit:

- Transactions managed by AADC for the rural counties
- Case management file locations other than Cypress Tower
- City and DCI processes for managing and reporting of the Program administrative and operating costs
- DCI's compliance with Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"

Methodology

The methodology used for this project, generally, included the following:

- Gathering and reviewing information and documentation from the City, the Department of Community Initiatives, and other entities
- Performing a risk and control analysis
- Conducting interviews with DCI's Management and Staff of the CCDS
- Performing and evaluating transactional and other test work of CCDS, including activity, revenue, expenses, and staffing
- Performing judgmental sampling techniques to select transactions for detailed testing

The review was performed in compliance with generally accepted government auditing standards issued by the U.S. Government Accountability Office. In accordance with 2003 auditing standards, the audit included limited steps designed to detect instances of fraud and abuse significant to these audit objectives.

Government Auditing Standards require a peer review of an audit practice at least once every three years by reviewers independent of the organization. The City's Internal Audit Department had a peer review in July 2001 and another in August 2005.

This audit was designed to provide reasonable, but not absolute, assurance about the Child Care Delivery System performance. It included a study of internal controls that are considered relevant in assessing risks within the control environment as established by Management. Specifically, the audit was planned to determine the appropriateness of client eligibility, of child care provider payments, and of the accounting for the reimbursements to the City. It also included follow-up on a prior internal audit of issues noted by the former Office of Internal Review in February 2002. This audit was based on discussions, interviews, audit tests of selected documentation, and site visits. However, the procedures used would not necessarily reveal all internal control weaknesses.

Detailed Issues, Risks, and Recommendations

This review provided evidence of significant control issues. The majority of the issues relate to management and internal control. The observations have been summarized for this report to give the readers a high level view of the existing conditions in relation to those expected. Issues are presented in four categories: Management and Internal Control; Financial Accounting Services; Child Care Services; and Quality Assurance.

1. Management and Internal Control Issues

DCI's Management is responsible for establishing and communicating the control objectives and procedures to ensure effective administration and efficient operations of the CCDS Program. Management has not implemented appropriate corrective action on repetitive issues identified in previous external audit and internal monitoring reports. The procedures are incomplete and/or inadequate to ensure the accuracy of the data produced by CCDS.

1.1 Failure to implement prior recommended improvements

Audit reports issued by the State Auditor's Office; Texas Workforce Commission; AWS; and Martinez, Rosario & Co., LLP of the CCDS Program during the period from October 2002 to April 2005 were reviewed. **Attachment C** includes a summary of the reports. QA internal monitoring reports were also reviewed for the same period, as reflected in **Attachment D**. Issues previously noted still remain outstanding. The following deficiencies identified in those reports are similar to the issues noted during this audit.

- Deficiencies in the procedures manual
- Lack of uniform application of procedures
- Lack of appropriate monitoring of fiscal and client eligibility processes
- Lack of supervisory review and approval of case files
- Non-compliance with eligibility requirements
- Lack of accounting of receivables by funding stream

1.2 Incomplete and/or inadequate procedures

DCI and CCDS Program procedures were compared with the applicable requirements in the AWS Contractor Manual, the AWS Contract, AWS Directives, and TWC Rules. The AWS Contract requires the City to develop and implement procedures for proper reporting of financial, programmatic, and client information. As reflected in **Attachment B**, the procedures obtained from CCDS and DCI Quality Assurance are inadequate to ensure that management of the CCDS Program is accomplished in an effective and efficient manner. The following issues were noted regarding procedures:

- Lack of supervisory review of eligibility and authorization of child care
- Ambiguity in functional responsibilities
- Undefined procedures regarding:
  - Cash handling
  - ERM/SAP System
  - Reconciliations
  - Grant close-out
  - Requests for reimbursements
  - Monitoring activities
  - User access roles in Information Systems

Risk

If Management views internal control as unrelated to achieving its objectives, this attitude will almost certainly be communicated to Staff at all levels. It is difficult for even the best designed internal control framework to function effectively in such an environment. Thus, actual performance may not meet Management's expectations.

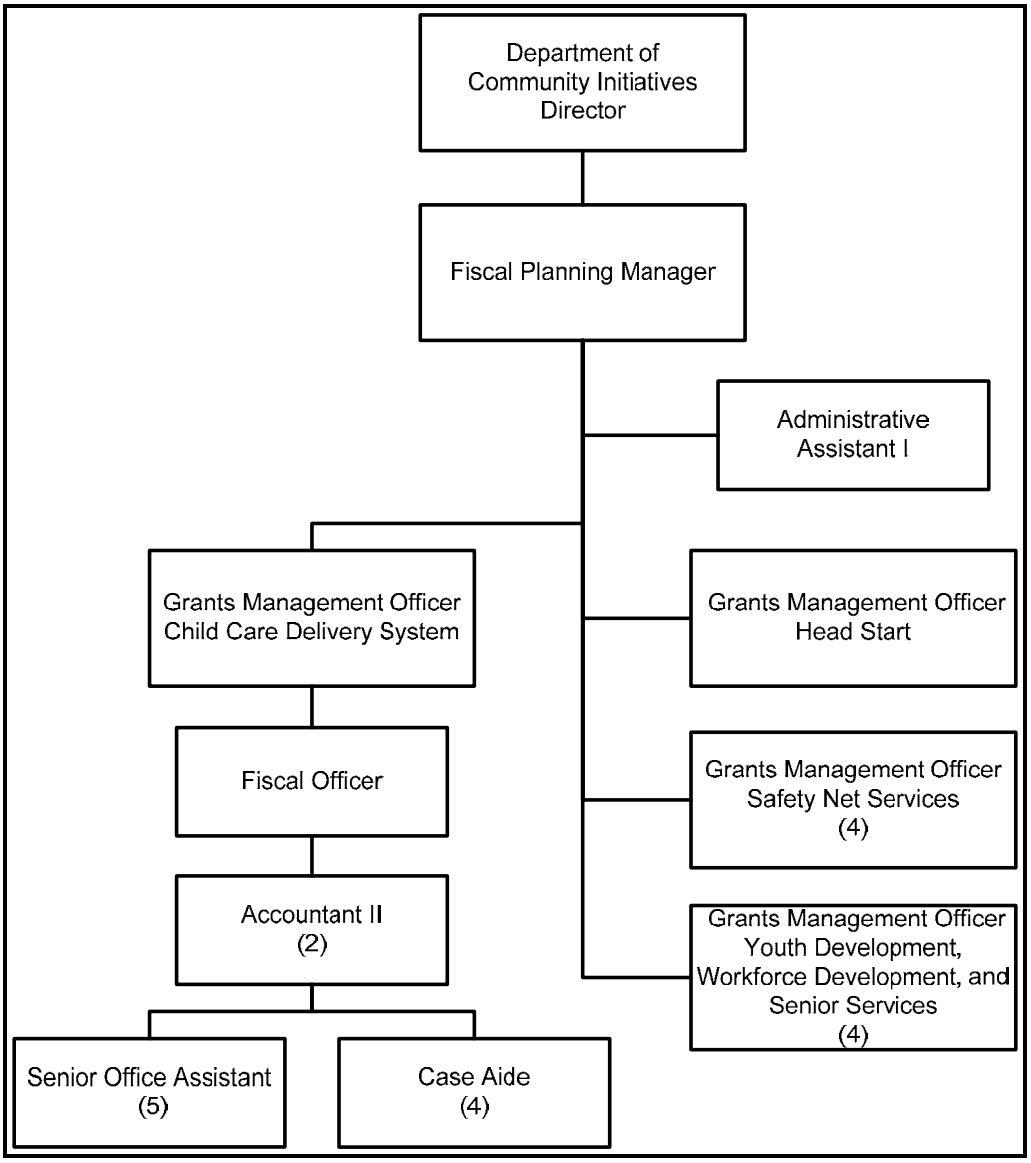
Recommendation

The City Manager should ensure that DCI's Management initiates corrective action regarding the Management and internal control issues, specifically, inadequate procedures, staff training, and employee skill sets.

2. Financial Accounting Services Issues

Thirteen of DCI's Financial Accounting Services Staff are assigned to the CCDS Program. They oversee the daily functions of the Program's accounts payable, accounts receivable, and financial reporting to DCI Management and AWS. **Exhibit F** is an organizational chart showing the personnel from the Financial Accounting Services Section of DCI, including the Staff assigned to the CCDS Program.

Exhibit F – Organization Chart of Financial Accounting Services Staff as of Summer 2005



Source: Prepared by the City Internal Audit Department.

In reviewing current practices of the Financial Accounting Services, issues were noted regarding:

- Inappropriate disbursement controls
- Lack of segregation of duties
- Lack of reconciliations
- Improper accounting procedures

2.1 Inappropriate disbursement controls

Various CCDS Staff are allowed to obtain provider payments from the City's Accounts Payable Section for provider pick up. Employees who initiate payments should not be allowed to disburse the checks. In a normal environment, checks are mailed by Accounts Payable; and Program Staff do not pick up checks. However, with few exceptions, providers may pick-up check at the Accounts Payable Section to allow for appropriate segregation of duties in the disbursement process.

2.2 Inappropriate segregation of duties

The Fiscal Officer is assigned complete control of the accounts receivable process for recovery of child care overpayments. The Fiscal Officer creates receivable documents; records transactions; and maintains custody of documents. The same employee also receives recovery payments; prepares deposits; and posts transactions.

Inappropriate segregation of duties exists when one employee is allowed to handle all aspects of a process from beginning to end. When inadequate segregation of duties exists, an employee has the ability to perform and conceal errors and/or fraud.

2.3 Lack of reconciliation of information in ERM/SAP System to other systems used by CCDS

Program Staff must enter provider invoices for processing into the CCMS Database and the ERM/SAP System, which are not interfaced. Although there are several layers of approvals while entering the data in the two systems, no reconciliation is performed. Audit tests identified six cases of overpayments in the City's ERM/SAP System totaling $6,074 that remained undetected due to lack of reconciliations.

Financial Accounting Services Staff utilize an Accounts Receivable System to track recoupments or recovery of funds owed to the City and AWS from clients and/or providers. This system is not interfaced with the City's ERM/SAP System and reconciliation of amounts posted in the two systems is not performed.

When two information systems are used, monthly reconciliation is required to ensure the accuracy of information.

2.4 Inappropriate accounting procedures used for receivables

The City of San Antonio pays child care costs of the CCDS Program prior to receiving grant funds from AWS. As a result, accounts receivable amounts are due from the State. CCDS Financial Accounting Services Staff post receivable transactions in the ERM/SAP System after payments have been received. They use the check amount as the basis for the amount due. Receivables for administrative and operation expenses and federal match expenses are not recorded in the ERM/SAP System.

This results in untimely and inaccurate financial records with understated accounts receivable and overstated availability of grant funds. CCDS Staff cannot determine outstanding amounts when financial records are inaccurate.

The audit noted one instance of $136,577 in child care costs that had not been reimbursed for over 60 days. This amount was subsequently reimbursed after the Grants Management Officer was made aware of the receivable.

Receivables should be posted in the ERM/SAP System at the time the transaction occurs, based on the expense incurred.

2.5 Deposits are not made timely

AWS reimbursements recorded in the ERM/SAP System from October 1, 2004 to November 17, 2005 were tested for timeliness of deposit. There were 99 transactions totaling over $36 million in reimbursements to the City for child care expenses, federal match expenses, and administrative and operational expenses. One check for $390,465, dated January 31, 2005, was not deposited until March 30th, approximately sixty days later. A July check in an amount approaching $1 million was not deposited for sixteen days. Test results showed an average lapse of 24 days from the date of the AWS check to the deposit date.

An analysis on the frequency of recoupment payment deposits concluded that fifteen of nineteen recoupment payments were not deposited timely. The average deposit, from the initial receipt of a payment, is 20 days, with the maximum of 82 days.

COSA's "Cash Handling Policy and Procedures" calls for deposits of cash and cash equivalents to be made within twenty-four hours as a general rule. By not timely depositing reimbursement checks, the annual cost in lost interest to the City's General Fund was estimated to be approximately $48,000 using a moderate two percent annual percentage rate.

2.6 Recoupment procedures do not comply with AWS directives

AWS Directive CCMS-28, dated March 24, 2003, provides guidelines regarding recoupment or recovery of funds procedures that must be followed by CCDS. The procedure requires that clients owing money to the Program must have their balance paid in full or agree to a repayment plan prior to re-enrollment. If a client misses more than one payment from their prior enrollment, child care services will be terminated with a two week notice. If any individual subsequently reapplies for child care, the previous balance must be paid in full prior to re-enrollment.

Thirty-five accounts with balances over $500 were tested to determine the adequacy of CCDS' procedures. The following issues were noted:

- Payment plans exceeded the allowable two-year terms.
- Several current clients have more than one missed payment and should be terminated from the Program.
- Terminations did not occur timely.
- Client accounts in the CCAS Database were not updated to indicate recoupment amounts due.
- New recoupment accounts are not set-up timely.

Financial Accounting Services Staff strongly feels that CCDS's function is to provide social services, not to be a collection agency. However, if financial activity is not accurate, timely, and available for use; ineligible clients may receive service that could have been provided to eligible clients.

2.7 Inappropriate accounting processes used for recoupments

In reviewing the aged receivable listing from the MIP Accounting System as of August 31, 2005, it was noted that CCDS Staff is unable to generate useful reports, post adjustments, and maneuver through the software to properly manage recoupment balances. The document used to track the recoupment balances is substandard. Several issues were noted with the report and reporting in general.

- The $2.8 million balance includes AWS transactions totaling over $2.6 million that cannot be explained by CCDS Staff. The remaining $230,000 is believed to be the supportable recoupment amount.
- The report does not reflect delinquent accounts.
- The report does not include accounts of all inactive clients that owe funds. This practice may allow them to return to the CCDS Program without reimbursement of funds owed.
- The report contains credit balances that should be cleared.

- The reporting is inadequate as it does not provide management with significant information, such as the number of active and inactive accounts, new accounts, accounts paid in full, and monthly collections.

In testing April 2005 manual receipts for recoupment payments, it was noted that receipts are back-dated to the date received by CCDS.

Risk

Lack of appropriate internal controls increases the risk of errors and/or fraud of occurring without being detected. Without periodic reconciliations, accuracy of information cannot be ensured and financial reporting may be unreliable. Lacking timely deposits, the City loses potential interest earnings.

Recommendation

The City Manager should ensure that DCI Management implements the following improvements in the Financial Accounting Services unit:

- Interface the State's BAPA Database to the City's ERM/SAP System to eliminate duplicative efforts needed to input provider invoice information
- Record receivables for AWS reimbursements based on provider payments reflected in the City's ERM/SAP System
- Reconcile provider claims in the State's BAPA Database and provider payments in the City's ERM/SAP System to AWS reimbursements
- Continue recovery efforts of the $6,074 in overpayments of City funds made to providers
- Instruct the Finance Department to mail checks to child care providers
- Record recoupment receivables in the City's ERM/SAP System
- Adjust the recoupment subsidiary ledger for the $2.6 million unexplained amount
- Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments
- Process recoupments in compliance with AWS requirements
- Provide routine training to ensure procedures are being followed
- Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day

3. Child Care Services Issues

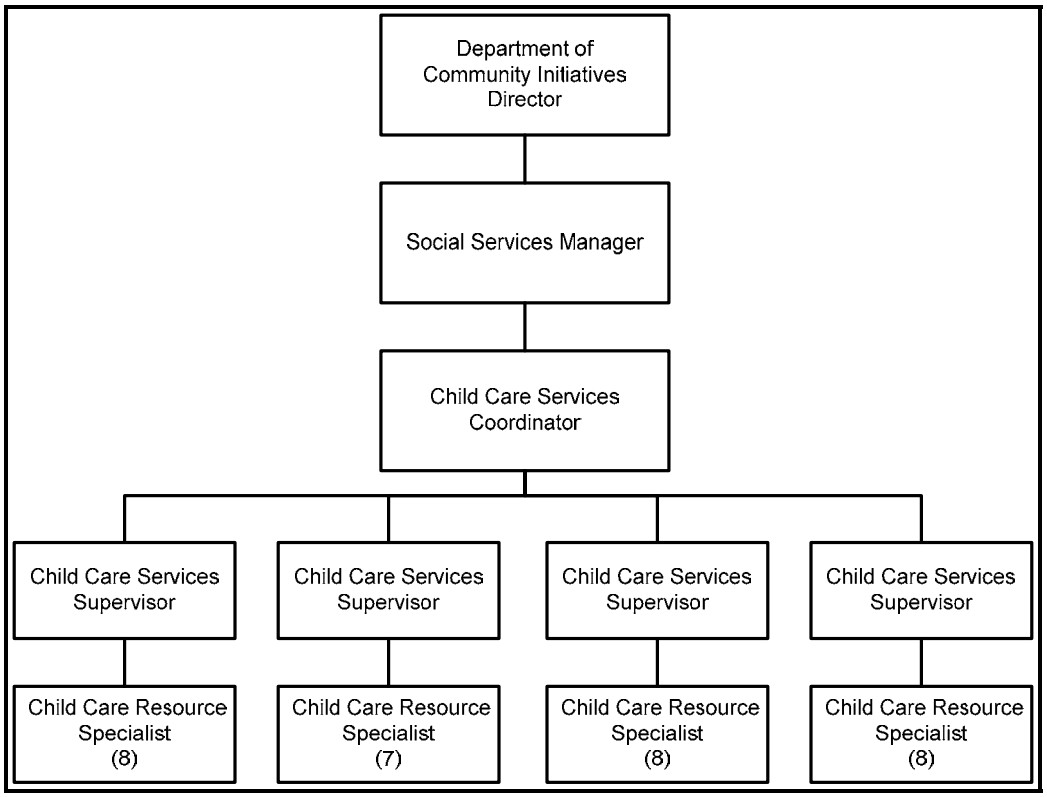
Child Care Services employees pre-screen prospective clients of the CCDS Program. Income eligible clients are placed on a waiting list. When openings occur and/or funding is available, the client's eligibility is confirmed by Child Care Resource Specialists (CCRS). Qualifying participants choose from a list of pre-approved providers or may "self-arrange" care with other providers, including certain family members. After arrangements are made with a provider, the parent's share of the child care cost (parent fee) is calculated. This information is documented in the case files and in the State's CCMS Database.

The client's eligibility period may be established anywhere from six months to one year, depending on the type of Program the client qualifies. As client approach the end of their eligibility period, appointments are set with the client for re-determination purposes. If the client's need and eligibility continue, new dates of service are established and communicated to the child care provider.

In addition to the income eligible clients described above, clients may also be referred by the Texas Department of Family Protective Services (Child Protective Services) and the Texas Workforce Commission. Eligibility of these participants has already been established and is not required of the Child Care Services Section.

Exhibit G is an organizational chart showing the personnel from the Child Care Services Section who are responsible for case management for the CCDS Program.

Exhibit G – Organizational Chart of Child Care Services Staff as of Summer 2005



Source: Prepared by the City Internal Audit Department.

3.1 Lack of segregation of duties, approvals, and monitoring

A lack of segregation of duties exists in the Child Care Services Section. Child Care Resource Specialists are responsible for interviewing prospective clients and obtaining the necessary documentation to support eligibility. The same CCRS will determine eligibility, create the case file, enter eligibility information in the State's CCMS Database, and follow-up on unresolved issues.

Access to the case files is restricted to this employee. The case files are locked in their file cabinets or work station areas. As clients near the end of their eligibility period, the same CCRS will re-certify their continued eligibility. Case files are irregularly reviewed or approved by a supervisor, and Quality Assurance Section monitoring is sporadic at best.

In the past, CCDS faced employee accountability issues when current CCRS duties were split among several Staff. Consequently, the structure was changed to have one person responsible for the case management process. These duties are incompatible when they permit an employee to commit and conceal errors and/or fraud in the ordinary course of performing their job. The lack of supervisory review enhances the possibility of this occurrence.

3.2 Insufficient case file documentation

The City's Contract with AWS requires that the CCDS Program develop procedures to support the services provided. Families wishing to receive child care services must provide documentation to support eligibility requirements. Accordingly, CCDS should maintain the following required documents in the client's case files.

- Copy of Social Security Card of parent(s) and all children receiving care
- Proof of residency - electric, phone, utility bills, public housing records, lease agreements, etc.
- Most recent three paycheck stubs or other suitable documentation
- Current college transcript
- Office of the Attorney General Form 1825, which provides information on child support
- Documentation regarding current work, school or training activities for a minimum of 25 hours a week for a single parent household or 50 hours per week for a two parent household

Child care services may be denied or authorized only for 30 days if certain documentation is not available. Although thirty day termination notices are provided to the client in accordance to CCDS procedures, clients are rarely terminated from the Program.

There were 140 case files tested to verify client eligibility in the CCDS Program. Twenty-eight of the 140 case files tested included referrals by Child Protective Services (CPS) which are not subject to these eligibility requirements. Twenty-one of the remaining 112 case files tested did not have required documentation to support eligibility in the Program. Child care services for these twenty-one clients totaled $42,640 during the period of October 2004 to September 2005. **Exhibit H** shows a categorization of the types of issues identified in the case files.

Exhibit H – Case File Errors

Description	Number of Files	Child Care Expenditures
Client Files:		
Judgmental sample size	140	
Files with no eligibility requirements	28	
Total files tested	112	
Files with complete documentation	91	
Files missing documentation	21	$42,640
Types of Missing Documentation:		
Proof of residency	2	
Social Security card	2	
Three most recent paycheck stubs	16	
Child support, transcript, and/or work hour documentation	5	

Source: Prepared by the City Internal Audit Department

As reflected in **Attachment C**, similar non-compliance issues were noted in the external audit reports issued by the Texas Workforce Commission, AWS, and Martinez, Rosario & Co., LLP. The internal monitoring reports issued by DCI's Quality Assurance Team also reflect similar deficiencies. The monitoring reports released in June 2004 and March 2005 indicate that, respectively, 67 percent and 58 percent of case files tested were non-compliant due to ineligibility and missing documentation. Further information on these reports can be seen in **Attachment D**.

3.3 Enrolling lower priority groups

Families whose gross income level falls below 150% of the Federal Poverty Guidelines are considered a first priority group for child care services. They will be given priority over clients with higher gross income. Subject to the availability of funds, the lower priority groups are provided child care services in descending order.

Fifteen of 112 case files tested did not meet the priority level set by the Alamo LWDA. Child care services for these fifteen clients totaled $12,871 during the period of October 2004 to September 2005.

Risk

As a result of the incompatible case management duties, a CCRS is able to enroll ineligible or lower priority clients while higher priority clients remain on a waiting list. Failure to maintain proper eligibility documentation as required in the AWS Contract places the City in non-compliance which could affect the current and future funding of the CCDS Program.

Recommendation

In addition to addressing internal control issues regarding lack of segregation of duties and supervisory reviews, the City Manager should ensure that DCI Management provides training on eligibility, client priority, and documentation that should be maintained for compliance with TWC and AWS requirements.

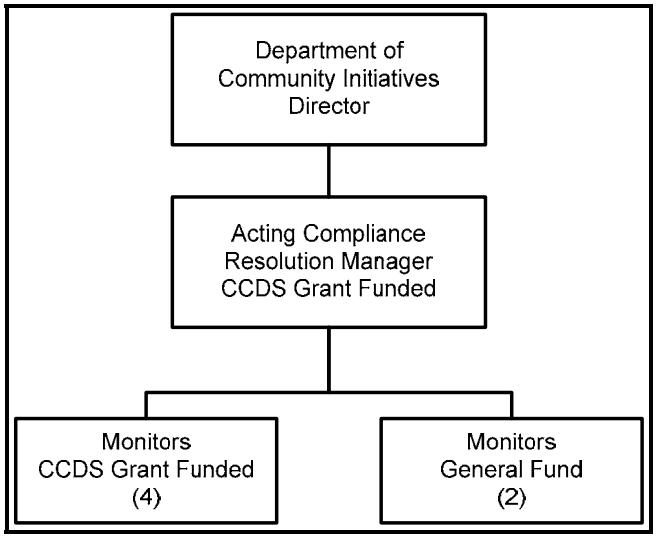
4. Quality Assurance Section Issues

The Department of Community Initiatives (DCI) must perform monitoring activities as specified by AWS and the Texas Workforce Commission. The City is required to monitor its own services to identify problems and act on opportunities to correct them as early as possible. Texas Workforce Commission establishes the following Quality Assurance performance standards for the CCDS Program.

- Accurate and timely determinations or re-determinations of client eligibility
- Correct assessment of parent fees
- Appropriate documentation of client enrollment
- Proper maintenance of provider agreements
- Appropriate monitoring of child care providers

DCI has a Quality Assurance (QA) Team of seven Staff to perform monitoring activities for DCI Programs, including the CCDS Program. **Exhibit I** shows an organizational chart for the QA Section with five of the monitoring positions funded by the CCDS grant.

Exhibit I – Organizational Chart of Quality Assurance Staff as of Summer 2005



Source: Prepared by the City Internal Audit Department.

4.1 Infrequent monitoring activities

The Statement of Work - Monitoring/Continuous Improvement Section of the AWS Contract outlines the following monitoring activities that should be performed.

- Quarterly reviews of client eligibility, documentation, and fees
- Quarterly or biannual reviews of administrative and operating costs
- Semi-annual reviews of the provider payment process

DCI's Quality Assurance (QA) Section are not performing quarterly monitoring of the CCDS Program as required by the AWS Contract, even with four of the seven positions being grant funded. Although the quality of the reports appears adequate, the frequency of the monitoring activities is not in compliance with the Contract. There were no monitoring reports on fiscal operations issued and only one monitoring report issued on client services for the period of October 2004 to March 2005.

Fiscal monitoring was not performed during this period since the QA Team understood the term "biannual monitoring" to mean every two years instead of twice a year. A prudent person would understand that the phrase "quarterly or biannually" would more than likely mean every three to six months, not every three months or two years. **Attachment D** reflects the monitoring activities performed by the QA Section for the period of October 2002 to April 2005.

Risk

At the Program level, periodic monitoring is an important tool in timely detection and correction of errors. Lack of monitoring activities could allow errors and irregularities to remain undetected. Furthermore, failure to perform monitoring activities as required in the AWS Contract places the City in non-compliance that could affect the current and future funding of the CCDS Program.

Recommendation

The City Manager should ensure that adequate monitoring occurs and that significant issues are reported timely to City Management and the DCI Director.

Attachment A

Child Care Delivery System Program
Monthly Performance Measures
Fiscal Year 2005

	*	2004 Oct.	Nov.	Dec.	2005 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.		YTD Percent Achieved
AWS Contractual Compliance Measure:														**Average**	
Average number of children in care	P	9,388	9,388	9,388	9,388	9,388	9,388	9,388	9,388	9,388	9,388	9,388	9,388	9,388	
	A	10,540	10,811	10,003	10,975	10,920	11,284	11,665	11,700	11,913	12,146	11,759	11,885	11,300	120%
DCI Voluntary Measures:														**YTD Total**	
Number of vendors that are Texas Rising Star certified	P	86	86	86	86	86	86	86	86	86	86	86	86	1,032	
	A	109	109	109	107	106	105	104	103	102	102	97	96	1,249	121%
Percent of vendors that are Texas Rising Star certified	P	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
	A	38%	38%	34%	29%	36%	34%	39%	38%	37%	37%	34%	33%	36%	119%
Number of participants (parents and children)	P	21,224	3,637	3,637	3,637	3,637	3,636	3,636	3,636	3,636	3,636	3,636	3,636	61,224	
	A	15,200	1,431	2,038	2,579	1,238	2,041	1,742	2,081	2,426	1,831	1,845	1,890	36,342	59%
Number of community locations	P	564	564	564	564	564	564	564	564	564	564	564	564	564	
	A	571	576	578	582	588	591	595	602	613	613	608	609	594	105%
Percent of children (0 - 5 years old) in poverty receiving care	P	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	
	A	23%	24%	22%	24%	24%	25%	26%	26%	26%	27%	26%	26%	25%	69%
Number of self arranged child care providers	P	900	900	900	900	900	900	900	900	900	900	900	900	10,800	
	A	1,388	1,525	1,621	1,709	1,709	1,094	1,226	1,095	1,074	1,028	1,198	1,331	15,998	148%
Number of providers that receive technical assistance	P	420	420	420	420	420	420	420	420	420	420	420	420	5,040	
	A	1,023	833	353	436	437	457	484	480	439	478	569	602	6,591	131%
Number of CCDS cases that transition to or above the living wage	P	119	119	119	119	119	119	152	152	152	152	152	152	1,626	
	A	194	71	135	160	144	160	159	151	224	163	244	179	1,984	122%
Number of CCDS cases that leave care	P	132	132	132	132	132	132	627	627	627	627	627	627	4,554	
	A	235	235	195	246	157	284	345	333	548	401	1,585	402	4,966	109%
Number of CCDS cases leave care due to over income	P	10	10	10	10	10	10	10	12	3	3	3	3	94	
	A	1	1	8	1	1	3	1	5	9	5	8	9	52	55%

Note: Vendors are child care providers

* P - Projected, A - Actual

Source: Prepared by the City Internal Audit Department
The unaudited data was provided by the Director of Department of Community Initiatives.

Attachment B

DCI CCDS Program Procedural and Compliance Assessment

Internal Control Expectations

EE - Exceeds Expectations ME - Meets Expectations DNME - Does Not Meet Expectations N/A - Did Not Review or Observe

Chapter	Title	Control Risk	Procedure Content	Compliance	Comments
Client Services Procedures					
1	Screening Interview and Wait List	Low	ME	ME	
2	Self-Referred Client Intake	High	DNME	DNME	There is no segregation of duties required before eligibility is determined by the Child Care Resource Specialist (CCRS). Documentation of eligibility review is not required and does not appear to be occurring in practice. The CCRS handles all facets for the cases, including input documentation.
3	Texas Workforce Commission Client Intake	Low	ME	ME	
4	Child Protective Services Client Intake	Low	ME	ME	
5	Selecting a Provider	Low	ME	ME	
6	Authorizing Child Care	High	DNME	DNME	No segregation of duties exist as the CCRS completes all steps of enrollment, including authorization. Although eligibility review is addressed in the procedures, it does not appear to be occurring in practice and is not documented in the file.
7	Parent Fee and Subsidies	Med	ME	DNME	Client files do not always include the three most current pay stubs.
8	Redeterminations (recertifications, updates, status changes, and add-ons)	High	DNME	DNME	Redetermination of eligibility does not have adequate segregation of duties. The CCRS is responsible for all aspects of authorizing care. It appears that review of files is not being performed or documented.
9	Non-Compliance Issues	High	ME	DNME	The CCRS does not terminate clients for failure to provide required eligibility documentation.
10	Transfers	Low	ME	N/A	
11	Interruptions in Employment, Education or Training	Med	ME	ME	
12	Termination	High	ME	DNME	The CCRS is responsible for terminating clients for failure to provide required documentation, another inappropriate responsibility contributing to the lack of segregation of duties in this area.
13	Appeals	Low	ME	N/A	
14	Absences	Med	ME	ME	
15	Parent Responsibility Agreement	Med	ME	DNME	A $25 State assessment must be charged to the client for failure to provide required Attorney General documentation on child support. The CCRS does not always assess this amount.
16	Fraud, Non-compliance and Recoupment	High	DNME	DNME	The procedure does not describe the action required for the client's failure to repay the amount owed to the City for services paid in error. It also does not include procedures for inactive clients. The CCRS is responsible for terminating clients, another example of lack of segregation of duties. The CCRS does not always terminate clients in accordance with the Alamo WorkSource (AWS) Contract. Steps regarding notification letters to the client do not mirror AWS directives.
17	Automation	High	DNME	DNME	There is no supervisory review of the data entry in the State's Child Care Management System (CCMS) database. The CCRS can enter a new client or edit information on existing clients at any time.
18	Client File Security	High	DNME	DNME	The procedure does not address client confidentiality issues, especially when dealing with personal information of clients and minor children. This information can be used for identity theft. The CCRS is responsible for maintaining case files at their work location; however, files should be secured in a central location after any eligibility issues are resolved.
19-20	Intentionally left blank	N/A	N/A	N/A	

Source: Prepared by the City Internal Audit Department from data provided by the Department of Community Initiatives.

Attachment B (continued)

DCI CCDS Program Procedural and Compliance Assessment

Internal Control Expectations

EE - Exceeds Expectations ME - Meets Expectations DNME - Does Not Meet Expectations N/A - Did Not Review or Observe

Chapter	Title	Control Risk	Procedure Content	Compliance	Comments
Provider Management Procedures					
21	Child Care Delivery System Providers	High	DNME	EE	The procedure does not address supervisory authorization and/or review. However, current practice includes supervisory review.
22	Contracting with SACC [Self Arranged Child Care] Providers	High	ME	ME	
23	Texas Rising Star Providers	Low	ME	N/A	
24	Children With Disabilities	N/A	N/A	N/A	
25	Provider Specialist Tasks	Med	ME	ME	
26	Texas Department of Protective and Regulatory Services	Low	ME	ME	
27	Providers Excluded From State or Federal Programs	Low	ME	N/A	
28	Monitoring Attendance and Absences	Med	ME	ME	
29	Monitoring Parent Fees	Med	ME	ME	
30	Intentionally left blank	N/A	N/A	N/A	
31	E-Vision	Med	ME	ME	
32	Reimbursement for Child Care	Med	ME	ME	
33	Parent Advisory Groups	N/A	N/A	N/A	
34	Conflict Management	N/A	N/A	N/A	
35	Corrective Action with Providers	Med	ME	N/A	
36	Fraud	Med	ME	ME	
37	Non-Compliance with Insurance	N/A	N/A	N/A	
38	Non-Compliance with Licensing Standards	Low	ME	N/A	
39	Termination, Non-Renewal and Re-Application of CCDS Provider and SACC Agreements	Med	ME	ME	
40	Internal Quality Assurance System	High	ME	ME	
41-45	Intentionally left blank	N/A	N/A	N/A	
Accounting Procedures					
46	Absence Extensions	Med	ME	N/A	
47	Absence Letters	Med	ME	N/A	
48	Correction Request	Med	ME	N/A	
49	E-Vision Billing and Payment	High	DNME	ME	The procedure allows the invoice total to be reduced for recoupments collected by the provider. The client should not be allowed the option to pay the provider. This would create an audit trail issue. The procedure instructions for final proofing of provider billings are vague and should be strengthened.
50	Late Parent Fees	Med	ME	ME	
51	Line Item Rejections	High	DNME	N/A	Procedures provide inadequate designation of responsibility.
52	Parent Fee Adjustments	Med	DNME	N/A	The procedure allows the invoice total to be reduced for recoupments collected by the provider. The client should not be allowed the option to pay the provider. This would create an audit trail issue.
53	Recoupments	High	DNME	DNME	Procedures provide inadequate designation of responsibility. In practice, there is a lack of segregation of duties in this area.
54	Self-Arranged Child Care Billing and Payment	High	DNME	DNME	Procedures do not adequately describe the steps for final proofing and submittal of provider invoices for payment by the Finance Department. Checks are mailed by the Finance Department. However, the Grants Management Officer routinely picks up some provider checks. This procedure overrides disbursement controls and causes segregation of duties.
55	Terminations	Med	ME	N/A	This procedure relates to child care absences.

Source: Prepared by the City Internal Audit Department from data provided by the Department of Community Initiatives.

Attachment B (continued)

DCI CCDS Program Procedural and Compliance Assessment

Internal Control Expectations

EE - Exceeds Expectations ME - Meets Expectations DNME - Does Not Meet Expectations N/A - Did Not Review or Observe

Chapter	Title	Control Risk	Procedure Content	Compliance	Comments
Accounting Procedures (continued)					
56	Vendor/Provider Billing and Payment	High	ME	ME	
57	Recoupment Payments	High	DNME	DNME	The procedure provides inadequate designation of responsibility. In practice, there is a lack of segregation of duties in this area. Procedure states that payments are to be "deposited" into the COSA SAP software system on a weekly basis. However, payments should be submitted to the Finance Department and transactions should be posted to the ERM/SAP System. Weekly deposits are not occurring. Procedure does not refer to the City Cash Handling Policy or include alternate instructions for endorsements, safekeeping, segregation of duties, etc.
58	Deposits	High	DNME	DNME	Deposits are not made weekly. The majority of deposits involve AWS reimbursements. This procedure only addresses recoupments from provider payments made in error.
59-60	Intentionally left blank	N/A	N/A	N/A	
Automation Procedures					
61	Child Care Delivery System Automation Services	High	DNME	DNME	Procedures should address the physical and logical control environment of the local access network of the CCMS database. Does not address user access and levels of access.
62-65	Intentionally left blank				

DCI, Department Directive 29					
	DCI Quality Assurance (QA) Reviews, External Audits, and Tracking Reports	High	DNME	DNME	While procedure is substantive with respect to how to perform a QA review, it does not include substantive information in respect to the controls that will be tested.

Source: Prepared by the City Internal Audit Department from data provided by the Department of Community Initiatives.

Attachment C

Summary of External Audit Reports – Grant Years 2002 to April 2005

Date Issued	Monitoring Agency	Audited Agency	Period Audited	Items Noted in the Report
May 2004	TWC	AWS	Jan. 2003 - Dec. 2003	During the course of TWC's review, opportunities to strengthen the Board's control systems were found. Child care service for TANF/Choices clients of COSA's CCDS program were not terminated timely.
Mar. 2004	AWS	CCDS	May 2003 - Mar. 2004	An incomplete Service Improvement Agreement, missing documentation, and observations on incomplete Contractor monitoring forms, lack of record of SACC orientations, outdated CCDS Provider Manual were noted.
Jan. 2004	AWS	AADC	Sept. 2002 - Aug. 2003	Issues with case files being out of compliance with AWS procedures, lack of supervisory review and approval, and observation on creating procedures for late recoupment payments were noted.
Jan. 2004	AWS	CCDS	April 2003 - Jan. 2004	Eleven percent error rate related to non-compliance or case management issues (i.e., eligibility, assessment and enrollment) were noted. One instance of late data entry was also noted.
Sept. 2003	AWS	CCDS	unknown	Uniform enforcement of policies related to client service delivery, deficiencies in the procedures manual, case management issues, recoupment issues, and internal monitoring issues were noted.
Sept. 2003	Martinez, Rosario & Co, LLP	CCDS	Sept. 2002 - Aug. 2003	At the request of AWS, an audit of COSA's compliance with applicable laws, regulations, policies, and contract terms was performed. Findings on inventory methods, missing case files, and missing payroll documentation were noted.
Sept. 2003	AWS	CCDS	Sept. 2002 - Aug. 2003	Missing documentation, procedure for calculating child support, case files being out of compliance (i.e., eligibility, assessment, and enrollment) and inadequate supervisor review of files during enrollment, recertification, redeterminations, and status changes were noted.
Mar. 2003	AWS	CCDS	unknown	Eligibility and case management issues (i.e., 33 of 40 files or 83%), recertifications and redeterminations were not completed timely, late receipt of eligibility forms, late reporting by client of status change, and missing documentation were noted.
Feb. 2003	Martinez, Garcia & Co, LLP	CCDS	Sept. 2001 - Aug. 2002	At the request of AWS, an audit of the CCDS program was performed. Findings on lack of fiscal & client eligibility monitoring for the 2002 contract period and inadequate inventory records were noted. Observations related to timeliness of payroll journal entries, lack of issuance of Form 1099s, inventory count issues, inaccurate AADC indirect cost recovery amounts, and lack of payment for AADC billing invoice #9 were noted.
Oct. 2002	SAO	TWC	Sept. 2001 - Jan. 2002	An audit of TWC consisted of testwork at six Boards, including the Alamo Board. The audit noted missing documentation necessary to support eligibility, clients that underreported their wages, and risk of inadequate monitoring of Self Arranged Child Care.

Source: City of San Antonio's Department of Community Initiatives, Acting Compliance Resolution Manager

Note: This attachment shows a pattern of control and compliance issues.

Attachment D

Summary of Quality Assurance Monitoring Activity – Grant Years 2002 to April 2005

Date Issued	Area Monitored	Period Monitored	Quarter	Items Noted in the Report
Client Services:				
Mar. 2005	Client files	Sept. 2003 - Dec. 2004	1st, 2nd, 3rd, 4th Qtr (2004) & 1st Qtr (2005)	52% non-compliance with eligibility, assessment (gross income and/or parent fee calculation), and enrollment (missing documentation) on 1st sample and 58% non-compliance on 2nd sample.
June 2004	Client files	Sept. 2003 - June 2004	1st, 2nd & 3rd Qtr (2004)	(1) 17% non-compliance with eligibility, assessment (gross income and/or parent fee calculation), and enrollment (missing documentation). (2) Lack of internal reports on program performance.
June 2004	Client files, provider records	Mar. 2004 - May 2004	3rd Qtr (2004)	(1) No areas of concern were identified in the client files. (2) Information on 12 of 26 provider files was not transferred correctly to the LAN. Child care rates on 6 of 26 providers did not match the agreement and/or LAN.
June 2004	Client files	Sept. 2003 - May 2004	1st, 2nd & 3rd Qtr (2004)	67% non-compliance with eligibility, assessment (gross income and/or parent fee calculation), and enrollment (missing documentation).
Oct. 2003	Client files	April 2003 - Sept. 2003	3rd & 4th Qtr (2003)	57% non-compliance with eligibility, assessment (gross income and/or parent fee calculation), and enrollment (missing documentation). In addition, one client was ineligible and three client files did not contain the updates that were in the automated system.
Fiscal Operations:				
June 2004	AADC - (Performance Measures and Monthly Invoices)	Sept. 2003 - Jan. 2004	1st & 2nd Qtr (2004)	(1) AADC is not submitting support documentation with monthly requests for reimbursements. (2) A budget revision was not approved by COSA.
April 2004	Family Service Association - (Performance Measures and Monthly Invoices)	Sept. 2003 - Feb. 2004	1st & 2nd Qtr (2004)	Budget revisions were made without approval, certain expenditures are improperly classified, and no supporting documentation is submitted with monthly requests for reimbursements.
Mar. 2004	Operations and Program Expenditures & Payroll	Aug. 2003	4th Qtr (2003)	CCDS Program - 19 out of 69 or 28% payroll exceptions. Quality Improvement Activity Program - no exceptions noted.
Feb. 2004	Provider Payments	Aug. 2003	4th Qtr (2003)	No exceptions noted.
Aug. 2003	Operations and Program Expenditures & Payroll	May 2003	3rd Qtr (2003)	CCDS Program - no exceptions noted. Quality Improvement Activity Program - no exceptions noted.
not dated	Provider Payments	April 2003	3rd Qtr (2003)	No exceptions noted.
not dated	Operations and Program Expenditures & Payroll	Feb. 2003	2nd Qtr (2003)	CCDS Program - 31% payroll exceptions. Quality Improvement Activity Program - 12% payroll exceptions.
not dated	Operations and Program Expenditures & Payroll	Nov. 2002	1st Qtr (2003)	CCDS Program - no exceptions noted. Quality Improvement Activity Program - no exceptions noted.

Source: City of San Antonio's Department of Community Initiatives, Acting Compliance Resolution Manager

Attachment E

RISK MANAGEMENT CAPABILITY MATRIX

In performing this audit, four risk management capabilities were considered for purposes of determining whether the Child Care Delivery System's key risk to the City was at an acceptable level. The capabilities included: process, people, technology, and information. The matrix below outlines the characteristics of each capability needed for effective risk management. It highlights that the CCDS Program and related functions are generally at the repeatable stage. However, it is important to note that most organizations reach a managed stage, while only a few attain an optimized stage.

Process Capabilities

Stage	Procedures	Controls and Process Improvements	Metrics
Ad Hoc	No formal *procedures* exist.	*Controls* are either non-existent, or are primarily reactionary after a "surprise" within the company.	There are no *metrics* or monitoring of performance.
Repeatable	**Some standard *procedures* exist.**	**Detective *controls* are relied upon throughout the company.**	**Few performance *metrics* exist, thus there is infrequent monitoring of performance.**
Defined	*Procedures* are well documented, but are not regularly updated to reflect changing business needs.	Both preventive and detective *controls* are employed throughout the company.	Some *metrics* are used, but monitoring of performance is primarily manual.
Managed	*Procedures* and *controls* are well documented and kept current.	Best practices and benchmarking are used to *improve* process in certain areas of the company.	Many *metrics* are used, with a blend of automated and manual monitoring of performance.
Optimized	*Processes* and *controls* are continuously reviewed and *improved*.	Extensive use of best practices and benchmarking throughout the company helps to continuously *improve* processes.	Comprehensive, defined performance *metrics* exist, with extensive automated monitoring of performance employed.

People Capabilities

Stage	Experience and Competence	Direction and Development	Authority and Accountability
Ad Hoc	*Inexperienced* personnel in most areas; no formal training programs are followed.	In most areas of the company there is little job guidance or other formal *direction*.	Vague or conflicting *authority and accountability* across business areas throughout the company.
Repeatable	***Competent* personnel in most areas; limited training; many functions tend to be under or over-resourced.**	**Some understanding of the basic job requirements in most areas, but still not much formal *direction* from management.**	**Lack of clear *authority and accountability* across business areas throughout the company.**
Defined	*Experienced* personnel in most areas, but limited bench strength.	Job responsibilities and skill requirements are defined for all areas, but career *development* focus is lacking.	*Authority and accountability* are defined across the company, but not broadly or consistently understood by all affected areas.
Managed	*Strong* team in place with adequate bench strength in most areas.	A formal *development* program exists company-wide, with focus on both enhancing existing skills and developing new skills.	Clear articulation of *authority and accountability*, and consistent understanding among all affected areas.
Optimized	Formal succession planning and integrated resourcing program ensure *multiple sourcing options* for all key positions throughout the company.	Cross-training programs provide *job enrichment* opportunities for all employees and *multiple sourcing options* for all key positions.	A culture of empowerment engages employees throughout the company in exercising the *authority and accountability* they have been granted.

Source: Auditor's Risk Management Guide: Integrating Auditing and ERM by Paul J. Sobel, CPA, CIA

Attachment E (continued)

Technology Capabilities

Stage	Integration	Enhancements	Security
Ad Hoc	Limited, *stand-alone* systems and technology.	System and technology *enhancements* are rarely done unless they crash or are proven to be obsolete.	Lax to nonexistent technology infrastructure throughout the company for physical and logical *security*.
Repeatable	**Viable, but *non-interfacing* systems and technology.**	**System and technology *enhancements* consistently trail business needs.**	**Limited technology infrastructure, resulting in inconsistent application of physical and logical *security* across the company.**
Defined	Systems and technology are adequate to meet most of the company's current business needs, but most do not *interface*.	System and technology *enhancements* are typically reactive to business changes, but are implemented timely.	A formal technology infrastructure exists company-wide, but some physical and logical *security* exposures exist in certain areas.
Managed	Systems and technology are mostly *integrated*, effectively meeting most current business needs, and should be adequate in the near-term.	System and technology *enhancements* are planned to be proactive, and are generally implemented effectively.	A sound and formal technology infrastructure exists, and physical and logical *security* is generally effective throughout the company.
Optimized	Fully *integrated* systems and technology effectively enable the business and are generally considered a competitive advantage.	Systems and technology are *continuously improved* to maintain the competitive advantage.	A strong technology infrastructure exists, with best practice physical and logical *security* procedures operating throughout the company.

Information Capabilities

Stage	Accuracy, Completeness, and Availability	Reporting	Access Restrictions
Ad Hoc	Information throughout the company is typically *in-accurate, incomplete*, and virtually impossible to *obtain* when needed.	*Reports* are either non-existent in most areas or are meaningless to users.	Critical information is not protected from unauthorized *access* in any area of the company.
Repeatable	**Information in most areas is not always *accurate and complete*, and is typically very cumbersome to *obtain*.**	**Some, but not all, key *reports* are available, and they provide marginal value.**	**Few *access* restrictions exist throughout the company, and there is limited enforcement of access violations.**
Defined	Information in most areas is generally *accurate and complete*, but is challenging to *obtain*.	Several *reports* exist, but some contain extraneous information, which makes them difficult and inefficient to effectively utilize.	*Access* is generally restricted, but enforcement is inconsistent across different areas of the company.
Managed	Information is *accurate, complete,* and *relevant* throughout the company, and is typically *available* with a relatively short lead-time.	Most key *reports* are *relevant* and generally *timely.*	*Access* restrictions are typically effective across the company, but most are manually monitored and enforced.
Optimized	*Accurate, complete,* and *relevant* information is readily *available* throughout the company via a variety of on-line sources.	All key *reports* are concise, *relevant*, and consistently *timely*.	*Access* is effectively restricted across the company, with automated monitoring and enforcement.

Source: Auditor's Risk Management Guide: Integrating Auditing and ERM by Paul J. Sobel, CPA, CIA

CITY OF SAN ANTONIO
P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

March 29, 2006

City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Department of Community Initiatives – Child Care Delivery System

City Management and the Department of Community Initiatives (DCI) have reviewed the audit report for the City's Child Care Delivery System (CCDS). Please find attached DCI's Management Comments and a Corrective Action Plan for the recommendations.

The financial issues regarding procedures and processes noted in the report overall were immediately addressed upon receiving the audit report. The audit report noted there were transactions totaling over $2.6 million that were found in the MIP recoupment subsidiary ledger that could not be explained by the CCDS staff. Our research shows that these transactions were not a recoupment, but were test customers used as training clients and as tests of the system. DCI is determining the feasibility of reversing these test entries to record a zero balance.

The audit review of client case file documentation originally showed a 79% error rate which was subsequently reduced to 19%. This change in audit results occurred after the CCDS staff showed the audit interpretation of required program documentation was seriously flawed. The questioned client expenditures were originally reported at $191,086 and subsequently reduced in the audit to $42,640 after the CCDS staff corrections were accepted by the auditors.

The report's Exhibit A in the "Results In Brief" section of the report titled "Assessment of CCDS' Internal Controls" is based on a tool from the American Institute of CPAs (AICPA) referred to as "Internal Control – A Tool for the Audit Committee". This tool appears to have been misapplied and conclusions reached unsupported. The tool is based on a series of yes/no questions discussed in an open forum with the individuals that have a basis for responding to the questions including key members of the financial management team and internal auditors. No such forum took place nor was any evidence provided from the City Auditor that would have supported responses to the series of questions enumerated in the tool.

The final audit report reflects the same audit findings and conclusions, including your assessment of CCDS's internal controls, as your prior draft report even after the computed error rate for client case management and questioned client expenditures were both substantially reduced. We question how these findings and conclusions can remain intact even after your auditors verified and accepted the accuracy of the report corrections made by the CCDS staff.

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Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	Executive Summary (ES)				
ES1	Improve the internal control environment: • Define procedures for proper fiscal administration and case management • Provide routine training to Financial Accounting Services and Child Care Services Staff to ensure procedures are being followed • Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments (Detailed Report Recommendation 1; Response Page 2: Detailed Report Recommendation 2; Response Page 3: and Detailed Report Recommendation 3; Response Page 3)	4			
ES2	Improve processes in the Financial Accounting Services unit: • Interface the State's BAPA Database to the City's ERM/SAP System to input provider invoice information • Record receivables for AWS reimbursements based on provider payments reflected in the City's ERM/SAP System • Reconcile provider claims in the State's BAPA Database and provider payments in the City's ERM/SAP System to AWS reimbursements • Adjust the recoupment subsidiary ledger for the $2.6 million unexplained amount • Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day (Detailed Report Recommendation 2; Response Pages 2 & 3)	4			
ES3	Ensure that all required documents to support eligibility are maintained in the client's file (Detailed Report Recommendation 3; Response Page 3)	4			
ES4	Ensure that the Quality Assurance Section implements the monitoring plan required by the AWS Contract (Detailed Report Recommendation 4; Response Page 3)	4			

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	Detailed Report				
1.	**Management and Internal Control Issues** Initiate corrective action regarding the management and internal control issues, specifically, inadequate procedures, staff training, and employee skill sets	11	Accept	Lynn Stewart CCDS Social Services Manager Natalie Adams Acting Fiscal Planning Manager	February 1, 2006 Training will be an on-going function May 1, 2006
2006	**Management Comments/Action plan:** CCDS Directive 5.1 was implemented on December 20, 2005 to maintain and establish protocol for updating and revising the CCDSD procedures in accordance with established Texas Workforce Commission (TWC), Alamo *Work*Source (AWS), and City of San Antonio directives and guidelines. A CCRS Training Outline for multiple level trainings was developed in January 2006, implemented in February 2006, and will be an on-going function of the program. CCDS supervisor duties have been amended and require review of client intakes and file documentation. CCDS follows recently issued COSA, DCI, and CCDSD Cash Handling Procedures. Procedures will also be implemented to administer vendor payments to ensure separation of duties, reconcile SAP system information to other CCDS systems, enter receivables into SAP based on invoice amounts, centralize the deposit of grant receipts to mirror COSA's Cash Handling Policy and Procedures, and revise a system to record and account for program recoupments.				
2.	**Financial Accounting Services Issues**				
	• Interface the State's BAPA Database to the City's ERM/SAP System to eliminate duplicative efforts needed to input provider invoice information	15	Partially Accept	Natalie Adams Acting Fiscal Planning Manager	To be determined
	• Record receivables for AWS reimbursements based on provider payments reflected in the City's ERM/SAP System	15	Accept	Homer Garcia, Grants Management Officer	March 16, 2006
	• Reconcile provider claims in the State's BAPA Database and provider payments in the City's ERM/SAP System to AWS reimbursements	15	Accept	Homer Garcia, Grants Management Officer	April 16, 2006
	• Continue recovery efforts of the $6,074 in overpayments of City funds made to providers	15	Accept	Homer Garcia, Grants Management Officer	April 16, 2006
	• Instruct the Finance Department to mail checks to child care providers	15	Partially Accept	Natalie Adams Acting Fiscal Planning Manager	March 6, 2006

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	• Record recoupment receivables in the City's ERM/SAP System	15	Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Adjust the recoupment subsidiary ledger for the $2.6 million unexplained amount	15	Partially Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments	15	Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Process recoupments in compliance with AWS requirements	15	Accept	Natalie Adams Acting Fiscal Planning Manager	October 1, 2006
	• Provide routine training to ensure procedures are being followed	15	Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day	15	Accept	Natalie Adams Acting Fiscal Planning Manager; Homer Garcia Grants Management Officer	May 1, 2006

Management Comments/Action plan:
DCI requested the Information Technology Services Department (ITSD) develop an interface between the State's CCDS Local Application System and the City's SAP System. While the feasibility, time requirements, and cost of this recommendation will have to be evaluated by ITSD and Finance, DCI will continue to employ other processes to reduce the exposure to data entry errors.

CCDS implemented a procedure to enter receivables into SAP Sales Orders based on the invoiced amounts entered into the CCDS system. Direct child care invoices will be entered in total by upload (batch) within 3 business days of receipt of the CCDS System 2016 Turn Around Summary Report indicating acceptance of the automated invoice. Other manual invoices will be entered into SAP after the invoice is reviewed and signed by the authorized DCI Management staff.

CCDS will implement a procedure to reconcile direct child care invoice amounts entered into the CCDS system to the invoice amounts entered into the City's SAP system. This process will be performed in total by upload (batch) within 30 days of receipt of the CCDS System 2016 Turn Around Summary Report indicating acceptance of the automated invoice that was entered into the CCDS system.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	The stated overpayments occurred during the conversion from FAMIS to SAP. The possibility of overpayments will be addressed with the implementation by CCDS of a procedure to reconcile direct child care invoices entered into SAP with invoices entered into the State's CCDS Local Application. CCDS has successfully recovered a majority of the stated overpayments and will continue recovery efforts on the balance. DCI implemented a policy that prohibits fiscal staff personnel that have payment initiation roles from retrieving vendor payments from the Finance Department. In order to be responsive the customer needs special provisions exists for vendors to have the availability to pickup payments in person directly from the Accounts Payable section of the Finance Department. While the issue noted dealt with direct child care vendor payments this policy is applying to all payments. In instances where the department needs to obtain the check directly, either to remit it with additional items or special circumstances exist for the item to be paid in person or delivered, only staff without payment initiation roles will be allowed to retrieve the payment. CCDS has requested technical assistance from the City Attorney's Office on the issue of recoupment amounts being a legal receivable to the City, as opposed to only the program, and legal implications in the collection of the amounts. Technical assistance has also been requested from the Finance Department on the use of the SAP system in managing the client recoupment accounts through the accounts receivable/sales module. The department is studying a Council action to establish a dedicated account that would allow for the recording and accounting of the recoupments, the establishment of an allowance against the recoupment amounts, and the transfer of realized revenue to the grant program as program income or the remittance back to the grantor, based on AWS directives. The programs' procedures and policies will be revised based on the final system used for the recording and accounting of recoupments and will reflect corrections to issues addressed in the audit. The $2.6 million noted in the report as unexplained in the recoupment subsidiary ledger is not a recoupment, but represents three test customers used as training clients and as a test of the system. A review of these three accounts shows names such as "AWD", "AWD non-BAPA," and "LIRS". Actual recoupment clients are setup in the MIPS accounting software by individual customer name (such as John Smith). A MIPS consultant has been contacted to research the ability to reverse out these test entries to zero balance. The Acting DCI Fiscal Planning Manager and the CCDS Grants Management Officer will ensure that all new procedures and training on these procedures are provided to the CCDS fiscal staff. CCDS requested Alamo *Work*Source consider using electronic funds transfers for reimbursement to the City under the CCDS program on March 6, 2006. Additionally, a procedure was implemented to centralize the deposit of grant receipts in the department's fiscal section. The department's procedure mirrors the City's Cash Handling Policy and Procedures with regard to the adoption of timeliness of deposits guidelines.				
3.	**Child Care Services Issues**				
	• Address internal control issues regarding lack of segregation of duties and supervisory reviews	18	Accept	Lynn Stewart CCDS Social Services Manager	April 1, 2006
	• Ensure that DCI Management provides training on eligibility, client priority, and documentation that should be maintained for compliance with TWC and AWS requirements	18	Partially Accept	Lynn Stewart CCDS Social Services Manager	April 1, 2006

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	Management Comments/Action plan: CCDS has hired additional staff that is being assigned caseloads previously handled by the CCDS supervisors. CCDS supervisors will resume performing client case reviews. An internal CCDS monitoring team is being re-staffed and will review client case files for accuracy and completion of file documentation. Additionally, Child Care Services teams are being formed to allow CCRS to have administrative backup for filing, making follow-up phone calls, and other support duties. DCI concurs with the audit's adjusted error rate which was reduced from 79% to 19%. The auditors misinterpreted the documentation required as proof of residency and incorrectly made the assertion that a copy of social security card was needed for both the parents and the children receiving care. AWS guidelines only require a copy of the social security card for the children receiving care. The error rate was further reduced when CCDS staff provided documentation that was available in the client files to verify parent income, child support, school transcripts, and work hour documentation. As a further control, an internal CCDS monitoring team is being re-staffed and will review client case files for accuracy and completion of file documentation. Additionally, the Office of Quality Assurance will continue to perform monitoring reviews of client files. The CCDS Social Services Manager will reaffirm the priority eligibility requirements to CCDS supervisors and caseworkers to ensure the highest priority clients are enrolled in the program. The original audit results reported 33 lower priority clients received CCDS benefits totaling $44,184. CCDS staff made wait list documentation available that resulted in an audit adjustment to accurately reflect only 15 lower priority clients were provided CCDS benefits totaling $12,871. Additionally, an audit assertion was made that the lower priority client intakes included City employees. As an internal control, DCI already required a CCDS supervisor to perform the intake on any DCI employee applying for child care services to ensure no favoritism was shown. Our new Department Directive 39 expands this requirement to cover the CCDS intake of all City employees.				
4	**Quality Assurance Section Issues** Ensure that adequate monitoring occurs and that significant issues are reported timely to City Management and the DCI Director	20	Partially Accept	Jenny Ayala Quality Assurance Manager	October 1, 2006
	Management Comments/Action plan: DCI concurs that regular quarterly reviews of client services files, quarterly or biannual reviews of CCDS's administrative and operations expenditures, and semi-annual reviews of the payment process were not performed as stated in the Statement of Work, effective October 2004. This requirement will be conducted in the future on a regular basis as stated in the contract. Additionally, the CCDS internal monitoring section will continue to perform quarterly reviews of the required areas of responsibility as stated in the contract and Statement of Work that include client services, provider management, fiscal, and internal such as personnel items. DCI non-concurs with the reported monitoring activity conducted at CCDS between October 2004 and March 2005. During this timeframe, the CCDS internal monitoring section issued a provider review and AWS conducted a client file review of the CCDS program. Additionally, the Office of Quality Assurance provided technical assistance to the CCDS program and performed a CCDS cash handling review. Attachment D of the audit report did not include the following assistance and reviews made by the Office of Quality Assurance for grant years 2003-2005:				

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	(1) Technical assistance provided by the Office of Quality Assurance to CCDS from October 2005-January 2006, with one staff person assigned to CCDS full time. (2) A Cash Audit review performed in February 2005 by the Office of Quality Assurance with a monitoring report issued in May 2005. (3) A Providers Services review performed by the Office of Quality Assurance with a monitoring report issued in July 2004. (4) A client file review conducted between October 2002-March 2003 by two Office of Quality Assurance staff involved over 600 files and reported bi-weekly results to the Director of DCI and Executive Director of AWS.				

DCI is committed to addressing the recommendations in the audit report and the plan of action presented.

Sincerely,

Frances A. Gonzalez
Assistant City Manager

Dennis J. Campa
Director, Department of Community Initiatives