

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CASH MANAGEMENT
PROCEDURES USED BY THE
UNIVERSITY OF IOWA (UNIVERSITY)**



**JANET REHNQUIST
INSPECTOR GENERAL**

**FEBRUARY 2002
A-07-01-00136**

Office of Inspector General

<http://oig.hhs.gov/>

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-01-00136

February 19, 2002

Mr. Terry Johnson
Controller
University of Iowa
4 Jessup Hall
Iowa City, IA 52242

Dear Mr. Johnson:

This final report presents the results of our audit of the cash management procedures used by the University of Iowa (University) to control the funds paid by the Payment Management System (PMS) during the three year period ended June 30, 2000.

We found that the University did not have adequate policies and procedures in place to monitor daily cash balances and to precisely calculate interest earned on positive daily cash balances. In monitoring the daily cash balances, the University did not consider (1) actual dates of electronic payments, (2) expenses exceeding authorized grant amounts, (3) year-end adjustments, (4) actual dates of deposits, and (5) overhead costs as incurred. Additionally, the University was not able to reconcile the cash balances they used to calculate remitted interest to those amounts reported on the *Federal Cash Transaction Reports*.

We determined that the amount of interest remitted by the University for the Department of Health and Human Services (DHHS) funds was less than the amount of interest that should have been remitted if appropriate procedures had been used. Although the difference between the amount of interest remitted and our estimates was not significant, we have concerns that the deficiencies we noted could cause future interest remittances to be inaccurate.

To ensure the accuracy of interest remittance in the future, we are recommending that the University revise their policies and procedures. Additionally, the University should ensure the cash balance amount used to calculate interest to be remitted to the Federal government reflects the amount that is reported to PMS. They concurred with all of our findings and recommendations. The University's response is included in its entirety as Appendix A.

INTRODUCTION

Background

The Office of Management and Budget (OMB) Circular A-110 allows recipients to be paid in advance if the recipient: (i) has procedures that minimize the time between the receipt of Federal funds and their disbursement, (ii) remits any interest earned on the Federal advances, and (iii) meets certain other financial management standards. Also, the financial management requirements for Federal advance payments are contained in Subpart C, Section 22.

Paragraph (a) of Section 22 states:

Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.

In addition, paragraph (b) of Section 22 states:

Recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain: (1) written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient, and (2) financial management systems that meet the standards for fund control and accountability as established in Section .21. Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Paragraph (1) of the above quoted section requires that any interest earned on the Federal advances be remitted annually to PMS, less an allowance of \$250 per year for administrative expense.

Objectives, Scope, and Methodology

Our audit was performed in accordance with generally accepted government auditing standards. The objectives of this limited scope audit did not require a complete understanding or assessment of the internal control structure. Therefore, we did not evaluate the internal control structure of the University. In addition, we accepted the expenditure amounts and general ledger posted dates without verification. We conducted our review at the University's office in Iowa City, Iowa during September 2001.

The three objectives of our review were to determine whether the University:

- Maintains cash management procedures that minimize the time elapsing between the transfer of funds and their disbursement for program purposes;
- Maintains advances of Federal funds in interest bearing accounts and remits the interest earned to PMS; and
- Reconciles amounts reported on *Federal Cash Transaction Reports* to its accounting records.

To accomplish our objectives, we reviewed the University's request for DHHS funds totaling approximately \$312 million during the period July 1, 1997 through June 30, 2000. We also reviewed advances of funds, amounting to approximately \$14.4 million for the same period to support grants and contracts with the National Aeronautics and Space Administration (NASA). DHHS and NASA provided 98 percent of the funding associated with PMS during the audit period.

We used data supplied by PMS and detailed expenditure data to calculate the daily cash balances for the fiscal year ended June 30, 2000. PMS supplied us with the dates and amounts for all funds drawn during the audit period. The University supplied the following data:

- General ledger runs identifying daily expenses,
- The overhead costs posted at the end of each month,
- Other adjustments to account for unallowable costs and differences between downloaded information and reported amounts, and
- Annual percentage rate earned on temporary investments.

The University remitted interest for each year in the audit period. These amounts were determined from a report that calculated the daily cash balance and any resulting earned interest for each Federal fund (monitoring tool). However, the University did not maintain Federal funds in a single interest bearing account, but had procedures in place to invest available funds through various instruments.

Our review of non-DHHS funds had findings consistent with those reported in the FINDINGS AND RECOMMENDATIONS section for DHHS funds. However, these findings were immaterial to the audit.

FINDINGS AND RECOMMENDATIONS

We found that the University did not have adequate policies and procedures in place to monitor daily cash balances and to precisely calculate interest earned on positive daily cash balances. In monitoring the daily cash balances, the University did not consider (1) actual dates of electronic payments, (2) expenses exceeding authorized grant amounts, (3) year-end adjustments, (4) actual dates of deposits, and (5) overhead costs as incurred. Additionally, the University was not able to reconcile the cash balances they used to calculate remitted interest to those amounts reported on the *Federal Cash Transaction Reports*.

We determined that the amount of interest remitted by the University for the Department of Health and Human Services (DHHS) funds was less than the amount of interest that should have been remitted if appropriate procedures had been used. Although our computations resulted in a higher interest earned for DHHS funds, combining the balances of all Federal Letter of Credit funds could have reduced these positive daily cash balances. (According to a PMS official, the daily cash balances of all Federal Letter of Credit funds could be combined in calculating the total interest liability.)

While the findings shown in this report did not result in material underpayments, we have concerns that the noted deficiencies could cause future interest remittances to be incorrect. To ensure an accurate remittance of interest to the Federal government in the future, we are recommending that the University revise their policies and procedures. Additionally, the University should ensure the cash balance amount used to calculate interest remitted to the Federal government reflects the amount that is reported to PMS.

Daily Cash Balances

The University used a monitoring tool for computing the daily balances of cash that contained inaccurate procedures. Specifically, we determined the University:

- Considers the dates the expenditures were posted to the general ledger system rather than the actual payment date. The University posted electronic payments a day before transferring funds. These procedures resulted in an understatement of the daily cash balance for one day.
- Considers all incurred costs, including amounts exceeding authorization. This resulted in an understatement of the daily cash balance.
- Does not update the monitoring tool for preliminary and final year-end adjustments. The University uses a printed copy of the monitoring tool to determine the interest to remit. Because the monitoring tool was printed prior to the final postings, the balance was understated on June 30, 2000.

- Posts cash receipts effective the date the Grant Accounting Office was made aware of the deposits rather than the actual date of deposit. For the audit period, 17 of 83 drawdown dates for DHHS funds were misstated. In some cases, the deposits were not posted 5 days after the actual deposit. University officials stated they were not aware of procedures that allowed them to post back to the actual date of deposit. As a result, the cash balance was understated between when funds were received and posted.
- Considers all overhead costs incurred on the last day of the month rather than on a daily basis. University officials have stated that the policy was to allocate indirect costs monthly instead of when incurred. As a result, the monitoring tool overstated the cash balance amount until the end of the month.

Reconciliation

The University was not able to reconcile the cash balances in their accounting system to the *Federal Cash Transaction Reports*. This difference of approximately \$154,000 understated the cash balance reported on their monitoring tool. Officials at the University stated their monitoring tool has not reconciled to amounts reported on the *Federal Cash Transaction Reports* since 1993 when they changed ledger systems. (We considered this error when we computed our average daily cash balances.)

RECOMMENDATIONS

We recommend that the University revise its written policies and procedures for effectively monitoring the daily cash balance on Federal funds. Specifically, the University should consider:

- Posting actual dates for electronic payments,
- Adjusting for non-authorized expenditures,
- Adjusting for year-end adjustments,
- Posting actual date of deposits, and
- Adjusting overhead costs on a daily basis.

Additionally, the University should ensure the cash balance amount used to calculate interest remitted to the Federal government reflects the amounts that are reported to PMS.

UNIVERSITY RESPONSE

The University concurred with all of our findings and recommendations. The University's response is included in its entirety as Appendix A.

OIG RESPONSE

We believe that if the University implemented all of our recommendations it would result in a precise calculation of the daily cash balances and Federal remittances.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendations in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5). As such, within ten business days after the final report is issued, it will be posted on the world wide web at <http://www.hhs.gov/progorg/oig>.

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services

Attachments

HHS Action Official:

Stuart J. Feldsott
Chief, University and Non-Profit Payment Branch
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February 11, 2002

Mr. James P. Aasmundstad
Regional Inspector General for Audit Services
Department of Health & Human Services
601 East 12th Street
Room 284A
Kansas City, MO 64106

RE: CIN A-07-01-00136

Dear Mr. Aasmundstad:

I have reviewed your draft audit report dated January 10, 2002 and hereby accept the findings and recommendations contained in the report.

Sincerely,

Terry L. Johnson
Controller