

**EXAMINATION OF CERTAIN POLICIES, PROCEDURES,
AND CONTROLS OF THE KENTUCKY CABINET FOR
HEALTH AND FAMILY SERVICES'
DEPARTMENT FOR INCOME SUPPORT
CHILD SUPPORT ENFORCEMENT PROGRAM**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

December 17, 2019

Commissioner
Department for Income Support
730 Schenkel Lane
Frankfort, KY 40601

Dear Commissioner:

The Auditor of Public Accounts (APA) has completed its examination of the Cabinet for Health and Family Services' Department for Income Support Child Support Enforcement (CSE) Program. This report summarizes the procedures performed and communicates the results of those procedures.

The purpose of this examination was not to provide an opinion on the financial statements, but to review the programs, processes, and controls over CSE reimbursements to contracting officials and contract monitoring activities. Detailed findings and recommendations based on our examination are presented in this report to assist management in implementing corrective action. Overall, these findings indicate the following:

- Significant weaknesses exist in the annual contract monitoring process, including a lack of documentation and insufficient measures to ensure funds are properly tracked.
- Known monitoring issues are not immediately addressed.
- Greater oversight is needed over reimbursements to contracting officials to ensure the validity of expenses and the consistent application of program restrictions.
- More training is needed for CSE staff and contracting officials.
- CSE should ensure employee compensation complies with federal regulation.
- Approved proportional cost plans are not documented and maintained by CSE.

We appreciate your assistance and the assistance of your staff throughout the examination. If you have any questions or wish to discuss this report further, please contact me or Andrew Schachtner, Deputy Executive Director, Auditor of Public Accounts.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

CHAPTER I: INTRODUCTION AND BACKGROUND

Examination Scope

On February 12, 2019, the Auditor of Public Accounts (APA) notified the Cabinet for Health and Family Services' (CHFS) Department for Income Support (DIS) of its intent to perform a special examination of the Child Support Enforcement (CSE) program. The examination would evaluate contract monitoring and compliance relating to CSE's contracts for enforcement services. Examination procedures focused primarily on program activity in these areas between July 1, 2016 and June 30, 2018, unless otherwise specified.

The purpose of this examination was not to provide an opinion on financial statements or duplicate work of routine annual financial statement audits, but to determine the sufficiency of contract monitoring controls in place at CHFS for child support contracts with contracting officials. These contracting officials are county attorneys unless the county attorney exercises "the option ... to decline such designation" per KRS 205.712(7). This examination report covers CHFS monitoring of the child support enforcement program. An additional examination report will be issued related to the functions of county attorney offices.

To address the objectives of this examination, the APA interviewed CHFS personnel and reviewed and analyzed several documents, including, but not limited to contracts, inter-agency agreements, emails, monitoring files, agency reports, CSE policies and procedures, federal and state laws impacting the child support program, and a sample of monthly reimbursement requests from contracting officials. Our sample for this examination consisted of 14 county attorney offices contracted with CSE.

CHFS Mission and Administration of the CSE Program

In 1975, the United States Congress passed legislation creating the Child Support Enforcement Program, generally referred to as Title IV–D of the Social Security Act (the IV–D program). The IV–D program provides federal matching funds to states to assist in providing Child Support Enforcement. Since its inception, the program has been administered in Kentucky by CSE.

KRS 205.712(2)(a) designates CSE as the state agency to administer Title IV-D of the Social Security Act. CSE aids legal guardians and custodial parents of minor children with locating the noncustodial parent, establishment of paternity, establishment of financial and medical support, enforcement of child support obligations, court orders, and collections of spousal/ex-spousal support. Additionally, per KRS 205.712(7), CSE contracts with courts and local officials to administer the CSE program pursuant to Title IV-D of the Social Security Act. These child support contracts are based on the state fiscal year (FY), beginning July 1 and ending June 30 and are subject to federal sub-recipient monitoring requirements.

Sub-recipient monitoring of CSE contracts is performed by the Division of Administration and Financial Management (DAFM) in the CHFS Department for Community Based Services (DCBS). DAFM monitors all DCBS contracts except those that are monitored by another agency. The contract between DAFM and CSE is an inter-agency agreement, where DAFM monitors the child support program contracts for compliance with the requirements of Title IV-D of the Social Security Act and the contract requirements included in 2 CFR § 200.331. DAFM monitors CSE contracts a minimum of once in a three year period. CSE contracts negotiated with in-state contractors funded at or above \$750,000 are monitored annually.

Organizational Structure

Beginning in January 2017, processing of CSE contracting officials' monthly reimbursement requests was transitioned between CHFS offices. Figure 1, summarizes the organizational transitions.

Figure 1: CSE's Contracting Official Invoice Processing, for FY 2017 and FY 2018

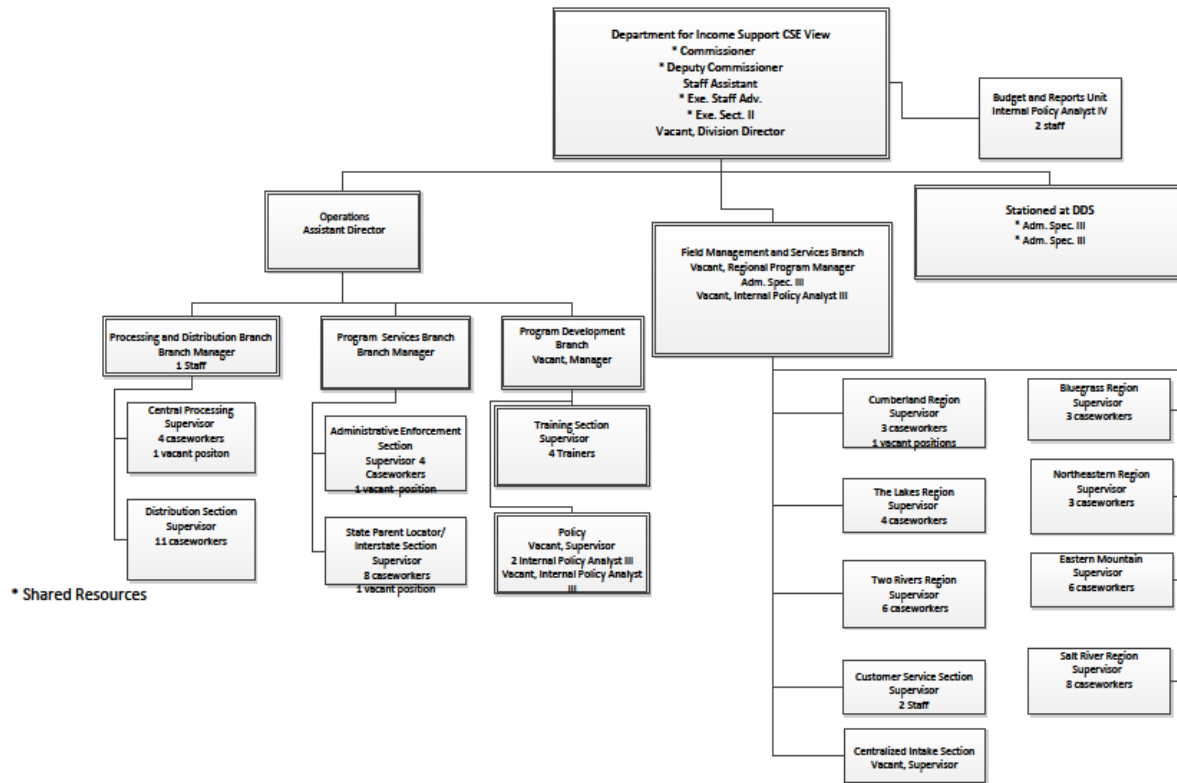


Source: APA, based on data provided by Department for Income Support/Child Support Enforcement.

As reflected in Figure 1, prior to January 2017, processing and approval was handled by the Administrative and Financial Support Branch in CSE. In January 2017, CHFS reorganized its operations and transferred the internal policy analyst responsible for review and approval of contracting official reimbursements, along with the function, to the Division of Procurement and Grant Oversight. In November 2017, the responsibility for processing and approving reimbursements remained with the Division of Procurement and Grant Oversight, but processing was handled by other division staff. Finally, the responsibility for processing and approval transferred back to CSE in February 2018, where it has remained since that time, in the Budget and Reports Unit.

Figure 2 on the following page shows the organization of CSE as of January 18, 2019 (FY 2019):

Figure 2: Organization Chart for CSE as of January 18, 2019



Source: CSE.

As demonstrated in Figure 2, CSE currently consists of the Budget and Reports Unit and four branches: Processing and Distribution, Program Services, Program Development, and Field Management and Services. The Budget and Reports Unit processes and approves contracting official invoices submitted monthly to CSE.

CHFS Contracts with County Attorneys

Per KRS 205.712(7), CSE may enter into financial arrangements (contracts) with courts and local officials to administer the CSE program pursuant to Title IV-D of the Social Security Act. Typically, the local County Attorney serves as CSE’s designee, and the contract is between the County Attorney’s office and the Cabinet. The County Attorney has the right to decline the program’s contract, in which case, CSE would enter into an agreement with another party. In this report, the County Attorneys and other parties who have entered into CSE program contracts will be referred to as “contracting officials.”

The contracting officials provide direct services on all IV-D cases for the child support program in their county. The duties and responsibilities of these officials include, but are not limited to:

- Administer the child support program, including the budget and IV-D caseload, in their respective county.

- Abide by the child support contract, CSE policy and procedures, and federal and state laws and regulations governing the child support program.
- Use all system resources for child support purposes.
- Follow safeguarding and confidentiality rules outlined in the CSE Policy and Procedure Manual.
- Open cases according to federally mandated timeframes, interview participants and initiate action(s) on the case as described in the CSE Policy and Procedure Manual.
- Accept and process applications received for child support services.
- Maintain IV-D child support case files and ensure the information in the records is reliable and supports the data in the child support system, and protect federal tax information, as detailed in the CSE Policy and Procedure Manual.
- When required, initiate administrative or judicial actions to establish paternity, and child and/or medical support orders.
- Review and modify child support orders in a timely manner in accordance with the CSE Policy and Procedure Manual.
- Take timely enforcement actions to secure payments for current support and/or an arrearage balances in accordance with the CSE Policy and Procedure Manual.
- Provide thorough, timely, and courteous customer service for all IV-D cases.

CSE Budget

The CSE budget is established through the Commonwealth's biennial budget process. The CSE program receives funding each year from the General Fund, Federal Fund, and Restricted Funds. The majority of funding for this program is derived through Federal Grants and Awards. For FY20, the total enacted budget for this program is \$48,369,900.

Budgeted expenditures, as reflected in the 2018-2020 Budget of the Commonwealth, are summarized in Figure 3 on the following page.

Figure 3: Child Support Enforcement Annual Budget for Fiscal Years 2018-2020

Expenditures By Class	Revised FY 2018	Enacted FY 2019	Enacted FY 2020
Personnel Costs	\$ 8,498,900	\$ 9,888,400	\$ 10,017,800
Operating Expenses	1,707,200	1,763,900	1,751,200
Grants Loans Benefits	47,587,700	36,600,900	36,600,900
Total Expenditures	\$ 57,793,800	\$ 48,253,200	\$ 48,369,900
Expenditures by Fund Source			
General Fund	\$ 7,576,900	\$ 7,116,600	\$ 7,116,600
Restricted Funds	16,004,800	12,424,900	12,424,900
Federal Fund	34,212,100	28,711,700	28,828,400
Total Expenditures	\$ 57,793,800	\$ 48,253,200	\$ 48,369,900

Source: APA, based on the 2018-2020 Budget of the Commonwealth.

Annually, CSE and the Kentucky County Attorney’s Association (KCAA) negotiate the general funding allocated to contracting officials. In turn, CSE then negotiates individual contract budget amounts with each contracting official, where the child support program equals 66% Federal and 34% Agency funding. The table below (Figure 4) presents the annual budget of all CSE contracts with contracting officials providing child support enforcement services for FY 2017 through FY 2020:

Figure 4: CSE Total Contract Budget with Contracting Officials by Fiscal Year

Fiscal Year	2017	2018	2019	2020
Total CSE Contracts	\$ 44,106,400	\$ 44,106,400	\$ 46,368,354	\$ 48,316,460

Source: APA, based on CSE records.

In both FY 2017 and FY 2018, the Cabinet entered into 117 contracts with contracting official offices to perform services for the child support program including one office that provided program services to four counties. In each FY, 116 contracts were established with County Attorney offices, and one contract was established with a Friend of the Court. All contracts established with the County Attorney offices designated the County Attorney as the contracting official, with the exception of one contract in FY 2018. Although, still established with the County Attorney’s office, the CSE contract designated an Assistant County Attorney as the contracting official.

At the beginning of each FY, CSE issues an installment payment to each contracting official office equal to 1/12th of the annual contracting official’s budget for the first month’s expenses. The contracting officials submit monthly invoices to CSE documenting expenses incurred for their child support duties. CSE reimburses only allowable program expenses pursuant to 2 CFR 200, Subpart E and 45 CFR 304, by the 10th of every month. Beginning in FY 2018, contracting officials’ reimbursement requests were electronically submitted to CSE through the Monthly Invoice Processing System (MIPS).

CHAPTER II: FINDINGS

Finding 1: The Annual Child Support Monitoring Process Is Not Sufficient and Failed to Identify Red Flags Indicating Potential Fraud

CSE's monitoring activities during FY 2017 and FY 2018 for 13 sampled contracting officials lacked documentation to support monitoring activity and failed to identify indicators of fraud in at least one instance. The level of detail in monitoring documentation varies by monitor. Checklists known as the "monitoring tools" outline processes to be reviewed, but do not always provide enough detail to understand what work the monitor should perform. Beyond the tools and the requirement to obtain an Audit Requirement Exemption Form (CMF09-119) or an audit engagement letter to include Uniform Guidance audit requirements, no other documentation is required to support the monitoring conclusions. Without additional documentation, a subsequent reviewer relies on the monitor's notes to evidence the review performed.

To help ensure compliance with federal requirements under 2 CFR 200.331, CSE contracts with DAFM to provide monitoring services. Section 2 of this agreement outlines the services provided by DAFM. These services include developing monitoring tools, submitting the tools to CSE for review and input, reviewing documentation to determine contract compliance, preparation of monitoring reports, and review of corrective action plans. Corrective action plans are necessary when instances of non-compliance are identified. The contract requires follow up on corrective action plans during the next monitoring visit. See Finding 5 (page 26) discussing monitoring of corrective action plan implementation.

CSE contracting officials are subject to either a desk review or an on-site monitoring visit at least once every three years. The monitoring process is outlined in the DAFM manual, and monitor steps are contained in two monitoring tools, the Administrative/Fiscal Monitoring Tool and the Child Support Monitoring Tool. The Administrative/Fiscal Monitoring Tool is used by DAFM for various CHFS contracts, while the other tool is developed by DAFM specifically for CSE. DAFM develops the Child Support monitoring tool based on the contract for the year under review.

Monitoring Tools

DAFM monitoring tools are the primary documentation for the work performed by each monitor. The tools are laid out in a chart format and include five columns: Monitoring Item, Documentation/Verification, Yes, No, and N.A. See monitoring tools at Appendices A and B. Identified at the top of the tool is the agency monitored, contract number, monitor's name, date of the monitoring, individual who provided information to DAFM and their contact information. The Monitoring Item column provides some guidance on what the monitor is looking for, and the work is documented in the Documentation/Verification column.

For FY 2017 and FY 2018, monitoring items are brief and at times do not provide a good description of what work is expected to be performed. For example, Administrative/Fiscal Monitoring Tool, monitoring item #8 states “The agency’s accounting records are supported by source documentation.” Monitoring notes were fairly consistent but offered limited insight as to the work performed to address this monitoring item. Often the response was similar to the following: “[v]iewed invoices and General Ledger for SFY 2017, bank statement, canceled checks and supporting documentation for July, 2016 and December, 2016. No discrepancies were noted.”

The Contract Performance Section Supervisor explained monitors review two randomly selected invoices, along with “all source documentation to include expenditures, rent, proportional cost plans, staff timesheets (CS-21), attorney timesheets (CS-21.1) and associated required logs/court dockets to verify time claimed, verify the CS-27 to timesheet totals, verifying timesheets are approved by CA or designated staff (CS-197 required), and fidelity bonds.” The Section Supervisor noted many other steps taken to address this monitoring issue and stated monitors may look at more information depending on the type or amount of the contract. The explanation provided by the Section Supervisor far exceeds the level of detail in the monitoring tools examined. There is no written policy or process available defining the steps to be performed for each monitoring item.

Level of Evidence

DAFM's Manual does not require copies of the records reviewed by the DAFM monitors to be maintained in the monitoring file. The completed monitoring tools present the monitor’s observations and comments on the documents reviewed, but the monitor is not required to provide any supporting documentation included in the review except for the engagement letter and Audit Exemption form (CMF09-119). The monitor’s notes in the monitoring tool are the primary evidence maintained to support the compliance assessment.

For FY 2017 and FY 2018 auditors reviewed 13 monitoring files. Out of the 13 files from FY 2017, auditors noted one CMF09-119 form was signed certifying compliance for the wrong fiscal year and another indicated no issue on the monitoring tool but did not have an engagement letter or form on file. In FY 2018, another monitoring file did not have either an engagement letter or CMF09-119 form on file.

Additional Review Work

While working on a separate examination, we identified potential fraud by an employee in the Boyd County Child Support office. The potential fraud will be referred to law enforcement and discussed in detail in the separate examination report. This issue raised additional questions about the CSE contract monitoring process. The contracting official’s office had on-site monitoring by DAFM for several years, but no issues were identified by CHFS. A sufficient monitoring process should have identified red flags that indicated potential fraud. Because the APA had access to the local official’s CSE records, we further examined the monitoring performed in FY 2017 and FY 2018 in an attempt to address these concerns.

In FY 2017 and FY 2018, the contracting official's office received CSE reimbursements through electronic deposit. The monitor made note in the FY 2017 Administrative/Financial Monitoring Tool of the direct deposits when discussing internal controls. However, in FY 2018 no mention of the direct deposit was made in the monitoring tool. The monitor noted the existence of one CSE account in the FY 2018 tool, but the monitor did not identify that the account number was different from the prior year. The monitor reviewed bank statements for the new account.

CHFS monitor did not confirm payments from the Cabinet were deposited into the official's bank.

From review of the contracting official's records, the APA was aware of a total of four bank accounts associated with the CSE program in FY 2018. If the monitor had attempted to match payments from CHFS to deposits into the local CSE account, they would have identified that the deposits did not agree. Since CHFS was making direct deposits in the account, it seems reasonable that CHFS would have a record of the bank account in which deposits were being made. The monitor could gather that information before going into the field and then inquire about the additional account when it was not identified by the individual providing the records. Had the monitor identified and examined the account in which funds were direct deposited, the other two accounts could have been identified, as funds from the Cabinet were transferred by check into the other accounts.

For monitoring item #8 of the Administrative/Fiscal Monitoring tool from FY 2018, the monitor indicated that they had "[r]eviewed bank statements, cancelled checks, accounting records, Monthly Invoice Portal System (MIPS) Invoices, for July 2017 and December, 2017." Had the monitor thoroughly reviewed the invoice for December 2017 expenses, along with bank statements and cancelled checks, the monitor could have identified two checks that were presented to CSE as support for expenses but that did not clear the bank at any time during FY 2018. Because there is no evidence beyond the monitor's notes in the monitoring tool and no file to evidence the work performed, it is impossible to evaluate why this issue was not identified.

Recommendations

We recommend DAFM:

- Require more evidence of the reviews performed by contract monitors. At a minimum, the specific steps performed by the monitor should be defined and evidence should be collected to support statements made by the monitor in the monitoring tool.
- Confirm deposits into the contract official's account as part of the monitoring process. If electronic payments are made, consider what information may be available through the Cabinet to allow DAFM to be aware of existing accounts prior to the review.
- Confirm expenses presented to CSE as support for monthly child support costs have cleared the bank as part of the monitoring process. If an expense

presented to CSE for reimbursement does not clear the bank, additional follow-up should be performed to determine the reason for the discrepancy.

Report continues with Finding 2, on next page.

Finding 2: Poor Oversight by CSE Led to Improper Reimbursements to Contracting Officials

In the fall of 2018, DIS notified the APA of past performance issues in its CSE program. Specifically, they were concerned about their process for reimbursing contracting officials for enforcement costs. At that time, CSE was revising the reimbursement process in an attempt to strengthen controls.

We reviewed a sample of contracting officials' reimbursement requests from April 2017 and April 2018. Oversight of this process was lax, which led to a lack of accountability and unsubstantiated reimbursements. Beginning in FY 2018, CHFS made changes in its staffing and in its documentation requirements in an effort to improve oversight of the reimbursement process. However, some issues still remain and stronger controls are needed to ensure the revisions are effective and progress is sustained.

Reimbursement Issues

We reviewed a sample of 14 contracting officials' reimbursement requests for expenses incurred in April 2017 and April 2018, for a total of 28 requests and identified a number of irregularities. These irregularities include a lack of sufficient supporting documentation, lack of approval by CSE staff, and reimbursement for unallowable expenses.

CSE allowed reimbursements to contracting officials with little to no supporting documentation.

CHFS provides guidance for CSE reimbursement requests with the CSE online manual and with the annual contract with contracting officials. The contract and manual require contracting officials to submit a reimbursement request for the prior month's expenses on a CS-20 form. The CS-20 form summarizes expenses claimed for reimbursement by category and is accompanied by other prescribed forms. Each expenditure is to be supported by a detailed invoice. See an example of the CS-20 Form at Appendices C and D.

If direct salary expenses are included on the CS-20, a CS-27 form must also be submitted. See the CS-27 Form used by CSE beginning in FY 2018 at Appendix E. The CS-20 presents the total direct salary for which reimbursement is being requested and the CS-27 provides detail of each employee's name, title, hours worked, and rate of pay for the month. CSE reimbursed one county attorney \$80,722 for direct salary costs without a CS-27. Furthermore, the CS-20 was not signed by CSE staff to indicate approval, though full payment of the request was made to the county attorney.

The CSE Manual requires the CS-20 form to be accompanied by itemized receipts for all items purchased. In some cases, the support submitted to CSE only presented the total amount due, providing the approver with little to no detail. Without detailed support, CSE cannot determine whether it is an allowable or whether the expense is an actual expense of the program. In other instances, documentation was detailed but unallowable

items such as unnecessary insurance and sales tax were reimbursed. The following are examples of irregularities identified in review of the sampled reimbursements. These examples were identified from four different contracting officials:

- For April 2018, CSE reimbursed \$851.28 to a contracting official for a heating bill, which included a \$527.38 balance from the previous month. The documentation submitted to support this expense included all pages of the current month's statement, but provided no detail associated with the previous balance. From the current month's bill, \$18.33 in sales tax was identified. CSE correctly identified and removed the \$18.33 sales tax from the reimbursement request, but did not question the documentation or require full detail to support the previous month's balance of \$527.38. Based on the current month's statement, it is reasonable to expect the prior month's balance included tax.
- Another contracting official was reimbursed \$1,200 in May 2017 based on a check image showing payment to the fiscal court for rent. No invoice, rental agreement, or other record was provided. No additional evidence was requested to substantiate the payment or to show that the check cleared the bank.
- On May 7, 2018, a contracting official was reimbursed \$198.04 for a miscellaneous expense, when the support included only a portion of the detailed invoice. The support identified \$198.04 as the total, but the detail of the bill identifies only \$153.87. There is nothing contained in the support to identify the source of the additional \$44.17. CSE reimbursed tax of \$5.82 associated with an office supply expense. The request for reimbursement was approved in full on the same day as it was completed and submitted to CSE by the local office.
- For April 2018, a request included the same payment for life insurance under two different categories of expense, fringe benefits and miscellaneous direct cost. This duplication resulted in an overpayment of \$251.86. This request also included both the cost of employer and employee portion of retirement, though the program only allows the employer's portion, resulting in an additional overpayment of \$902.35. CSE review at the time of payment did not capture either of these issues. This request was submitted to CSE on May 11, 2018. CSE approved this request on the same day it was submitted in the system.
- For April 2018, a CSE reimbursement to another contracting official included \$866.54 for Terrorism Risk Insurance, which according to the CSE assistant is not a required insurance for CSE and as such should not have been allowed for reimbursement.

Due to concerns about a specific local child support office, additional review was performed. The additional review identified three prepayments of annual rent by CSE to the local child support office made between June 2018 and July 2019. The first prepayment of rent was approved by CSE staff in June 2018 in the amount of \$14,400 to cover rent for FY 2019. The second prepayment of rent was approved by CSE staff in June 2019 in the

amount of \$13,400 to cover rent for FY 2020. The third prepayment of rent was approved by CSE staff in July 2019 in the amount of \$13,400 to cover rent for FY 2021, two years in advance. The DIS Commissioner did not have documentation or recollection of authorizing an entire year's prepayment of rent for FY 2019 and FY 2021. However, the Commissioner recalls looking at the budget and having discussions with the local county office in FY 2019 to allow for prepayment of rent for the FY 2020. The authorization was given verbally and the only documentation of such approval would be in the notes maintained by the CSE Budget Analyst at the time of the call.

Records Maintenance

A full analysis of the sampled reimbursements could not be completed because CHFS could not provide approved proportional costs plans (CS-96 Form) or detailed pay rates and hours for contracting officials, assistant county attorneys, and other local office staff (CS-22 Form). CSE contracts and the CSE manual require the information captured by these forms to ensure expenses are appropriately reimbursed. CSE cannot assess compliance with certain federal restrictions or requirements without these records. Copies of the CS-22 Form and CS-96 Form can be viewed at Appendices F, G, and I. See Findings 3 (page 20-21) and 4 (page 22-25) related to the impact of these missing documents and the ongoing issues that exist and continue to hinder CSE from providing necessary oversight.

Review Process and Guidance

Between July 2016 and December 2016 CSE processed and approved contracting official expense reimbursements. Beginning in January 2017, CHFS moved the staff member responsible for this to the newly formed Division of Procurement and Grant Oversight. A letter from the CSE Staff Assistant to the Acting DIS CSE Commissioner on October 16, 2017 documents concerns the Assistant identified with the review of reimbursements by personnel in the Division of Procurement and Grant Oversight. In February 2018, the responsibility was moved back to CSE.

The October 16, 2017 letter also included a document entitled "Steps for Auditing Invoices." According to the CSE Staff Assistant this guidance has "always been a part of the invoice process" though she was not certain when it was originally developed. The FY 2017 and FY 2018 "Steps for Auditing Invoices" were requested by auditors to gain an understanding of the guidance provided to staff performing the review. The guidance provided in these years was not sufficiently detailed.

Steps to be followed when reviewing invoices in FY 2018 included:

1. *Check monthly invoice portal for counties who have submitted invoices*
2. *Verify month of service and open invoice.*
3. *Audit time allocation tab*

4. *Audit all expenses listed under the Direct Cost Tab. This includes all receipts opening all downloaded receipts and verifying to make sure they meet federal guidelines. Request receipts when necessary by email.*
5. *Audit proportional cost if any for the county.*
6. *Audit Final Invoice tab and check comments area.*
7. *If correct, select approve. If errors then select, return and email county with list of errors to correct.*
8. *After approval has been made, sign, date, scan and email invoices to CHFS Payables box.*
9. *Look in the eMARS system to verify when invoices were actually paid and log the amount and the eMARS PRC# into the Monthly Invoice Portal on the final tab. Select the Final button at the bottom of the Final Tab to close the invoice so the next month can be submitted.*
10. *File in the appropriate folders for each county.*

One CSE employee, who approved half of the sample of April 2018 invoices, described the review and approval process at that time as the “blind leading the blind.” The employee explained she and the other reviewer at that time, who was hired to perform budget work, were relatively new to CSE. She said there was no real guidance regarding the invoice process at that time and she had never seen the “Steps for Auditing Invoices.”

One of CSE’s current reviewers recalled receiving some sort of guidance when she first started but it was confusing because the contracting officials do not submit the same type of documentation. The reviewer acknowledged making several mistakes in reviewing and processing the reimbursement requests.

CSE developed a new invoice auditing tool and provided it to CSE reviewers in August 2019. The tool is an Excel worksheet that guides the reviewer through a CS-20 invoice. If completed, the worksheet would document the reviewer’s line by line review. The CSE Budget Analyst, who provided the tool to the APA, noted that reviewers are not required to complete the tool but are required to complete the steps. Without documenting the use of the tool, CSE does not know whether reviewers are actually completing the required steps as no other documentation exists to evidence the review beyond the individual’s system approval.

Training

According to the Staff Assistant, beginning in FY 2019, CSE has stricter policies that include requiring submission of timesheets and docket information to support direct salary expenses, requiring documentation to support FICA and Retirement payments, no longer reimbursing state sales tax, and adding a second level reviewer to the process so one individual is not responsible for review and approval of the reimbursement request. Although changes have been made to strengthen the review and approval process, CSE has provided limited guidance to clarify the new expectations to CSE staff and contracting officials.

According to CSE personnel, formal training has not been provided to CSE reviewers. One reviewer noted that she received a “crash course” on the MIPS system, but received no guidance beyond seeking input from the CSE Budget Analyst. The reviewer noted it would have been helpful to have samples of the different types of documentation used in the reimbursement process, noting that she once made a mistake on a reimbursement because she confused a city tax form with an unemployment form.

On September 11, 2019, CSE provided reviewers with a self-guided training. The CSE Budget Analyst stated that staff are expected to complete the self-guided training, but no deadline was set and staff are not required to notify anyone if, or when, they completed the training.

Throughout the examination, CSE expressed concerns with the completeness of contracting officials’ invoice submissions and supporting documentation. Emails evidencing some of CSE’s communication to officials were shared with the APA. These emails demonstrate CSE discussed changes in personnel contacts, some challenges or issues CSE identified in review of reimbursement requests, and reminders of certain documentation requirements. When asked what training exists for contracting officials on the monthly reimbursement process, CSE said that the agency provides training opportunities to new contracting officials and staff of those offices. The training is not required and attendance is not recorded, so there is no way of knowing who actually attends the training.

Recommendations

We recommend CSE:

- Require contracting officials to complete all forms necessary to properly process monthly reimbursement requests. If sufficient documentation is not provided, CSE should withhold reimbursement to the contracting official or disallow an expense until the necessary information is provided.
- Enforce the requirement for itemized documentation. Again, if sufficient detail is not provided, CSE should withhold reimbursement or disallow an expense until sufficient detailed support is provided to substantiate the expense.
- Establish a consistent policy on when prepayment of rent is reimbursable to local officials. If a special approval is given to allow for reimbursement of an expense that is otherwise not permitted by CSE, documentation of such preapprovals should be clearly documented and that documentation should be retained in the agency’s official records.
- Seek reimbursement for unallowable costs identified in this finding.
- Develop and conduct a formal, in-person training session for staff responsible for processing contracting officials’ reimbursement requests. The training should include an understanding of the federal and state regulations governing the program, an overview of past issues or errors in the reimbursement review and approval process, along with steps taken to address those issues. This training should include an open dialogue about

current issues and concerns between management and reviewers. Management should document issues identified in the training session and determine what steps should be taken to address those issues. This training should be mandatory for all reviewers and attendance should be documented.

- Develop and conduct a formal training session for all contracting officials and appropriate local office staff members. The training should discuss current and past reimbursement request issues and clearly identify the steps taken to address those issues. The training should be performed in person, through Skype, or similar format to include an open dialogue about current issues and concerns between CSE and training attendees. If CSE is uncertain of documentation that contracting officials have to support certain expenses, this would be an opportunity for CSE to seek that direct feedback from the contracting officials. CSE should document the issues identified in the training session and determine what steps should be taken to address those issues and then update the contracting officials and other attendees immediately of the resulting changes. This training should be required by the contract. Attendance should be recorded and maintained as evidence that the official met the contractual requirement.

Refer to Finding 3 (page 20-21) and 4 (page 22-25) for additional recommendations resulting from this work.

Report continues with Finding 3, on next page.

Finding 3: CSE Did Not Ensure that Employee Compensation Complies with Federal Rules

Title 2 of the Code of Federal Regulations (CFR) 200.430 requires compensation for employees funded by federal grants to be reasonable, which is defined as being “consistent with that paid for similar work in other activities.” The CSE contracts require that no employee of contracting officials may receive a higher hourly rate of pay for child support activities than they receive for non-child support activities.

The CSE contract states that the agency will use the data provided on CS-22 forms to determine the reimbursement that officials are eligible to receive each month for employee compensation. This form documents the compensation and fringe benefits each contracting official and official’s employee receives from Child Support funds. CSE revised this form in FY 2018 to determine compliance with these federal restrictions, but CSE does not require all the information to make this determination. Without requiring the appropriate data, CSE is not holding the contracting official accountable to the contract terms and is assuming compliance with this federal restriction.

CSE could not locate the CS-22 forms requested from FY 2017, but provided a spreadsheet maintained by the reviewer in FY 2017. Attempts were made to use the spreadsheet provided, but data maintained in the spreadsheet contradicted information recorded on CS-27 forms for similar time period. Auditors had no assurance that the spreadsheet was complete or that the data presented reflected the data for the period examined. For FY 2018, the CS-22 data was electronically reported by contracting officials through the MIPS system. Once an official updates or changes an employee’s data in MIPS, the prior version is overwritten. Therefore, historical data for FY 2018 was no longer available to review.

In October 2019, a sample of 243 CS-22 forms, from 16 contracting official offices’ were reviewed. Of the 243 forms, 51 either did not contain all the data required or contained contradictory information. For example, 27 stated the employee did not work for the Prosecutors Advisory Council (PAC) or the county, but included an hourly rate of pay from PAC or the county. In 8 instances, the individual was not identified as being employed by PAC and reported \$0 or blank for the hourly pay, but PAC records indicate they were paid by PAC. Additionally, based on the sample, it appears three individuals are receiving a higher hourly rate of pay from Child Support Services than from PAC or County sources. It does not appear based on this review that CSE is reviewing the data reported on the CS-22 forms.

While CSE requires a CS-22 in the system for each contracting official and employee, it does not require all information to be reported. Some fields on the CS-22 data entry screen were not actually required to submit the form, including, but not limited to: Prosecutor Advisory Council, PAC Rate, County Employee (Fiscal Court), County Employee Rate. See screenshot of the CS-22 entry page in MIPS at Appendix H.

Although the contract states that the information from the CS-22 will be used to determine the amount of reimbursement that officials are eligible to receive, the CSE Staff Assistant stated staff only confirm that the total office salary expense calculated on the CS-27 form agrees with the total office salary expense claimed on the monthly invoice. CSE is not verifying the hourly rate or salary amount used in the monthly reimbursement requests with the data reported on the CS-22 forms.

Recommendations

We recommend CSE:

- Require all fields to be completed on the CS-22 form before allowing it to be submitted. Completion of the form should be required before allowing reimbursement of salary expenses.
- Review CS-22 forms to determine the reimbursement amount officials are eligible to receive each month for each employee, as outlined in the contract.
- Verify the employment and compensation data entered into the CS-22 forms. For example, management should consider adding steps to the contract monitoring tool, requesting a third-party confirmation each year from PAC and the county regarding the individual employee's status and rate of pay, or requesting the contractor submit pay stubs.
- Consider the feasibility of modifying the MIPS system to allow the retention of historical data or develop another method to preserve historical data that may be used to audit reimbursement amounts.

Report continues with Finding 4, on next page.

Finding 4: CSE Does Not Document Its Approval of Proportional Cost Plans and Failed to Maintain Documentation of Plans to Support Monthly Reimbursements

CSE personnel had difficulty locating proportional cost plans in effect for the period of July 1, 2017 through June 30, 2018. Plans located by CSE personnel were scattered, and many did not contain the effective date of the plan. Although the contract requires proportional cost plans to be submitted annually, CSE has not held officials to this requirement. The plans that were located showed no indication of approval by CHFS. The MIPS system does not maintain an accurate record of each official's proportional cost rates. Without adequately documenting or tracking approved plans, CSE is unable to properly calculate the amount of reimbursement a contracting official is eligible to receive.

Proportional costs are defined by the CSE contract as “those costs of an organization which are not specifically identifiable with a particular project, service, program or activity but nevertheless are necessary to the general operation of the organization and the conduct of the activities it performs.” If proportional costs exist, the CSE contract requires contracting officials to submit a proportional cost plan to CHFS for approval. The CSE Manual, Section 2.140, requires officials to submit the plans on a CS-96 form before August 30 of the contract year.

Missing Records and Approvals

CSE was unable to identify and locate all CS-96 forms approved and in effect between July 1, 2016 and June 30, 2018. The CSE Staff Assistant stated that record keeping during that period was a mess and records were scattered, noting she had spent a week “here and there digging thru [sic] file cabinets and folders trying to track down these plans.” In some instances the plans did not identify when the plan was effective, in other instances a plan was located, but it would be for a different time period. For example, one official's invoices for FY 2017 reported having a rate of 30%, but the only plan CSE was able to locate was for FY 2018 when the rate was 33%.

A proportional cost plan provided for one contracting official in our sample dated back to FY 2015. Though CS-96 forms are to be submitted annually, CSE acknowledged this requirement was not enforced over the past few years. Instead, if there were no changes reported by the contracting official, the same proportional cost plan would be used.

The forms that were located did not contain all information requested on the form. The CS-96 states, “[a]ll costs must be listed here and approved with the Proportional Costs Plan before you can receive reimbursement each month.” The CSE Staff Assistant explained that while technically the officials are required to complete all of the form, CSE only needs a portion of the information to determine the percentages. The Staff Assistant noted that CHFS personnel had not done a good job of requiring that information during FY 2017 and FY 2018. No signature or other indication of approval by CHFS appears on these forms.

The CSE Staff Assistant was able to identify 20 contracting officials with a proportional cost plan. At least one official claimed and received proportional costs in April 2018 but was not included in the Staff Assistant’s list. The Staff Assistant acknowledged that though the CS-96 is required, not all officials submit the plans. For the example identified in our sample, the Staff Assistant noted that the official had requested 1/3 of office utility costs and could only speculate the rate was approved by the Commissioner, though no evidence of such an approval was provided.

When all CS-96 forms could not be located, the CSE Staff Assistant requested a report from the MIPS system of proportional cost rates along with the date the rate changed. The report identifies 62 proportional cost rates for 31 contracting officials have been processed since July 1, 2017. Based on the system report, and following CSE’s policy, it would be anticipated that 62 separate proportional cost plans would exist. However, the report does not validate these officials have an approved Proportional Cost Plan in place.

MIPS Report

The official in our sample who appeared to have no approved plan, had 12 different proportional cost percentages listed in the MIPS report. The 12 rates applied to invoices submitted by the contracting official and the date in which the rate first appeared in MIPS are as follows:

Figure 5: Sampled Official’s Proportional Cost Percentage Charged Between July 1, 2017 and May 24, 2019.

Proportional Cost Percentage	First Invoice Period
100	July 2017
26.09	August 2017
26.08	September 2017
26.02	October 2017
26.05	November 2017
26.04	December 2017
24.47	May 2018
16.02	September 2018
25.79	October 2018
21.99	February 2019
22.02	March 2019
22.01	April 2019

Source: APA, based on MIPS report provided by CSE on June 13, 2019.

As shown in Figure 5, proportional cost reimbursement rates between FY 2018 and FY 2019 ranged from 16.02% to 100%. Based on this data, auditors anticipated that the

April 2018 rate would be 26.04%; however, the April 2018 invoice was processed and reviewed with a proportional cost rate percentage of 100%. The MIPS report does not identify when rates are changed, but rather when the rates were first used. This information would not assist reviewers in knowing the current approved rate for each contracting official.

For another official, the report identifies a proportional cost rate of 38% beginning in July 2017. The rate then increased to 100% in March 2019. Between July 2017 and March 2019, there was a change in contracting official due to an election, as such it would be expected that a revision to the plan would occur. CSE provided evidence of a new CS-96 form to support the new proportional cost plan. The CS-96 indicated the proportional cost rate of 55%, which does not agree to either rate identified in the system.

MIPS automatically defaults the proportional cost percentage rate to 100% in the monthly CS-20 reimbursement request form. The manual indicates that the contracting official is asked to revise the rate when completing the request each month if they have a proportional cost plan. Though CS-96 forms can be uploaded into MIPS, there is currently no process to document proportional cost plan approvals in the MIPS system and no link between the approved rates and the CS-20 form. This requires CSE to manually track all approved plans to determine the rate before approving costs.

In May 2019, CSE adjusted reimbursement to one contracting official by over \$2,100 to correct an overpayment made two months prior. The overpayment occurred due to the contracting official failing to update the defaulted proportional cost rate and CSE not identifying the discrepancy upon initial review. CSE records indicate the contracting official normally claimed a 43% proportional cost plan rate.

Recommendation

We recommend CSE:

- Enforce all contract terms, including annual submission of proportional cost plans. CSE should decline approval of plans if all required information is not provided. These plans should be approved by CSE before going into effect and before proportional costs are reimbursed.
- Document approval of the CS-96, including the name of the approver and date the approval is given. Approved forms should be maintained in a centralized location, allowing for easy access to reviewers, and should clearly identify the most current approved rate for each official.
- Deny reimbursement of proportional costs to an official when a current, approved CS-96 is not on file or when the rate submitted does not match the applicable CS-96.
- Consider revising MIPS to allow only CSE personnel to enter approved proportional cost rates into the system. Additionally, consider an auto-fill function that would update the rate in the CS-20 form once the contracting official identifies their county from a dropdown list. This would remove

the ability of a contracting official to adjust the proportional cost rate without first having an approved CS-96.

Report continues with Finding 5, on next page.

Finding 5: CSE Does Not Require Immediate Follow-up to Ensure Implementation of Corrective Action Plans

When a corrective action plan (CAP) is required due to contract non-compliance, a follow up monitoring visit or desk review is not required to be performed the next year. The inter-agency agreement between CSE and the Division of Administration and Financial Management (DAFM) only requires that implementation of a CAP be followed up on during the next monitoring of the contractor. By this agreement, CSE only requires contracts under \$750,000 to be monitored once every three years. Under these terms, it could be 3 years before implementation of a CAP is examined to determine if the contractor has taken action to correct the non-compliance. This practice defeats the effectiveness of this process, as the contracting official may not feel compelled to make the changes resulting in continued non-compliance until a second review is performed.

The inter-agency agreement between CSE and DAFM requires DAFM to “monitor each contracting official contract a minimum of once in a three year period.” Contracts for \$750,000 or over require an annual on-site visit. In FY 2017 and 2018, approximately 8% of CSE enforcement contracts were over this threshold. For contracts under that threshold, DAFM “shall prioritize the desk reviews based on such factors as date of the last monitoring, monetary amount awarded to the contractor, staff capacity/work load demands placed on DAFM Contract Performance Section and travel/budgetary restrictions.”

Between January 1, 2016 and June 30, 2018, nine officials with CAPs did not receive a follow-up desk review or on-site monitoring the next year. As of June 30, 2018, five of the nine had gone one year without monitoring, and four had gone two years without a monitoring visit or desk review.

According to the Contract Performance Section Supervisor, over the past several years the agency has monitored 80 or more CSE contracts out of approximately 115 contracts. The Section Supervisor stated that they attempt to assign contracts with a CAP to be monitored again the next year, but it is not required by contract or written policy. Furthermore, DAFM noted that CSE has access to the monitoring reports and can follow up on CAPs if they deem it necessary without waiting for the next monitoring.

Recommendation

We recommend CSE:

- Revise its inter-agency contract to give priority based on the existence of a corrective action plan in the prior year. At a minimum, a desk review should be performed to ensure the CAP was followed and the issue resolved.
- Review CAPs annually to evaluate whether additional monitoring or contract revisions are needed.

APPENDICES

Appendix A: FY 2018 Administrative/Fiscal Monitoring Tool

Revised 11/2/17, jwc; 11/21/16, jwc

**Administrative/Fiscal
FY 2018 Monitoring Tool**

Agency Name: _____ Contract Number(s): _____
 Monitor(s): _____ Date(s) of Monitoring: _____
 Information Provided by: _____ Contact Information: _____
 (Name and Title) (Phone Number and Email Address)

Monitoring Items	Yes	No	N/A	Documentation/Verification
1. The agency has implemented any corrective action plans resultant from the most recent Cabinet monitoring.				
2. The agency receives prior written approval from the Cabinet for any single equipment or furniture item (purchased or leased) with a cost of \$500 or more and any computer and information technology equipment purchases, including telephone equipment, regardless of cost.				
3. The agency maintains their own property control ledger/log which lists all equipment or furniture (above or below \$500) purchased, leased or provided by the CHFS with funds from this contract.				
4. The property control ledger/log includes the following at a minimum:				
A. Cabinet Property Tag Number(s), if applicable;				
B. Equipment serial number(s);				
C. Description of the item(s);				
D. Unit invoice that includes all cost(s);				
E. Date(s) of purchase and/or lease;				
F. Location of the equipment and furniture (include office name (Child Support only), address and building number when applicable), and				
G. Name of individual responsible for the equipment (custodian).				
5. The agency submits a completed physical inventory of all equipment and furniture purchased, leased or provided by the CHFS with funds from the contract to CHFS Department Property Manager as required by the contract. Date physical inventory for SFY was submitted:_____.				
6. Billing statements are submitted to the Cabinet within the contractual timeframes.				
7. Subcontracts meet the requirements of the contract between the agency and the Cabinet.				

Revised 11/2/17, jwc; 11/21/16, jwc

**Administrative/Fiscal
FY 2018 Monitoring Tool**

Agency Name: _____

Contract Number(s): _____

Monitoring Items	Yes	No	N/A	Documentation/Verification
8. The agency's accounting records are supported by source documentation.				
9. The agency assures that no other funds or assets of the agency are commingled with funds provided for these programs to be administered under this contract to any other program account.				
10. The agency's fidelity bond is sufficient to meet contractual requirements.				
11. The agency submits a copy of the OMB A-133 engagement letter, as specified in the contract, three (3) months prior to the contractors' fiscal year end, unless a written extension is granted by the Division of Administrative and Financial Management (DAFM) and by Child Support Enforcement (CSE) if applicable. (Date sent to DAFM: _____ and, if applicable, date sent to Child Support Enforcement CSE: _____). <i>[Obtain a copy of the engagement letter or signed CMF09-119 - Audit Requirement Exemption Form if exempt.]</i>				
12. The agency has agreed to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of the nondiscrimination clause as required by the contract.				
13. The agency has agreed to the confidentiality of all information whether written or verbal, provided by or about any client seeking or receiving services under this contract, except as approved and authorized in writing by the client, agreement with the Cabinet, or as otherwise authorized by law, including the privacy Act of 1974 (P.L. 93-579; 5 USC 552A) and the Health Insurance Portability and Accountability Act of 1996 ("HIPPA") (P.L. 104-191), and the regulations promulgated under those statutes.				
14. The agency ensures that no person: is excluded from participation in, is denied the benefits of, or is subjected to discrimination in relation to activities carried out under this contract on the basis of race, color, age, religion, sex, disability or national origin.				
15. The agency has procedures that assure clients aggrieved by actions arising from services rendered under this contract have the right to a hearing that includes an opportunity for an aggrieved client to request a hearing and to be heard, and the right to appeal to the Cabinet (922 KAR 1:320).				

Revised 11/2/17, jwc; 11/21/16, jwc

**Administrative/Fiscal
FY 2018 Monitoring Tool**

Agency Name: _____

Contract Number(s): _____

Monitoring Items	Yes	No	N/A	Documentation/Verification
16. The agency ensures all notices, employment, advertisements, information pamphlets, research reports, and similar public notices prepared and released by the agency include a statement identifying the appropriate source of funds for the project or service. (i.e. funding is in whole or in part from federal, CHFS, or other state funds) (Not Applicable "NA" for CSBG contracts only)				
17. The agency ensures all notices, information pamphlets, research reports and similar public notices prepared and released by the community action agency pursuant to its contract for CSBG funds includes the statement: "This project is funded, in part, under a contract with the Cabinet for Health and Family Services with funds from the Community Services Block Grant Act of the U.S. Department of Health and Human Services". (CSBG ONLY- 922 KAR 6:010 Section 4.)				
18. The agency is in compliance with the administrative cost limitation of the contract. (CSBG ONLY.)				
19. The agency appeared to have an effective internal control system in place (such as financial separation of duties).				

Comments/Observations

Appendix B: FY 2018 CSE Monitoring Tool

Revised 10/11/17, 3/16/18 jww
Revised 11/21/16 jww

**Child Support
FY 2018 Monitoring Tool**

Agency Name: _____ Contract Number: _____
 Monitor(s): _____ Date(s) of Monitoring: _____
 Information Provided by: _____ Contact Information: _____

Service Activities

Monitoring Items	Yes	No	N/A	Documentation/Verification
1. Contracting Official shall maintain a <u>written plan</u> that outlines office policy and procedure related to Personnel matters. (9.4)				
2. The written office policy and procedures plan describes which benefits are paid by the agency and which are the responsibility of the employee. (9.4)				
3. Contracting Official submits to CSE a written request to and receive approval for any planned relocation of office space a minimum of 60 days prior to said relocation. (6.38)				
4. Contracting Official establishes the following bank accounts: (9.1)				
A. One used to pay program/office expenditures; and,				
B. One used to transfer child support collection to the Cabinet via CCU (if ordered to accept a payment).				
5. If Contracting Official staff accept child support payments (cash, check, bond or money order), the following procedures are followed: (9.2, 6.45 & KY Child Support Enforcement Manual 11.050)				
A. The original receipt is given to the individual making the payment, a copy of the receipt is scanned into the Electronic Case File (ECF) and a copy is retained in the receipt book.				
B. Creates and maintains the File Header Sheet (FHS) in a secure location for 5 years.				

Revised 10/11/17, 3/16/18 jww
Revised 11/21/16 jww

**Child Support
FY 2018 Monitoring Tool**

Agency Name: _____

Contract Number: _____

Monitoring Items	Yes	No	N/A	Documentation/Verification
C. Keeps all original scanned payment instruments in a secure location for 60 calendar days after they are scanned and sent to the SDU.				
D. Acceptance of the child support payment, type and amount of payment is documented on KASES (case level self-event);				
6. Contracting Official retains records for at least three (3) years. (9.7)				
7. In addition to the "Time Report" (CS-27) the Contracting Official (and other attorneys who work part-time in the Title IV-D Child Support Program) maintains the (CS-21.1) Attorney Time Distribution Summary for Case Audit Trace as well as an attached detailed listing of cases worked to record and support the amount of time spent on IV-D activities. (2.4)				
8. Contracting Official approves the CS-20 Invoice for the Title IV-D Contract and CS-27 Time Allocation Summary Sheets via the monthly Invoicing Portal System (MIPS) when uploading their monthly invoice, time allocation information and itemized receipts for all items purchased <i>or</i> has completed and submitted the original CS-194 Designated Signature of Authority to Child Support Enforcement allowing the designee to approve / submit on the Contracting Officials behalf. (KY Child Support Enforcement Manual 02.140)				
9. Interest income earned through Title IV-D activities is counted as income to the program. A schedule of the expenditures offset by interest income is prepared for audit purposes. (2.12)				

Comments/Observations

Appendix C: CS-20 Form (used in FY 2017)

CS-20
(R. 12/11)

COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support
Child Support Enforcement

INVOICE FOR THE TITLE IV-D CONTRACT

Agency's Name: _____ (CHFS Use Only)

Agency's Address: _____ MARS Invoice No.: _____ (CHFS Use Only)

_____ Date Input _____ (CHFS Use Only)

Agency Contact Person: _____ Contract Number: _____

Telephone Number: _____ Contract Line Number: _____

E-Mail Address: _____ eMARS Vendor Code: _____

Invoice Period (mm/yr with FY): _____

Vendor Invoice Number: _____

Agency Code: _____ Object Code: _____ () EFT () Check
() Reimbursement () Final Invoice
(CHFS Use Only) (CHFS Use Only)

Contract Amount Available \$ _____ Current Month Expenditures \$ _____ Available Balance \$ _____

Available Balance \$ _____ Installment Recoupment Amount \$ _____ Amount Left in Contract \$ _____

	<u>Amount</u>
1. Direct Salary Costs (Total Salary Cost from CS-27, item 9)	\$ _____
2. Fringe Benefits (Employer's Share Only)	
a. Retirement	\$ _____
b. Employer Group Insurance	\$ _____
c. FICA	\$ _____
d. Other Employee Benefits, i.e., Unemployment Insurance	\$ _____
3. Other Direct Costs (List Check Numbers, Dates Written, Bills Paid, and Amounts on Summary Page.)	
a. Utilities	\$ _____
b. Postage	\$ _____
c. Supplies	\$ _____
d. Rent	\$ _____
e. Miscellaneous	\$ _____
4. Equipment	\$ _____
5. Proportional Cost Plan percentage _____ %	\$ _____
6. Travel Expenses	\$ _____
7. Reductions (rebates, returns, credits, over billing from a previous invoice) (Subtract)	\$ _____
8. TOTAL EXPENSES (Items 1 through 6)	\$ _____
9. Installment and Recoupment	\$ _____
10. TOTAL REIMBURSEMENT	\$ _____



INVOICE FOR THE TITLE IV-D CONTRACT

Contractor Certification: Funds in the amount of \$_____ are hereby requested for payment. I certify that the costs incurred are taken from the books of account and that such costs are valid and consistent with the terms of the Program Administration Contract and that all backup documentation is maintained in this office.

Contractor/Authorized Signature

Date

Contractor/Authorized Signature's Printed Name

Contract Specialist

Date

SEND TO:

**Contract Specialist
275 East Main Street 4E-C
Frankfort, Kentucky 40621**

INVOICE FOR THE TITLE IV-D CONTRACT

Summary Page

Agency's Name: _____

Agency's Address: _____

Contract Number: _____

Contract Period: _____

Contract Amount: \$ _____

Invoice Period: _____

REQUIRED MONTHLY INVOICE DOCUMENTATION FOR DIRECT COSTS:

CHECK#	DATE	PAYEE/DESCRIPTION	AMOUNT	CODE
1.			\$	
2.			\$	
3.			\$	
4.			\$	
5.			\$	
6.			\$	
7.			\$	
8.			\$	
9.			\$	
10.			\$	
11.			\$	
12.			\$	
13.			\$	
14.			\$	
15.			\$	

TOTAL \$

Appendix D: CS-20 Form (MIPS System – used beginning in FY 2018)

CS-20

**COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support - Child Support Enforcement
INVOICE FOR THE TITLE IV-D CONTRACT**

Agency Name:		Agency Contact Person:	
Agency Addr:		E-Mail:	
		Telephone Number:	
Object Code:	Agency Code:	eMARS Vendor Code:	
eMARS Invoice No:		eMARS Amount:	\$0.00
Contract Number:		Contract Line#:	Acct Line#:
Invoice Number:		Status:	Final
Invoice Period:		Fiscal Year:	2017-2018 Payment Method: EFT

Contract		Invoice		YTD	What's Left	
Contract Amt:	\$0.00	Monthly Exp:	\$0.00	\$0.00	Contract Bal:	\$0.00
Install Amt:	\$0.00	Amt Recoup:	\$0.00	\$0.00	Recoup Left:	\$0.00
Amt to Reimb:	\$0.00	Amt Reimb:	\$0.00	\$0.00	Reimb Left:	\$0.00

1. Direct Salary Costs (Total Salary Cost)		\$0.00
2. Fringe Benefits (Employer's Share Only)		
a. Retirement	.....	\$0.00
b. Health Insurance	.....	\$0.00
c. FICA	.....	\$0.00
d. U. I. Benefits	.....	\$0.00
e. Worker Compensation	.....	\$0.00
f. Other Employee Benefits	.....	\$0.00
3. Other Direct Costs		
a. Equipment	.....	\$0.00
b. Miscellaneous	.....	\$0.00
c. Postage	.....	\$0.00
d. Rent	.....	\$0.00
e. Supplies	.....	\$0.00
f. Travel Expenses	.....	\$0.00
g. Utilities	.....	\$0.00
4. Proportional Cost Plan Percentage	100.00 %	\$0.00
5. Reductions (rebates, returns, credits, over billing from a previous invoice) (Subtract)		\$0.00
6. TOTAL EXPENSES (Items 1 through 5)	.....	\$0.00
7. Recoupment of Installment	.....	\$0.00
8. TOTAL REIMBURSEMENT	.....	\$0.00

Completed By :	Date:
Submitted By :	Date:
Reviewed By :	Date:
Approved By :	Date:

CS-20

**COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support - Child Support Enforcement
MONTHLY INVOICE DOCUMENTATION FOR DIRECT COSTS**

Agency Name:	Contract Number:
Invoice Period:	Fiscal Year: 2017-2018
Contract Amount Available: \$0.00	Status:
Invoice Number:	

Check Number	Date	Payee Description	Category	Total Amount (\$)
				0.00
			Total :	0.00

CS-20

**COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support - Child Support Enforcement
MONTHLY INVOICE DOCUMENTATION FOR PROPORTIONAL COSTS**

Agency Name:	Contract Number:
Invoice Period:	Fiscal Year: 2017-2018
Contract Amount Available: \$0.00	Status:
Invoice Number:	

Check Number	Date	Payee Description	Category	Total Amount (\$)
				0.00
			Total :	0.00

Appendix E: CS-27 Form (MIPS System - used beginning in FY 2018)

CS-27

**COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support - Child Support Enforcement
TIME ALLOCATION SHEET**

Agency Name:	Contract Number:
Invoice Period:	Fiscal Year: 2017-2018
Contract Amount Available: \$0.00	Status:
Invoice Number:	

Contracting Officials Office Time Allocation Sheet for Hourly Employees						
Employee Name	Position Title	Total Hours	Hourly Rate	Total OT Hours	OT Rate	Salary Cost
		0.00	\$0.00	0.00		\$0.00
		0.00	\$0.00	0.00		\$0.00
					Total:	\$0.00

Contracting Officials Office Time Allocation Sheet for Salaried Employees						
Employee Name	Position Title	Total Hours	Monthly Salary	Total OT Hours	OT Salary	Salary Cost
		0.00	\$0.00	0.00	0.00	\$0.00
		0.00	\$0.00	0.00	0.00	\$0.00
		0.00	\$0.00	0.00	0.00	\$0.00
					Total:	\$0.00

Contracting Officials Office Time Allocation Sheet for Other Employees		
Other	Comments	Amount

Grand Total: \$0.00

Appendix F: CS-22 Form (used in FY 2017)

CS-22
(R. 10/11)

COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support
Child Support Enforcement

COMPUTATION OF TITLE IV-D PERSONNEL COSTS

1. Effective Date: _____
2. Original Hire Date: _____
3. Employee's Name: _____
4. Social Security Number: _____
5. Employee Position Title: _____
6. County and Office of Employment: _____
County Office
7. Average Hours Worked per Week: _____
8. Average Hours Worked per Year _____ (average hours per week x 52)
9. Gross Salary per Year: \$ _____ (excluding employer's share of fringe benefits)
10. Rate per Hour: \$ _____
11. Employer Paid Benefits: _____
 - FICA: Is the retirement contribution deducted from gross salary before FICA is calculated?
____ Yes ____ No
 - RETIREMENT: The percentage of retirement paid on this employee who is covered by a retirement fund is _____%.
 - HEALTH INSURANCE: The health insurance premium paid on behalf of this employee is \$ _____ per month.
 - U. I. BENEFIT: The percentage of Unemployment Insurance paid on behalf of this employee is _____%.
 - WORKERS' COMPENSATION: The rate at which Workers' Compensation is paid on this employee is _____.
 - OTHER: If any other fringe benefit is paid for the employee (such as life insurance), identify the benefit and indicate the rate that it is paid.

Rate: _____

Rate: _____

Rate: _____

Web site: <http://chfs.ky.gov/dis/cse.htm>



An Equal Opportunity Employer M/F/D
Page 1 of 1

Appendix G: CS-22 Form (MIPS System – used beginning in FY 2018)

CS-22

COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support - Child Support Enforcement
COMPUTATION OF TITLE IV-D PERSONNEL COSTS

Employee Information			
First Name:	Middle Name:	Last Name:	
Original Hire Date:	Last Day Of Work:	Work Start Date:	
Agency Name:	Employee Id:		
Work Data			
Position Title:	Attorney :	Work Type :	
Prosecutor Advisor Counsel :		PAC Rate (Per Hour) :	
County Employee (FiscalCourt) :		County Employee Rate:	
Hourly		Salaried	
Hourly Rate (Per Hour):		Gross Salary (Per Year):	
Average Hours Worked (Per Week):		Average Hours Worked (Per Year) :	
Over Time Rate (per Hour):			
Benefit Information			
Retirement :			
Health Insurance (The Health Insurance premium paid on behalf of this employee per month):			\$ 0.00
U. I. Benefit Amount (Monthly Unemployment Insurance paid on behalf of this employee is) :			\$ 0.00
U. I. Benefit Comment :			
Workers Compensation (Workers Compensation Amount which is paid on this empolyee is):			\$ 0.00
Workers Compensation :			
Other Fringe Benefit Amounts :			
Life:	\$ 0.00	Vision :	\$ 0.00
		Dental:	\$ 0.00
		Other :	\$ 0.00

Appendix H: CS-22 Screenshot Excerpts

Work Data ^

* Position Title : Attorney

Work Type: Hourly Salaried

PAC (Prosecutor Advisor Counsel)

County Employee (Fiscal Court)

PAC Rate (Per Hour) :

County Employee Rate (Per Hour):

Hourly

Hourly Rate (per Hour):

Average Hours Worked (per Week):

Over Time Rate (per Hour):

Salaried

Gross Salary (per Year):

Average Hours Worked (per Year):

Work Data ^

* Position Title : Attorney

Work Type: Hourly Salaried

PAC (Prosecutor Advisor Counsel)

County Employee (Fiscal Court)

PAC Rate (Per Hour) :

County Employee Rate (Per Hour):

Hourly

Hourly Rate (per Hour):

Average Hours Worked (per Week):

Over Time Rate (per Hour):

Salaried

Gross Salary (per Year):

Average Hours Worked (per Year):

Appendix I: CS-96 Form

COMMONWEALTH OF KENTUCKY
Cabinet for Health and Family Services
Department for Income Support
Child Support Enforcement

PROPORTIONAL COST PLAN

Name:	County:	Fiscal Year:
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Part I - Hours Worked Per Week – Allocation based upon FTEs (Full-Time Equivalency)

The cost of renting space allocated based upon the number of FTEs working in the Child Support Program.

FTE Rate=1 for Full-Time or for Part-Time divide the # of hours worked per week by 40 to get the appropriate FTE Rate. Example: 25 hours worked per week/40 hours in a week= 0.63 FTE Rate

Name(s) of All Employees that Utilize Building Space	# Hours Worked Per Week Child Support Employees Only	FTE Rate	# Hours Worked Per Week Other Employees	FTE Rate
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
		0.00		0.00
Total		0.00		0.00

(A) FTEs Total	0.00
(B) FTEs Child Support Only	0.00
FTEs Other	0.00

**B/A=PROPORTIONAL COST RATE % #DIV/0!

Part II – Allocation based upon square footage: Calculate the ratio of total square footage used by all personnel to total usable square footage.

The total square footage of the building in which Child Support is located and proportionately allocated based upon the square footage used by each Program located in the building.

- A. Square Footage of Entire Building
- B. Square Footage Allocated to Child Support Only
- C. Square Footage of Other Programs Only
- D. Square Footage of Shared Space by CSE and Other Programs
- E. # of Programs Located in the Building (Sharing Total Space)

**B+(D/E)/A= PROPORTIONAL COST RATE % #DIV/0!

****The lessor of the two percentages should be used on your Proportional Monthly Cost worksheet.**

Please list all Proportional Costs (shared costs). They must be operational costs only (e.i. utilities, rent). All costs must be listed here and approved with the Proportional Costs Plan before you can receive reimbursement each month.

INITIAL REQUIRED DOCUMENTATION FOR PROPORTIONAL COSTS PLAN:

PAYEE/DESCRIPTION OF COSTS	CODE

The last column, titled "Code" refers to a letter that explains what category of costs the particular payee/description listed goes to. The codes are listed as follows: (U) utilities, (P) postage, (S) supplies, (R) rent, (M) miscellaneous, (T) travel and (E) equipment. For all costs coded with (M), you must include a description of the service provided, along with the Payee.

EXAMPLES: If the payee/description is for utilities, the appropriate code would be "U", if it is for office rent, the appropriate code would be "R," etc.

MANAGEMENT'S RESPONSE



CABINET FOR HEALTH AND FAMILY SERVICES
Department for Income Support

Matthew G. Bevin
Governor

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Frankfort, KY 40602
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www.chfs.ky.gov

Adam Meier
Secretary

December 6, 2019

Hon. Mike Harmon
Auditor of Public Accounts
Commonwealth of Kentucky
209 St. Clair Street
Frankfort, KY 40601

RE: Examination of Certain Policies, Procedures, and Controls of the Kentucky Cabinet for Health and Family Services' Department for Income Support Child Support Enforcement Program

Dear Auditor Harmon,

Thank you for responding to our request for a special audit of the Kentucky Child Support Enforcement program. We appreciate your team's diligent work.

The findings and recommendations in this audit support the concerns career staff brought to my attention upon my appointment as Acting Commissioner for the Department for Income Support in September of 2017. We concur with each of the findings and are pleased to receive your recommendations for corrective action.

I am happy to report that many of the audit's recommendations have already been undertaken. Additional changes are in the process of being implemented. The findings contained in the full report help clarify the rationale for actions which are necessary to protect the integrity of the Kentucky Child Support Enforcement program.

Below you will find background information, responses, and corrective actions for each finding:

Background

I became the Acting Commissioner for the Department for Income Support on September 13, 2017. Formal appointment as Commissioner followed on November 1, 2017. Following formal appointment, career staff began disclosing numerous issues and concerns related to CSE operations. According to individuals who wish to remain anonymous, prior non-merit leadership operated the program with minimal financial oversight of county offices and without

the application of contractually enforceable accountability measures. The expeditious disbursement of funds to local offices was deemed the top operational priority to the exclusion of appropriate contract monitoring, thorough invoice review, or systematic financial oversight.

Historically, CSE has failed to implement or utilize basic financial controls to assure compliance with applicable federal and state law while also failing to insist that program performance standards be met by local offices. Corrective action plans were requested, received, and filed without any accompanying consequences for a failure to meet their substance or objectives. The complete absence of performance-based budgeting decoupled performance from the delivery of almost guaranteed baseline funding. Money was reliably delivered regardless of the quality of localized child support enforcement operations or outcomes.

Within months of my appointment, we began developing contracts for State Fiscal Year 2019. The contracts were substantially revised to address program performance and financial accountability. The focus on program goals, outcome-based responsibility, and strict compliance with federal law governing the expenditure of CSE's federal funds represented a significant change in operational culture. This change required statewide adjustment across 120 individual Kentucky County Attorney child support offices.

Financial management of the Child Support Enforcement program is complex. Due to the intricacies of the program and changes to the Cabinet's organizational structure, CSE has struggled to retain capable, knowledgeable financial staff. The following is a brief chronology of that struggle:

December 2016: The Internal Policy Analyst III responsible for reviewing and approving contracting official reimbursement requests was transferred to the Cabinet's Division of Procurement and Grant Oversight. The related functions of the position were also transferred.

August 2017: The Internal Policy Analyst IV responsible for managing the agency's budget resigned.

November 2017: A new Internal Policy Analyst IV was appointed.

January 2018: The responsibility for reviewing and approving contracting official reimbursement requests was transferred back to Child Support Enforcement. The staff was not transferred back and funding was not made available to hire replacement staff.

July 2018: The Internal Policy Analyst IV resigned.

November 2018: Another new Internal Policy Analyst IV was appointed. This employee was assigned the responsibility for the agency's budget, contracts, and review/approval of contracting official reimbursement requests. This position was subsequently downgraded to a Budget Specialist II during the reallocation of the Internal Policy Analyst series by the Kentucky Personnel Cabinet.

The new Internal Policy Analyst IV (now Budget Specialist II) immediately voiced concerns regarding ineffective invoice review processes and the lack of fundamental financial oversight of local expenditures. Additional plans were developed to strengthen reviews, approvals, and contract language.

Fiscal year 2020 contracts contained enhanced transparency and accountability provisions. When the enhanced SFY 20 contracts became effective, more thorough reviews of county invoices and expenditures were undertaken. Several local offices have encountered delays with disbursements due to the lack of available qualified staff within CSE Central Office to process invoice reviews accurately and efficiently. These delays have strained the ability of county attorneys to financially sustain their child support offices. Some have balked at providing payroll records and CSE's expectation that payroll records match reimbursement requests. Still others have expressed strong displeasure with the introduction of new invoice compilation and review standards due to their acclimation to prior payment processing practices and protocols. CSE must diligently work to continue improving its financial oversight of local offices as well as its communication of necessary policy and contractual changes in advance of their implementation. However, the residual cultural influence of prior operational customs will continue to present significant challenges to the complete elimination of their consequences.

Finding 1: The Annual Child Support Monitoring Process Is Not Sufficient and Failed to Identify Red Flags Indicating Potential Fraud

Agreed.

Child Support Enforcement Corrective Action Plan

- The agreement between CSE and DAFM will be reviewed and updated.
- The checklists ("monitoring tools") will be revised to include:
 - Specific steps to be performed by the monitor
 - Collecting evidence to support the monitor's findings
 - Confirming payments made by CSE are deposited to the bank account recorded in eMARS
 - Confirming checks presented as support for reimbursement clear the bank
 - Reviewing the account number on checks presented as support for reimbursement to determine if other accounts exist that warrant review
 - Requiring additional review steps upon the discovery of discrepancies
 - Requiring the monitor to immediately notify CSE of any indications of fraud
- CSE will also establish a procedure to monitor the contract monitoring reports.

Finding 2: Poor Oversight by CSE Led to Improper Reimbursements to Contracting Officials

Agreed.

Child Support Enforcement Corrective Action Plan

- The current Internal Policy Analyst/Budget Specialist II created a manual titled Contracting Official Reimbursement Guidelines. The manual is very detailed and describes general reimbursement guidelines, allowable expenditures, supporting documents, and includes links to related federal, state laws and required forms. This manual was issued and provided to all contracting officials and all staff responsible for the review of contracting official requests for reimbursement on December 3, 2019. A copy of the manual will be provided with this response.
- CSE will implement all recommendations for this finding.

Finding 3: CSE Did Not Ensure that Employee Compensation Complies with Federal Rules

Agreed.

Child Support Enforcement Corrective Action Plan

- CSE will implement all recommendations for this finding.

Finding 4: CSE Does Not Document Its Approval of Proportional Cost Plans and Failed to Maintain Documentation of Plans to Support Monthly Reimbursements

Agreed.

Child Support Enforcement Corrective Action Plan

- CSE will implement all recommendations for this finding.

Finding 5: CSE Does Not Require Immediate Follow-up to Ensure Implementation of Corrective Action Plans

Agreed.

Child Support Enforcement Corrective Action Plan

- CSE will implement all recommendations for this finding.

Again, thank you for reviewing our program. As we implement your recommendations and continue our planned internal improvements, we invite you and your staff to visit our offices any time. Your advice and expertise are vital to the preservation of Kentucky Child Support Enforcement's integrity. We have a few technical corrections to propose. Those corrections will be provided separately within the requested 60-day timeframe.

With Sincere Appreciation,



W. Bryan Hubbard
Commissioner