Internal Audit Findings (Administration)

Fiscal Year 2020

Following are DDSN Internal Audit administrative findings for Fiscal Year 2020. These findings encompass reviews conducted at Provider locations as well as DDSN operations, all are being reported as similar issues regarding lack of internal controls, non-compliance with policies, and inadequate segregation of duties which can happen at any organization. The findings are being provided for management purposes to ensure similar instances are not taking place within your organization or area of responsibility.

STATE-FUNDED RESPITE INEFFICENCIES

DDSN contracted for a respite house with one of its existing community supported providers. In partnership with DDSN since 2017, the Provider operates as a state-funded respite facility with a goal of providing capacity for short-term emergency placements. The audit found that contractual obligations had not fully been followed. Extended stays were noted, over and above what would typically be defined as "respite"; there were also upcharges for some consumers who were determined to have difficulty of care issues. This upcharge was not documented in any contract or amendments. In addition, the provider is paid for vacant days (i.e., when no service is delivered). The cost of state dollars to operate this house was $327,706 for the eighteen month period July 2017 through December 2018, with a 64% occupancy rate for the same period.

The Individual and Family Support and Respite (IFS-R) Program was established by Directive 734-01-DD in 1989. The program's purpose is to assist "families who incur additional expenses due to the individual's disability" and is only available "when needed goods or services cannot be funded by the family" or other available sources. The FY 2019 budget for IFS-R was $1.45 million. DDSN Central Office staff distributed 7% of these funds ($101,500 in FY 2019) directly to individual and families. The other 93% ($1.35 M in FY 2019) is divided between DSN Boards/Qualified Providers and sent in one lump-sum payment per year. Since Boards/Providers do not report specific data on the use of this resource, how much funded respite care and whether it was used effectively, efficiently, or for its intended purpose is unknown.

UNREPORTED PROVIDER RESPITE DATA

The audit found that DSN Board and Qualified Provider-operated respite care is the predominant way individuals and their families access this service in SC. The total payroll in FY 2016-2018 was $23 million. Boards/Providers pay their respite caregivers in at least four ways: regular employee payroll, utilize their own fiscal agency payroll, by a third-party payroll service, or through what was defined as a "temporary payroll". The audit also found that Boards and Providers report no operational data on their respite programs and services to DDSN, making assessment for quality, efficiency, or effectiveness impossible. If any of these respite conduits were to be in trouble, DDSN would not know and could not prepare a response.

Internal Audit Findings (Administration)

Fiscal Year 2020

PROGRAM UNAPPROVED BY CMS

According to the Center for Medicare and Medicaid (CMS), in a “participant-directed” service “the waiver participant has the authority to exercise decision making authority over some or all of his/her waiver services and accepts responsibility for taking a direct role in managing them.” DDSN’s Family Selected Respite Program (FSRP) fits this description. In the FSRP, waiver participants and their families choose their own worker(s) and the work schedule. They also accept responsibility as employer of record, train, hire and fire workers, and approve worker timesheets.

Although the FSRP has been operating as a “participant-directed” service since 2016, DDSN does not have CMS approval for participant-directed respite in any of the agency’s three waivers. DDSN spent $19.7 million in Medicaid funds for this unapproved service in FY 2016-2018. If CMS was to decide to recoup the funds, it could put DDSN in a significantly difficult financial position.

DDSN needs an approved participant-directed respite option. Almost 1,300 individuals and families in SC currently rely on the FSRP to meet needs. CMS “urges states to afford all waiver participants the opportunity to direct their services,” and states this option “has been demonstrated to promote positive outcomes for individuals and families, improve participant satisfaction, and be a cost-effective service delivery method.” Many other states (including CA, NH, KY, VA, NC, GA, and TN) already operate participant-directed respite; likewise, SC should investigate this option.

STATEWIDE SUPPORT CONTRACTS FOR RESPITE SERVICES

Currently, DDSN has three statewide contracts to assist in the provision of participant-directed services: two contracts provide fiscal agent services processing respite payroll; and one contract conducts background checks of potential respite workers, training for the worker and optional training for the family, and maintains eligibility of existing respite workers. We noted that none of these contracts were reconciled on a yearly basis. For example, one contract contained carryover funds (FY19 $38,705) for the past several years for services not provided but encumbered. As the contracting party, DDSN should have either insisted on the deliverables or recouped the unused funds.

In addition, another contract was never signed by either party for FY19. The proposed budget for the contract was in the amount of $158,455. As a contract was never executed, monthly payments were not made. A fiscal year to date cost settlement in the amount of $93,729 was requested by the vendor in March 2019. Records show a payment to the vendor in that amount in the same month requested. Additionally, the vendor indicated the overage, stated above, was used for the remainder of FY19 operating expenses.

Internal Audit Findings (Administration)
Fiscal Year 2020

With regard to the fiscal agent services contracts, there have been some customer concerns relating to one of the fiscal agents not uploading mandated documentation in a timely manner as spelled out in the contract. In addition, there have been some funding questions with this contract as well. These issues are being reviewed by Internal Audit and findings, if any, will be issued in a separate report.

POLICIES AND PROCEDURES MANUAL

Our review found that the Provider had not established a policy and procedures manual for the Work Activity Center (WAC) programs. The Agency should maintain policies and procedures for all program areas to ensure internal controls are maintained in accordance with the Agency's Internal Controls Policy, are approved by the Governing Board/Body, and are reviewed at least annually by the Executive Director.

The Provider failed to establish a policies and procedures manual for the WAC Programs. The absence of a Policy and Procedure Manual resulted in no formal documented processes, and, therefore, may result in inadequate procedures and an improper internal control structure.

SEGREGATION OF DUTIES

Our review of the Provider's WAC Programs found inadequate segregation of duties in regards to the reporting, billing, and reconciling of WAC services.

To achieve a proper segregation of duties, the assignment of responsibilities should be such that no one person has the authority to do two or more of the following: (1) authorize transactions; (2) record transactions; and (3) maintain custody of assets. Management should maintain an awareness of the internal control structure to ensure that reasonable policies and procedures exist and are maintained.

Management did not establish an adequate segregation of functions such as receipts, disbursements, recording, custody, transaction authorization and monitoring of programs' funds. In addition, failure to achieve a proper segregation of duties could enable a person to commit an irregularity and conceal it.

FINANCIAL ACCOUNTABILITY of MANAGED FUNDS

A detailed analysis of the Provider's financial accounts for the Work Activity Center (WAC) was conducted. Our review included transaction detail by accounts, deposit slips, and customers' orders/work invoices. Due to the lack of control and proper reporting, we are unable to determine if all funds are accounted for and adequately safeguarded. We found that the Provider program account records did not equal the amount of income reported or received.

Providers' program accounts were not being properly monitored by finance and management staff resulting in insufficient tracking and/or no documentation being available to support the reporting of managed funds. Failure to exercise prudent accounting, management practices, and lack of internal controls could result in loss of Provider's funds through misappropriation and misuse of funds without timely detection.

PROVIDER SPONSORED HEALTH INSURANCE

As noted in our previous audit, the Provider dis-enrolled from State sponsored health insurance coverage without the Board of Directors (BOD) approval. The Provider changed health insurance coverage from the Public Employee Benefit Association (PEBA) to another policy contracted through an insurance broker effective January 1, 2017. The billings for FY 2019 are approximately $400,000 more than last Fiscal Year. A double digit increase in billings is expected for FY 2020.

Provider management is aware of the negative financial impact the current insurance situation has on Provider operations. The ED wrote a letter to PEBA in May, 2019 requesting the Provider be immediately allowed to be reinstated with PEBA. Once a covered entity withdraws from PEBA coverage, it is a mandatory four (4) year out.

Section 1-11-720(B) of the South Carolina Code of Laws, provides: "To be eligible to participate in the state health and dental insurance plans….An entity which withdraws from participation may not subsequently rejoin during the first four years after the withdrawal date."

As noted in our previous review of Provider BOD minutes, the minutes did not reveal a discussion concerning this matter. A decision impacting so many employees so dramatically should have been presented to the BOD with all possible consequences.

As noted in our previous review, we discovered that the five (5) year agreement was contracted with no increases for two (2) years. The approximate $400,000 increase in FY 2019 has exhausted any savings that may have occurred in the first two fiscal years. Also, a minimal increase of 10% over last fiscal year billings would project an increase of approximately $588,000 more than PEBA billings from FY 2016 for the next fiscal year.

POLICIES AND PROCEDURES

The Information Technology (IT) division implemented an automated computer equipment tracking system on April 1, 2008. This system is designed to automatically track the addition of new equipment as equipment comes in contact with the DDSN network. However, there should be controls in place to check the accuracy of the automated inventory system. Our review found:

1. There was no documentation provided as proof of prior physical inventories. This should include a verification process to ensure locations, descriptions, and decal/serial numbers of computer inventory match the automated computer inventory listing. In addition, we found there was no documentation to support the transfers of deactivated IT inventory.

2. Finally, we noted that two of the centers (Midlands and Whitten) are served by Central Office (CO) IT staff for information technology related needs. The remaining three centers utilize a regional center staff person with partial job responsibilities tied to IT services. Consideration should be given to allowing a CO IT staff person to handle all IT services at the Centers. This person could rotate to each center one day a week. This could allow for more proficient services being provided; enhanced monitorship by knowledge based supervisors; and potentially result in cost savings for the Agency.

SCDDSN Information Technology Services, “Internal Inventory Procedures” states that IT Services will maintain an accurate inventory of all trackable IT equipment. These procedures further state that Central Office IT staff will conduct at least an annual inventory to verify and reconcile to the automated tracking system. These same procedures also document how to handle deactivation of equipment: a listing of equipment to be deactivated is submitted to IT Director, once approved the list is forwarded to DDSN Purchasing and Supply for disposition.

Documented procedures were not followed regarding an annual physical inventory, nor the documentation for deactivated IT equipment. Failure to follow procedures and controls could result in the loss or misappropriation of information technology equipment without timely detection.

INFORMATION TECHNOLOGY INVENTORY

For our review, we selected 217 of 1331 (16%) computer equipment items from the computer equipment listing. We traced equipment items from the list to the floor as well as from the floor to the list in order to verify the computer equipment list was accurate. The listing provided a brief description of the item as well as a DDSN applied numbered decal. The computer listing was segregated for each regional center and DDSN central office. We found:

1. For 17 of 217 (8%) items, the computer equipment contained a decal, but was not listed on the inventory listings provided. It was discovered during our review that if an IT inventoried item does not “ping” the system for 30 days (i.e., powered off, unplugged, etc.), the automated inventory system drops the item from its inventory listing. Several of the 17 exceptions noted fell into this category.

2. For three of 217 (1%) computer equipment items tested, the item was located on the list but for a different site (i.e., desktop computer was shown on the list to be housed at Whitten Center, but was actually housed at Midlands Center).

3. Two of 217 (1%) items selected for testing did not contain a DDSN decal number.

SCDDSN directive 367-02-DD “Acquiring Information Technology (IT) Products and Services” mandates that the Division of Information Technology will monitor the procurement, approve receipt, and coordinate installation of all IT products. Additionally, Chapter 8 of the SCDDSN

Finance Manual, Section 8.1.5, "Equipment" states "all computers, regardless of cost, must have a DDSN decal applied and [be] tracked at the regional level."

Proper internal controls have not been followed to ensure the automated inventory system captures information technology products connected to the DDSN network; nor is there a verification process to ensure locations, descriptions, and decal/serial numbers of computer inventory match the automated computer inventory listing. Failure to develop and follow proper procedures and internal controls could result in the loss or misappropriation of information technology equipment without timely detection.

PURCHASING CARD

Internal Audit reviewed purchasing card transactions for IT regional staff that are located at specific centers for the period November 1, 2018, to October 31, 2019. The purpose of the review was to determine if procedures and guidelines were being followed. We reviewed eight purchasing card transactions and found that four of eight (50%) transactions contained desktop printers that did not have documented prior approval from the Director of IT as outlined in DDSN directive 367-02-DD.

DDSN directive 367-02-DD, "Acquiring Information Technology (IT) Products and Services," mandates that the Division of Information Technology will monitor the procurement, approve receipt, and coordinate installation of all IT products. The directive further mandates that requests for all IT products must be forwarded to the Director of the IT Division and all purchases for IT products must be issued by Central Office processing. Additionally, Chapter 8 of the SCDDSN Finance Manual, Section 8.1.5, "Equipment" mandates "all computers, regardless of cost, must have a DDSN decal applied and [be] tracked at the regional level."

Staff failed to follow documented procedures to ensure controls and accountability for all computer equipment purchases. In addition, the failure to follow tagging procedures resulted in equipment being excluded from inventory tracking. Unauthorized purchases of desktop printers in lieu of a single centralized printer results in inflated costs for both the purchases of the desktop printers and ongoing purchases of toner. Failure to develop and maintain sufficient and adequate procedures and controls could result in the loss or misappropriation of information technology equipment without timely detection.