



# CITY OF SAN ANTONIO

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July 1, 2010

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Mayor and Council Members:

SUBJECT: Department of Community Initiatives – Child Care Services Follow-up Audit Report

We are pleased to send you the audit report of the Department of Community Initiatives. This audit began in March 2010 and concluded with an exit meeting with department management in May 2010. Management's verbatim response is included in Appendix C of the report. The Department of Community Initiatives should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

*Barry*  
Barry Lipton, CPA, DABFA  
Deputy City Auditor  
City of San Antonio

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Follow-up Audit of Department of Community Initiatives

Child Care Services

Project No. AU10-013F01

July 1, 2010

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Department of Community Initiatives (DCI) Child Care Delivery System Audit report dated April 7, 2006. The objective of this audit follows:

### **Has DCI management effectively implemented actions to address the audit recommendations?**

We determined DCI management and staff has sufficiently implemented or is working toward implementing all recommendations in the report. The audit team reviewed management actions for all 14-audit recommendations with the following results noted in **Table 1** below (see **Appendix B** on page 7 for a detailed summary):

**Table 1: Recommendation Status Summary**

<b>Recommendation Status</b>	<b>Number of Recommendations</b>
Implemented	12
In Process	2
Not Implemented	0
<b>Total Recommendations Reviewed</b>	<b>14</b>

DCI Child Care Services (CCS) successfully developed cross-functional teams to ensure adequate internal controls exist. Additionally, CCS updates policies and procedures and presents new requirements to staff timely.

CCS also implemented an effective system interface between the Texas Workforce Commission (TWC) system and the City's accounting system to eliminate the need for manual entries and facilitate reconciliation between the two systems. CCS now pays childcare providers through direct deposit and the City receives reimbursements from Workforce Solutions Alamo (WSA) by electronic funds transfer (EFT).

As required by TWC, CCS supervisors perform ongoing case file monitoring and reviews, take any necessary corrective actions, and report results to Workforce Solutions Alamo each quarter. In addition, TWC, WSA, and the City's external auditors audit CCS programs. In their 2007 and 2008 program audits, WSA commended CCS for successful achievement of high operational benchmarks.

DCI has made progress to record amounts receivable from WSA; however, they do not consistently record receivables when the City makes payments to childcare providers, resulting in understated accounts receivable.

DCI Fiscal, CCS, and Finance personnel have improved their efforts to collect recoupment<sup>1</sup> amounts and record recoupment accounts receivable. They have also removed the test entries that existed in the system. CCS employees have significantly enhanced processes to identify overpayments to childcare providers. They generally process recoupments in compliance with TWC and WSA requirements. However, they do not monitor recoupment payments consistently. As a result, CCS does not terminate childcare services timely for clients who do not make their monthly recoupment payments.

We recommend the DCI Director ensures:

- Staff records amounts receivable from Workforce Solutions Alamo when payments are made to childcare providers.
- CCS updates the recoupments master payment listing when the weekly recoupments payment report is received from DCI Fiscal.
- CCS personnel monitor client payments on a timely basis, identify clients who have missed payments, and notify the applicable caseworker to make client contact. If clients continue to miss payments, CCS should discontinue service per CCS policies and procedures.

Management's verbatim response is included in **Appendix C** on page 8.

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<sup>1</sup> Recoupment is the amount due from the client for services provided and paid by CCS while the client was ineligible.

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## **Background**

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In April 2006, the Office of the City Auditor completed an audit of the Department of Community Initiatives' (DCI) Child Care Delivery System, now called Child Care Services (CCS). The objectives of that audit were to evaluate the adequacy and appropriateness of the internal control environment and risk management processes and assess whether CCS complied with applicable laws and regulations, including contract requirements.

The Office of the City Auditor issued a report that recommended improved management and internal controls, financial accounting services, childcare services, and quality assurance.

Since the prior audit, CCS developed cross-functional teams and redesigned processes in their Call Center, Intake, Case Management, and Provider Management areas. CCS manages childcare services for over 8,000 children per day and collaborates with more than 800 childcare providers in Bexar County. The City's adopted budget for CCS for Fiscal Year 2010 provides \$47,725,106 from federal funding and \$1,200,000 from the City's General Fund for childcare services.

## **Audit Scope and Methodology**

The audit methodology consisted of reviewing DCI, Texas Workforce Commission (TWC), and Workforce Solutions Alamo (WSA) policies and procedures related to Child Care Services. Additionally, the audit team observed processes, conducted interviews with appropriate management and employees, and performed testwork regarding childcare services, financial services, and quality assurance. The team also reviewed training records, audit reports, and other pertinent information.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and included tests of provider payments, WSA reimbursements, and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. Our testing covered the period from October 2008 to December 2009.

## Prior Recommendations and Audit Results

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### **1. Management and Internal Controls**

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

#### **Status: Implemented**

CCS has effectively developed cross-functional teams to ensure adequate internal controls exist. CCS maintains current policies and procedures consistent with WSA requirements. CCS routinely provides training to keep staff informed of process and requirement changes and for employee development.

### **2. Financial Accounting Services**

#### **2.1 System Interface**

Interface the State's BAPA<sup>2</sup> database to the City's accounting system to eliminate duplicative efforts needed to input provider invoice information.

#### **Status: Implemented**

CCS has successfully implemented an interface between the State's BAPA database and the City's accounting system. There are effective controls in place to ensure invoices are complete and accurate.

#### **2.2 Accounts Receivable Recording**

Record receivables for WSA reimbursements based on provider payments reflected in the City's accounting system.

#### **Status: In Process**

DCI is improving the process to record WSA receivables on time; however, during the period 10/1/2009 through 12/31/2009, CCS did not record 36% of WSA receivables on time. This does reflect an improvement over the 62% rate during the preceding year. However, late recording of receivables results in inaccurate financial records with understated accounts receivable. Generally accepted accounting principles (GAAP) require accurate and timely transaction recording.

*Recommendation:* The DCI Director should ensure staff records amounts receivable from Workforce Solutions Alamo when payments are made to childcare providers.

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<sup>2</sup> BAPA is Texas Workforce Commission's Budget and Payment Application system.

### ***2.3 Reconciliations***

Reconcile provider claims in the State's BAPA Database and provider payments in the City's accounting system to WSA reimbursements.

#### **Status: Implemented**

CCS has successfully implemented an interface between the State's BAPA database and the City's accounting system. There are effective controls in place to ensure provider payments and reimbursements are reconciled.

### ***2.4 Recoupment Collection***

Continue recovery efforts of the \$6,074 in overpayments of City funds made to providers.

#### **Status: Implemented**

CCS management has completed recovery efforts for the \$6,074 overpayment of City funds made to providers. In addition, the interface and reconciliation between the State's BAPA database and the City's accounting system significantly enhances processes to identify potential duplicate claims and prevent overpayments to childcare providers.

### ***2.5 Provider Payments***

Instruct the Finance Department to mail checks to childcare providers.

#### **Status: Implemented**

Childcare providers are paid via direct deposit or debit card. When checks are required, Finance mails them directly to the payee.

### ***2.6 Recoupment Receivables***

Record recoupment receivables in the City's accounting system.

#### **Status: Implemented**

CCS is properly recording signed recoupment plans as accounts receivable.

### ***2.7 Recoupment Adjustment***

Adjust the recoupment subsidiary ledger for the \$2.6 million unexplained amount.

#### **Status: Implemented**

CCS has removed the \$2.6 million of test entries from the recoupment subsidiary accounts receivable ledger. Additionally, the current ledger balance appears reasonable.

## **2.8 Segregation of Duties**

Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments.

### **Status: Implemented**

CCS has effectively developed functional teams to ensure adequate internal controls exist. DCI Fiscal performs billing, COSA Finance records receipts, deposits are received via EFT, and DCI Fiscal reconciles recovery payments.

## **2.9 Recoupment Process**

Process recoupments in compliance with TWC and WSA requirements.

### **Status: In Process**

CCS generally processes recoupments in compliance with TWC and WSA requirements. However, they do not consistently monitor recoupment payments. CCS typically identifies missed payments during the recertification process that occurs every six months or through review of the recoupments master payment listing. CCS has not updated or monitored the master payment listing on a timely basis. As a result, CCS does not terminate childcare services timely for clients who do not make their monthly recoupment payments.

In accordance with TWC and WSA requirements, CCS policies and procedures Chapter 16 "Fraud, Non-compliance, and Recoupment" states CCS must terminate childcare services for clients with no extenuating circumstances who miss more than two recoupment payments. Clients with extenuating circumstances may renegotiate their payment plans but must continue to make monthly payments.

*Recommendation:* The DCI Director should ensure CCS updates the recoupments master payment listing when the weekly recoupments payment report from DCI Fiscal is received. Additionally, the DCI Director should ensure CCS personnel monitor client payments on a timely basis, identify clients who have missed payments, and notify the applicable caseworker to make client contact. If clients continue to miss payments, CCS should discontinue service per CCS policies and procedures.

## **2.10 Staff Training**

Provide routine training to ensure procedures are being followed.

### **Status: Implemented**

CCS management provides comprehensive training sessions to keep staff informed of process and requirement changes.

### ***2.11 Reimbursement Deposits***

Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day.

#### **Status: Implemented**

TWC / WSA now make all reimbursement payments to CCS via EFT resolving the issue of untimely reimbursement deposits.

### ***3. Child Care Services***

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 WSA requirements.

#### **Status: Implemented**

CCS management provides training on eligibility, client priority, and documentation retention in compliance with TWC and WSA requirements.

### ***4. Quality Assurance***

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

#### **Status: Implemented**

CCS performs effective internal monitoring and submits reports and action plans to WSA quarterly, as required by the Contract and Statement of Work between CCS and WSA. In addition, TWC, WSA, and the City's external auditors audit CCS programs. In their 2007 and 2008 program audits, WSA commended CCS for successful achievement of high operational benchmarks.

## **Appendix A – Staff Acknowledgement**

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Barry Lipton, CPA, DABFA, Deputy City Auditor  
Kevin Barthold, CPA, CIA, CISA, Audit Manager  
Dawn Oppermann, CPA, CIA, CGAP, CCSA, Auditor in Charge  
Doug Francis, Auditor

## Appendix B – Recommendation Status Summary

<b>No.</b>	<b>Original Report Recommendation</b>	<b>Current Status</b>
1.	The City Manager should ensure that DCI's Management initiates corrective action regarding Management and internal control issues, specifically, inadequate procedures, staff training, and employee skill sets.	Implemented
2.1	Interface the State's BAPA database to the City's accounting system to eliminate duplicative efforts needed to input provider invoice information.	Implemented
2.2	Record receivables for WSA reimbursements based on provider payments reflected in the City's accounting system.	In Process
2.3	Reconcile provider claims in the State's BAPA Database and provider payments in the City's accounting system to WSA reimbursements.	Implemented
2.4	Continue recovery efforts of the \$6,074 in overpayments of City funds made to providers.	Implemented
2.5	Instruct the Finance Department to mail checks to childcare providers.	Implemented
2.6	Record recoupment receivables in the City's accounting system.	Implemented
2.7	Adjust the recoupment subsidiary ledger for the \$2.6 million unexplained amount.	Implemented
2.8	Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments.	Implemented
2.9	Process recoupments in compliance with WSA requirements.	In Process
2.10	Provide routine training to ensure procedures are being followed.	Implemented
2.11	Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day.	Implemented
3.	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 WSA requirements.	Implemented
4.	The City Manager should ensure that adequate monitoring occurs and that CCS reports significant issues to City Management and the DCI Director timely.	Implemented

## Appendix C – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 17, 2010

Barry Lipton, CPA, DABFA  
 Deputy City Auditor  
 San Antonio, Texas

RE: Management’s Corrective Action Plan for the Audit DCI Child Care Services Follow-Up Audit

The Department of Community Initiatives has reviewed the follow-up audit report and has developed the Corrective Action Plans below for the two “in process” recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person’s Name/Title	Completion Date
2.2	<p><b>Accounts Receivable Recording</b></p> <p>Recommendation: The DCI Director should ensure that staff records amounts receivable from Workforce Solutions Alamo when payments are made to childcare providers.</p>	2	Accept that this issue was “In Process” and is now completed	Ed Gil-Najarro, Department Fiscal Administrator	June 4, 2010
<p><b>Action plan:</b></p> <p>A procedure has been implemented per the City Auditor’s Office recommendation to ensure staff records amounts receivable (payments received) from Workforce Solution Alamo when payments are made to childcare providers by the City. The Accountant II is posting receivables within two working days from the time the billing is processed. The Grants Management Officer reviews the receivables to ensure the procedures are followed and timelines are adhered to.</p>					
2.9	<p><b>Recoupment Process</b></p> <p>Recommendation: The DCI Director should ensure CCS updates the recoupments master payment listing when the weekly recoupments payment report from DCI Fiscal is received. Additionally, The DCI Director should ensure CCS personnel monitor client payments on a timely basis, identify clients who have missed payments, and notify the applicable caseworker to make client contact. If clients continue to miss payments, CCS should discontinue service per CCS policies and procedures.</p>	4	Accept that this issue is “In Process” and is now completed	Lynn Stewart Social Services Manager	June 4, 2010

2.9	<p><b>Action plan:</b></p> <ol style="list-style-type: none"> <li>1. CCS will update the Recoupment (recovery of funds from clients for previous over payments) master payment listing as soon as the weekly Recoupment payment report is received from DCI Fiscal.          Person Responsible: Cynthia Hoffman, GMO CCS Fiscal and Dshandra Shelton, Accountant II, CCS Fiscal          Implementation Date: Immediate – Has been completed</li> <li>2. CCS personnel will monitor client payments on a timely basis, identifying clients who have missed payments and notify the CCS Case management Team Supervisors that the client needs to be contacted to discuss non-payment of recoupment.          Person Responsible: Dianne Cruz, CCS Supervisor over Provider Administration          Timeline: Immediate – Has been implemented          Note: A CCS staff person has been assigned full time in updating comment screens and keep Supervisors abreast of issues related to recoupment payments.</li> <li>3. If client continues to miss payments, CCS will discontinue child care services per CCS policies and procedures.          Person Responsible: Phyllis Pleasant, CCS Supervisor over Appeal and Fraud Administration          Timeline: Immediate – Has been implemented</li> <li>4. This process will be reviewed at CCS Leadership Team Meetings held monthly.          Person Responsible: Lynn Stewart, Social Services Manager and CCS Leadership Team          Timeline: May 1, 2010 – Has been implemented</li> </ol>
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For the remaining 12 completed actions plans from the original audit, our comments are as follows:

- Fully Agree. The Department appreciates the opportunity to improve our processes and the suggestions and recommendations provided by the City Auditor's Office.
- Agree Except For (provide detailed comments)
- Do Not Agree (provide detailed comments)

We are committed to addressing the recommendations in the audit report through the action plan as described in this memo.

Sincerely,

  
 \_\_\_\_\_  
 Cindy Schoenmakers  
 Interim Director  
 Department of Community Initiatives

6/17/10  
 \_\_\_\_\_  
 Date

  
 \_\_\_\_\_  
 Peter Zanoni  
 Assistant City Manager  
 City Manager's Office

6-22-10  
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 Date