Memorandum

Date APR 1 1 1997

From Deputy Inspector General
for Audit Services

Subject Report on Department of Health and Human Services, Program Support Center, Division of Payment Management's Policies and Procedures in Operation and Tests of Operating Effectiveness (A-17-96-00011)

To See Attached List of Users of the Payment Management System

The Department of Health and Human Services' (HHS) Division of Payment Management (DPM) serves as the fiscal intermediary between awarding agencies and grant or contract recipients. The DPM's Payment Management System (PMS) processes approximately $160 billion in payments to recipient organizations per year. The attached report presents the results of Ernst & Young's (E&Y), certified public accountants, review of DPM's policies and procedures placed in operation to fulfill this responsibility. The E&Y made the review under a HHS Office of Inspector General (OIG) contract. The OIG exercised technical oversight and quality control of the examination.

Specifically, the E&Y examination included procedures to obtain reasonable assurance about whether: (1) the description of the PMS application presents fairly, in all material respects, the aspects of HHS policies and procedures that may be relevant to a user organization's internal control structure; (2) the control structure policies and procedures included in the description were suitability designed to achieve the control objectives specified in the descriptions; and (3) such policies and procedures had been placed in operation as of November 30, 1996.

The E&Y concluded that the description of the PMS application presents fairly, in all material respects, the relevant aspects of HHS policies and procedures placed in operation as of November 30, 1996. Also, E&Y concluded that the control structure policies and procedures are suitably designed to provide reasonable assurance that the specified control objectives would be achieved. Lastly, E&Y concluded that the control policies and procedures tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified were achieved during the period April 1, 1996 to November 30, 1996.

In our oversight of the examination, we found nothing to indicate that E&Y's work was inappropriate or that the report cannot be relied upon.

This report is intended solely for use by HHS management, its customers, and the independent auditors of its customers. Please share a copy of this report with your auditors performing the financial statement audits of your agency.

For Fiscal Year 1997 audit planning purposes, we plan to retain E&Y to perform a similar review covering Fiscal Year 1997 activity. We estimate that the results of the review will be available December 1997.

Should you wish to discuss this report, please call me or have your staff contact Joseph E. Vengrin, Assistant Inspector General for Audit Operations and Financial Statement Activities, at (202) 619-1157. Please refer to the Common Identification Number A-17-96-00011 in all correspondence relating to this report.

Thomas D. Roslewicz

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Attachment

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Department of Health and Human Services

Program Support Center

Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness for the Payment Management System (PMS)

ERNST & YOUNG LLP

DEPARTMENT OF HEALTH AND HUMAN SERVICES

REPORT ON POLICIES AND PROCEDURES PLACED IN OPERATION AND TESTS OF OPERATING EFFECTIVENESS FOR THE PAYMENT MANAGEMENT SYSTEM (PMS)

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Section I -- INDEPENDENT SERVICE AUDITOR'S REPORT

Department of Health and Human Services
Rockville, Maryland

We have examined the accompanying description of the Payment Management System (PMS) application of the Department of Health and Human Services (HHS) Division of Payment Management (DPM). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of HHS's policies and procedures that may be relevant to a user organization's internal control structure, (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily and user organizations applied the internal control structure policies and procedures contemplated in the design of HHS's policies and procedures, and (3) such policies and procedures had been placed in operation as of November 30, 1996. The control objectives were specified by the management of HHS. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of HHS's policies and procedures that had been placed in operation as of November 30, 1996. Also, in our opinion, the control structure policies and procedures as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described control structure policies and procedures were complied with satisfactorily and user organizations applied the internal control structure policies and procedures contemplated in the design of HHS's policies and procedures.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to the specific policies and procedures, listed in our description of the tests of operating effectiveness, to obtain evidence about their effectiveness in meeting the control objectives described in our description of those tests during the period from April 1, 1996 to November 30, 1996. The specific policies and procedures and the nature, timing, extent and results of the tests are listed in our description of the tests of operating effectiveness. This information has been provided to user organizations of HHS and to their auditors to be taken into consideration, along with information about the internal control structure at user organizations, when making assessments of control risk for user organizations. In our opinion, the control structure policies and procedures that were tested, as described in Section III of this report, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from April 1, 1996 to November 30, 1996.

The relative effectiveness and significance of specific policies and procedures at HHS and their effect on assessments of control risk at user organizations are dependent upon their interaction with the policies, procedures, and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of the policies and procedures placed in operation at individual user organizations.

The description of the policies and procedures at HHS is as of November 30, 1996, and the information about the tests of the operating effectiveness of the specified control structure policies and procedures covers the period from April 1, 1996 to November 30, 1996. Any projection of such information to the future is subject to the risk that, because of changes, the description may no longer portray the system in existence. The potential effectiveness of the specified policies and procedures at the service organization is subject to inherent limitations, and accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by the management of HHS, its users, and the independent auditors of its users.

Ernst + Young LLP

December 15, 1996

Section II – DEPARTMENT OF HEALTH AND HUMAN SERVICES DESCRIPTION OF POLICIES AND PROCEDURES

OVERVIEW OF OPERATIONS

The Department of Health and Human Services (HHS), Division of Payment Management (DPM) is located in Rockville, Maryland and administers and operates the Payment Management System (PMS).

PMS was developed for the purpose of creating a central point system which is capable of paying most Federal assistance grants, block grants, and contracts. The main purpose of this system is to serve as the fiscal intermediary between awarding agencies and the recipients of grants and contracts, with particular emphasis on: (1) expediting the flow of cash between the Federal government and recipients; (2) transmitting recipient disbursement data back to the awarding agencies; and (3) managing cash advances to recipients. PMS is used to process payments for 42 federal agencies and processes approximately $160 billion per year. The PMS application is run on an IBM mainframe using IMS databases and DB/DC at the National Institutes of Health's (NIH) Division of Computer Research and Technology (DCRT).

Role of DCRT

DPM has a time sharing agreement with DCRT whereby DCRT provides and maintains the computer system on which PMS is processed. DCRT provides similar services for other customers. Considering that DCRT owns and operates the computer system on which PMS is run, DCRT has ownership and responsibility for certain general controls at their computer facility. While these control areas are part of the overall PMS environment, they are not under the control of DPM. The general control areas that are at the discretion of DCRT are:

- maintenance of system software;
- system parameter settings available within IBM's Resource Access Facility (RACF) which is used to provide logical access control;
- access violation monitoring;
- physical access to the DCRT computer room; and
- back-up and contingency planning

There is a separate Service Auditor's Report for DCRT that should be obtained and considered by the service auditors for the user organizations of DPM.

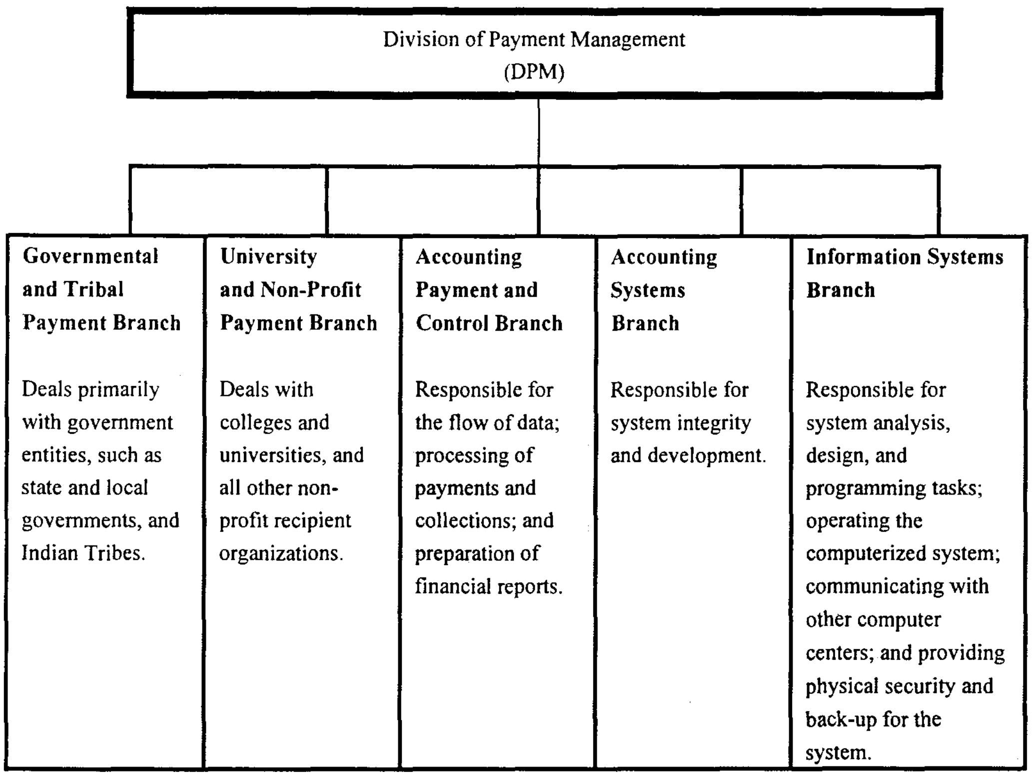
OVERVIEW OF THE CONTROL ENVIRONMENT

An organization's control environment reflects the overall attitude, awareness, and actions of management, and others concerning the importance of controls and the emphasis given to controls in the organization's policies, procedures, methods and organizational structure. The following is a description of the key policies and procedures that are generally considered to be part of the control environment.

Organizational Structure

The organizational structure of the DPM, which provides the overall framework for planning, directing and controlling operations, uses an approach whereby personnel and business functions are segregated into departments according to job responsibilities. This approach allows the organization to clearly define responsibilities, lines of authority for reporting and communication purposes, and allows employees to focus on the specific business issues impacting the users of PMS.

The DPM, which operates PMS, is divided into five branches to provide for segregation of duties in the following manner:



The organizational structure of DPM provides segregated job functions according to departmental responsibilities. This approach allows the organization to clearly define responsibilities, lines of reporting and communication so that no individual has incompatible job duties. The DPM is divided into five separate branches. In addition, data center operations are performed by a separate organization, DCRT, which is a division of NIH. Listed below is a description of each DPM operational area and specific segregation controls provided as a result of assigned roles and responsibilities.

Governmental and Tribal Payment Branch

This branch deals primarily with government entities, such as state and local governments and Indian Tribes. It provides a liaison between PMS and recipients for payments and reports; monitors federal cash balances held by recipients; and on a quarterly basis, coordinates and analyzes cash flow and disbursement data received from recipients. In addition, the branch serves as a liaison between the recipient and the awarding agencies for the resolution of grant authorization problems.

University and Non-Profit Payment Branch

This branch functions in the same manner as the Governmental and Tribal Payment Branch except that it deals with colleges and universities and all other non-profit recipient organizations.

Accounting Payment and Control Branch (APC)

The APC branch is responsible for the flow of payment data by maintaining the integrity of PMS through controls over the input/output of data. On a daily basis, PMS processes payments and charges agencies for payments made to their recipients. The branch also acts as a liaison between PMS and the grant awarding agencies for electronic data. They prepare financial reports for the Department of Treasury as well as other budgetary reports.

Accounting Systems Branch (ASB)

This branch is responsible for system integrity and development. The Accounting Systems Branch is responsible for requesting changes and enhancements to PMS and is also responsible for developing operating procedures and system documentation. On a daily basis, the branch oversees the resolution of system problems and monitors production activity for accuracy.

Information Systems Branch (ISB)

This branch is responsible for system analysis, design, and programming tasks; operating the computerized system; communicating with other computer centers; and providing physical security and back-up for the system. They provide software and hardware support to the automated processes of PMS which includes microcomputer and local area network support. The IS Branch designs software to support modifications and enhancements of PMS activities. The branch also provides operational support to insure the successful execution of automated PMS procedures. It is responsible for information security and coordination of system issues with HHS users, agencies, vendors and recipients.

Within the Information Systems Branch, the four staff members can perform program changes. Two senior staff members have access that enable them to perform production implementation and Resource Access Control Facility (RACF) administration. In addition, one of two individuals mentioned above has access that can perform program development, production implementation, RACF administration, and database administration.

DCRT

DCRT is responsible for all PMS computer operations activities performed in the NIH data center. It is also responsible for security violation monitoring, and physical security over the hardware and computer facility. DCRT also coordinates disaster recovery planning efforts with DPM.

Segregation Standards

As part of the overall organization, separate individuals are responsible for performing the following functions:

- DCRT Resource Management
- PMS Analysis, Design and Programming
- System Software Maintenance
- DCRT Computer Operations
- RACF and PMS Information Security Administration
- IMS Administration
- Network Administration

PMS user functions are separated such that DCRT is prohibited from performing the following:

- Initiating and approving transactions
- Accessing manually prepared accounting records
- Accessing sensitive source documents

In addition, operational functions are separated such that:

- Awarding agencies/cross-servicing agencies are responsible for registering a PMS entity (recipient) and authorizing the grant award but cannot process payment requests.

- Recipients are responsible for authorizing and requesting payment but cannot register themselves as an authorized entity or authorize a grant award.

- DPM is responsible for processing payment requests and reconciling financial activity for the Department of Treasury.

- The awarding agency, recipient and the Department of Treasury also balance and reconcile their respective transactions with the appropriate entities.

Detailed policy and procedures manuals are in place for most sensitive functions to guide and instruct personnel on routine activities. Employees are required to sign an employee confidentiality agreement and a code of conduct agreement at their date of hire.

Policies and Procedures

HHS and the DPM have developed formal policies and procedures covering various financial and operational matters and all critical aspects of employment services applicable to management personnel, including: hiring, training/development, performance appraisals and terminations. In addition, all new employees are issued an employee information kit that documents various procedural and administrative matters.

The Human Resources department is responsible for the initial recruiting and evaluation of job applicants in accordance with the federal government's affirmative action program. Once the selection process has been completed, qualified applicants are referred to the applicable operating department manager for the final hiring decision.

Performance appraisals are required for all employees of the organization by their immediate supervisor every 6 to 12 months; more frequent progress appraisals will be performed for new employees. The DPM uses formal classroom instruction and on-the-job employee training programs for all departments and functions.

Insurance Coverage

The DPM carries insurance policies that address different risk exposures for its business units. Policies in force include comprehensive crime (i.e., fidelity bond coverage), all risk property, casualty, and umbrella liability.

Backup and Contingency Planning

<u>Backups</u>

The PMS batch procedures back up all PMS libraries to tape once a week. Off-site backups are created weekly and maintained at the NIH campus. In addition, every two weeks, DCRT sends backup tapes of all DASD packs in the DCRT data center (which includes the PMS programs, databases, and files) to an off-site vendor.

<u>Contingency Planning</u>

DPM has a general Disaster Contingency Plan which addresses three scenarios:

- PMS physical site is unavailable;
- DCRT is unavailable; and
- Both PMS site and DCRT are unavailable

Each of these three conditions have procedures to be followed by employees of DPM.

DCRT currently schedules testing exercises twice a year. It is also DCRT's policy to meet all of the objectives set for each test. Furthermore, it is DPM policy to participate in as many exercises as possible, to completely restore PMS on-line, to run a subset of its production batch jobs against the production databases, and to establish connectivity from the NIH campus to the hot-site.

OVERVIEW OF THE FLOW OF TRANSACTIONS

Identification and Registration of the Recipient in PMS

It is necessary to define authorized recipients to PMS before payments can be made. This function is processed through the Central Registry Subsystem (CRS).

The CRS uses a standard identification number of twelve characters to identify recipients. This number is called the Entity Identification Number (EIN). The EIN is composed of the nine digit employer identification number used for tax reports, a one digit prefix, and a two digit suffix. All recipients of Federal assistance funds must have a unique EIN recorded in the CRS.

The CRS maintains an automated file with identification data on all recipients paid through PMS. These records contain data elements that identify the organization, its mailing and/or location address, and geo-political codes (e.g., congressional district, county and city codes) for geographic fund distribution. The data elements also classify the organization into an entity coding structure.

Normally, initial payee registrations for PMS paid entities are initiated by the awarding agency. Changes to payee-related entities are held for review by the HHS, Office of the Secretary, and Division of Payment Management Central Registry Branch that is operationally responsible for the administration of PMS registration related data.

Methods of Cash Advances

Recipients receive funds primarily via one of two financing (payment) mechanisms: (1) ACH and (2) FEDWIRES. The funds are advanced for immediate disbursement needs, or to reimburse expenses previously incurred. The determination of advance or reimbursement basis is dependent on the recipient's grant agreement or cash management practices.

ACH and FEDWIRES are electronic payments methods and are expected to be used to the "maximum extent practical" in making grant payments. Funds are directly deposited into the recipient's account the next business day for ACH payments and the same day for FEDWIRE payments. The Direct Deposit Signup Form (SF 1199a) information is necessary for DPM to have federal funds electronically deposited into the recipient's bank account. FEDWIRE payments are generally reserved for Cash Management Improvement Act (CMIA) recipients, but are also used for emergency payments.

Methods of Cash Request

Recipients may request funds via one of four cash request methods: (1) SMARTLINK II, (2) CASHLINE, (3) Monthly Cash Request (PMS-270), and (4) telephone request. DPM encourages recipients to use SMARTLINK II or CASHLINE request methods when feasible. These methods allow for frequent requests that are more closely related to the recipient's outlays.

SMARTLINK II

Recipients with access to a PC and modem, are eligible for the SMARTLINK II method of drawing down funds. Recipients assigned to SMARTLINK II will use a PC to dial into a computer system at the NIH. The application permits the data entry of account and draw down information (i.e., account number and amount requested), and then generates a message indicating the outcome of the transaction. In a short period of time, the paper-free transaction is completed, and funds are direct deposited into the recipient's account on the next business day.

CASHLINE

Recipients who do have access to a touch-tone phone, but not a PC may be eligible for CASHLINE, a voice-response application. The recipient simply dials the CASHLINE number, which is answered by a voice response computer system. The voice instructs the recipient, step by step, when to enter information (i.e., account number and amount requested) with the keypad on their phone. The voice indicates the outcome of the transactions and the requested funds will be direct deposited into the recipient's bank account. Currently, this payment method is only available to recipients who do not have sub-accounts.

Monthly Cash Request (PMS-270)

Recipients that may not be eligible for CASHLINE or SMARTLINK II are funded through the PMS 270 Monthly Cash Request. Advance funding or reimbursement requests are submitted on a PMS270 to the Grant Management office prior to processing by PMS. In many instances, the Grant Management office requests that recipients be placed on the PMS 270 cash request method to provide for closer monitoring of their cash management practices. These forms are preprinted and sent with the recipients quarterly PMS 272 Report. Recipients may be required to use this request method when:

- the recipient's annual aggregate advance financing is less than $120,000;
- the business relationship between the awarding organization and the recipient is not continuing for at least one year;
- the cash management practices (i.e., withdrawal of cash concurrently with actual disbursements) are not being followed by the recipient organization;

- the recipient's financial management system does not meet the standards for advance financing, and must be paid on a reimbursement payment method; and

- the recipient does not have access to a touch-tone telephone line or modem.

Telephone Requests

On an emergency basis, DPM will accept telephone requests for funds. For ACH payments, an I27 or "dial-ups" request is prepared by an accountant who enters the information into PMS for the recipient.

Cash Disbursement Reporting

PMS recipient reporting requirements are consistent with the OMB policies and the standards for government-wide reporting. DPM uses an automated PMS 272 as approved by OMB. These computer-generated reports are furnished to all recipients with active PMS accounts. A PMS 272 and its appropriate schedules (PMS 272-A, B, C, E, F, and G) are produced for each recipient (payee) account, if applicable. Payees that have more than one account in PMS receive more than one PMS 272. The following table provides a brief description for each PMS 272 report.

COMPUTER-GENERATED REPORTS

FORM#	FORM/REPORT NAME	DESCRIPTION
N/A	**Transmittal letter**	A cover letter containing instructions regarding the attached reports.
PMS 272	**Federal Cash Transactions Report, Status of Federal Cash**	An overview of the status of the account that contains data provided by PMS to the recipient.
PMS 272-A	**Federal Cash Transactions Report**	Shows the award authorization and prior cumulative disbursements reported against individual awards. The recipient reports current net disbursements cumulative through current reporting period and indicates any documents that are missing from this report (PMS 272-A). In addition, PMS will "echo back" resolution of previously reported award problems.
PMS 272-B	**Statement of Cash Accountability**	Shows the detail of total cash accountability reflected in PMS and a reconciliation report whereby the recipient can indicate advance payment problems to PMS.
PMS 272-C	**Error Correction Document**	Provides an optional mechanism for the recipient to report problems with PMS data systematically and know that follow-up action will be taken.
PMS 272-E	**Major Program Statement**	Shows advances and cash accountability by major program. This includes programs such as Medical Assistance Payments, Medicaid Administration and Training, AFDC Benefits Payments, Block Grants, etc.
PMS 272-F	**Authorizations for Future Periods**	Lists authorizations that have been posted to the PMS database, but for which the starting date has not yet arrived.
PMS 272-G	**Inactive Documents Report**	Lists all awards posted in the PMS database that have become inactive during the current period or during a prior period.

Other Recipient Reporting to PMS

Although the basic underlying concept of the PMS is cash pooling (i.e., cash needs are not identified by individual awards at the time of the draw), PMS has promulgated requirements whereby payments made for the larger public assistance programs (e.g., Medical Assistance Payments, Medicaid Administration and Training, and Aid to Families with Dependent Children) are identified by program at the time of draw or request. However, payments made for all block grants are identified with the individual grants at the time of drawdown or request.

Remittances to PMS

Recipients submit funds to DPM for posting to grant awards as a result of the following:

- Unexpended Funds;
- Duplicate Payments;
- Audit Disallowances; and
- Interest Payments OMB Circular A-110

Notes Receivable Statement

On occasion, it may be necessary for DPM to enter into a repayment agreement with a recipient. This may result from an over-disbursed award document, Final Report of Expenditure (FROE) adjustment, or audit finding involving a certain sum owed to the Government for which the recipient is unable either to pay the full amount owed or to make an offset adjustment to finance other open awards. The key components of these situations are:

- An extended payment plan (Notes Receivable Statement) will be negotiated between the awarding agency, the recipient, and DPM and will be confirmed in writing, with a copy provided to the awarding component.

- Installment payments will be sufficient in size and frequency to liquidate the amount owed generally within a three-year period, and interest will be charged on the uncollected amount.

- In addition, interest charges on late payments will be computed at the prevailing rate prescribed by the Department of Treasury Fiscal Requirements Manual for each thirty day period or portion thereof that the payment is late.

Reconciliation Requirements

In its role as a fiscal intermediary, DPM also monitors its synchronization with the recipient's accounting records to ensure that any differences that may arise will be resolved promptly. The primary vehicle for accomplishing this is the PMS 272 Federal Cash Transactions Report which the recipient completes and returns to DPM.

Reconciliation requires full cooperation and close liaison between the awarding agencies and DPM.

Overview of Responsibilities

- DPM does not issue awards to recipients. DPM serves as the disbursing (paying) agent for agencies that award/issue grants.

- To ensure a smooth working relationship between the awarding agencies and DPM, a PMS contact point has been established within each awarding agency's accounting office. Individuals designated as contacts have an in-depth knowledge of the system interfaces and are able to obtain needed information from accounting or program records. The PMS database has an on-line inquiry capability that allows contact personnel access to the most current fiscal data available on recipients. Contact individuals are responsible for responding to DPM questions and resolving differences quickly.

- DPM cannot initiate correction of authorization reporting errors; it can only notify and follow-up with the awarding agency to ensure that data is submitted through PMS to correct reporting errors. The responsibility for resolving award authorization and disbursement discrepancies rests with, and is between, the recipient and the awarding organization.

On an ongoing basis, DPM reconciles all payments with the Department of Treasury. The recipient must work closely with DPM personnel to reconcile any differences. These reports contain data essential to the recipient's reconciliation effort with PMS.

The award records of PMS must be maintained in agreement with the records of the awarding agency's fiscal office. The process is called synchronization and is required for all awards funded through PMS. Recipients receive information on individual awards through the PMS 272. Significant importance is attached to the award amounts which, added together, represent a ceiling against which a recipient may obtain cash through PMS. If the authorization is too low or not present, the recipient may not be permitted to obtain the funds necessary for the task required by the terms and conditions of the awards. Conversely, if the authorization is too high, the recipient may try to reduce excess funds by reporting higher disbursements and subsequently be required to refund cash immediately.

Synchronization of disbursements is as important as synchronization of authorizations. Cash disbursements reported by the recipient to PMS are used to control cash held by the recipient and to monitor future cash advances. These cash disbursements are also transmitted to the fiscal offices of the awarding agencies so that they can liquidate their advances to recipients paid through PMS. DPM provides a synchronization report (R817) and magnetic tape containing data as of the end of the month by the fifteenth of the following month to each awarding agency. If a recipient has reported data incorrectly, the recipient is obligated to make the corrections on the next submission of the PMS 272 to DPM.

DPM serves as a communication link between recipients and awarding agencies. The awarding agency organization has control over obligation of award amounts and must make the necessary corrections when differences occur. Likewise, the awarding agencies are continually in contact with recipients and, therefore, must resolve discrepancies in which reported cash disbursements on individual awards exceed the award authority or in which final cash disbursements reported to PMS differ from the recipient's final expenditures reported to the awarding organization. The awarding agency is responsible for resolving any differences with a recipient when that agency closes an award. The recipient must cooperate and work with the awarding agency until all problems with Final Reports of Expenditures (FROE) submitted to the awarding agency are resolved.

Assistance in Reconciliation of Financial Reports

It is essential that the recipient's financial data agree with that contained in PMS. Such mutual agreement is necessary for effective management of Federal cash and maintenance of acceptable recipient accountability. Recipients are encouraged to seek assistance from the appropriate staff in DPM (as indicated on their PMS 272) if their records cannot be reconciled to the PMS 272.

The DPM liaison staff may be able to furnish the recipient with relevant additional data regarding the details of awards and advances posted to the PMS files. This information can be made available to assist recipients in reconciling with data maintained in PMS.

Block Grant Financing

The block grant programs currently covered are:

- Community Mental Health Services
- Preventive Health and Health Services
- Substance Abuse and Preventative Treatment
- Child Care
- Maternal and Child Health Services
- Social Services
- Low Income Energy Assistance
- Alcohol, Drug Treatment Rehabilitation
- Community Youth Activity Program
- Mental Health Services for the Homeless
- Community Services

These procedures are applicable only to block grants issued to states, territories, and Indian tribes. They are not applicable to formula or discretionary grants. The Secretary of Health and Human Services shall make payments as provided by the Cash Management Improvement Act of 1990.

Establishing Block Grant Accounts

The DPM will establish and maintain separate accounts for the block grant funds to be drawn by each recipient. For the purpose of managing these accounts, recipients are assumed to have a cash needs pattern similar to that which prevailed historically under the various programs that have been incorporated into the block grant. Therefore, cash management edits will take into account the following information:

- Historical draw down patterns for the previous programs that have been incorporated into the block grant

- Available (undrawn) award authority

- Information provided by recipient organization officials

Undrawn authority remaining at the end of each year will continue to be available to the recipient through the account in subsequent years.

The following Federal requirements applicable to other PMS awards are also applicable to block grants:

- Funds will be drawn only after the recipient has received the program authorization, and then only to meet current disbursements;

- The recipient organization must be aware of its cash needs continually to assure that minimal Federal cash balances are kept;

- The amount of Federal cash on hand will be as close to daily needs as is administratively feasible. Withdrawals should correlate with the recipient's disbursement pattern (i.e., with vouched expenditures or warrants being processed for payment); and

- Recipients that finance secondary recipients (monies flowing from the State to local units of government) must establish controls to assure that State advances correlate with actual disbursement needs of the secondary recipients.

PMS Block Grant Status Report

Reporting requirements (PMS 272) do not apply to block grant programs. As a convenience, PMS will provide block grant recipients with a Major Program Statement PMS 272-E quarterly. This computer-generated report will be provided to recipients solely to aid them in comparing records. It is analogous to a bank statement.

Part I of the report shows the payments made during the period covered by the report and provides a breakdown by block grant program. Part II of the report provides the cash accountability by block grant as of the end of the period covered by the report.

Withholding of Payments

DPM may withhold payments in exercising its responsibilities under Federal Cash Management Regulations. Payments of funds may also be withheld when the responsible awarding agency notifies PMS that the recipient has not complied with program regulations, and when it appears to PMS staff that a recipient is drawing funds in excess of immediate program disbursement needs.

Expiration of Payments and Payment Close-out

Unlike other grant programs, recipients of block grants are not required to file financial disbursement reports (PMS 272 Reports, program expenditure reports), or otherwise notify HHS that a grant has been completed.

- Block grant statutes govern the period in which States may obligate and expend funds. These statutes do not establish a time limit for drawing funds for legitimate expenditures.

- In addition to the above, block grants may also be closed informally. The informal closing procedures do not affect a recipient's right to claim reimbursement for grant expenditures. There is no limit on the time when a recipient may claim reimbursement for block grant expenditures made during the statutory period.

DPM, as a paying office, initiates the block grant close-out process whenever the recipient draw downs equal the award amount by:

- Notifying the recipient that the total has been drawn, requesting verification, and informing that the grant will be removed from its records on the next reporting cycle; and

- Providing the awarding agency finance office with the necessary information to prepare a closing transaction to PMS.

DPM will also initiate the grant close-out process when its records show that undrawn authorizations exist for the grant in the third quarter (i.e., April 1) of the second fiscal year following the close of the statutory obligation or expenditure period. This is done by:

- Notifying the recipient of DPM's intention to close-out the grant by the end of the fiscal year;

- Asking the recipient to advise the DPM staff of any plans for further draw downs;

- Collecting any unused funds; and

- Providing the awarding agency with the necessary information to prepare a closing transaction to PMS.

CONTROL OBJECTIVES AND RELATED POLICIES AND PROCEDURES

HHS's control objectives and related policies and procedures are included in Section III of this report, "Information Provided by Ernst and Young LLP," to eliminate the redundancy that would result from listing them here in Section II and repeating them in Section III. Although the control objectives and related policies and procedures are included in Section III, they are, nevertheless, an integral part of the HHS's Description of Policies and Procedures.

USER CONTROL CONSIDERATIONS

HHS's PMS application was designed with the assumption that certain internal control structure policies and procedures would be implemented by user organizations. In certain situations, the application of specified internal control structure policies and procedures at user organizations is necessary to achieve certain control objectives included in this report. In such instances, the required user-organization internal control structure policies and procedures are indicated under the related control objective in Section III of this report.

This section describes other internal control structure policies and procedures that should be in operation at user organizations to complement the control structure policies and procedures at HHS. User auditors should consider whether the following policies and procedures have been placed in operation at user organizations:

- Procedures should be established to ensure that all input to PMS performed by individuals at the user organization (e.g., grant information) is performed only by authorized individuals and is entered accurately and completely.

- Procedures should be established to ensure that user records are in agreement with the information maintained within PMS.

- Procedures should be established to perform the monthly synchronization process to ensure completeness and accuracy.

- Procedures should be established to ensure the grant close-outs are performed accurately and completely.

- Responsibility for resolving award authorization and disbursement discrepancies rests with, and is between, the recipient and the awarding organization. DPM is only responsible for correcting PMS payment problems.

- Responsibility for reviewing the Holding File for award authorizations and correcting and resolving transactions contained therein belongs to the awarding agency.

- Responsibility for maintaining the integrity of common account number (CAN) tables rests with the users.

The list of user control considerations presented above is not a comprehensive list of all internal control structure policies and procedures that should be employed by user organizations. Other internal control structure policies and procedures may be required at user organizations.

Section III -- INFORMATION PROVIDED BY ERNST & YOUNG

TESTS OF CONTROL ENVIRONMENT ELEMENTS

In addition to the tests of operating effectiveness of specified control structure policies and procedures described below, our procedures included consideration and tests of the following relevant elements of HHS's control environment:

- Organizational structure
- Personnel policies and practices
- Management's control methods

Such tests included inquiry of appropriate management, supervisory, and staff personnel; inspection of HHS's documents and records; and observation of HHS's activities and operations. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified control structure policies and procedures related to the control objectives described below.

CONTROL OBJECTIVES, RELATED POLICIES AND PROCEDURES, AND TESTS OF OPERATING EFFECTIVENESS

HHS has specified its control objectives and has identified control policies and procedures designed to achieve those objectives. The objectives have been determined by the management of HHS. For each control objective, HHS control policies and procedures that are designed to achieve the stated control objectives are described.

Organization and Administration

Control Objective

Policies and procedures provide reasonable assurance the organizational and administrative structure limits vulnerabilities to fraud, waste and mismanagement.

Description of Policies and Procedures

The Division of Payment Management (DPM) maintains documented descriptions for each PMS job function performed.

PMS Application Maintenance Roles and Responsibilities

The ASB identifies the need for changes to the PMS system based on user requests, policy and regulation changes, and quality control reviews. An ASB accountant is responsible for reviewing change requests, preparing a request form, signing it, and forwarding the request to the Branch Chief for review and approval. The Branch Chief is responsible for authorizing the request and forwarding it to the ISB Chief for processing. The ISB Chief and Computer Specialist are responsible for moving copies of production modules into the development environment.

The programmer is responsible for performing unit testing to ensure the program module performs properly based on the test data used. In certain instances the ASB accountant will also be involved in unit testing. However, the ASB Accountant usually performs acceptance testing of the changed program integrated with the entire PMS system. The program is moved from the development library into the testing environment by the ISB Chief or Computer Specialist.

The ASB Accountant is responsible for notifying the programmer and requesting the program be migrated from testing to production. A production form is signed by the ASB accountant and programmer and is submitted to the ISB Chief to review for necessary approvals. The actual move to production is performed by the ISB Chief or Computer Specialist.

To ensure production program changes are properly authorized, Accounting Payments and Control (APC) periodically audits the PMS production source code. Each week the APC Lead Accountant reviews the creation dates on the production programs to determine if changes have occurred. If changes are detected, the code is reviewed to determine where changes were made and, if appropriate, to support documentation for the change.

The Security Administrator's Job Duties

PMS resources are protected on several levels. The first level of security is access to the DCRT mainframe where PMS resides. RACF is the security resource used to protect PMS program and database libraries. RACF is provided by DCRT.

The PMS registration process requires that the user request access by providing information such as their name, employer, phone number, and PMS requirements. User registration (access requests) are reviewed by both the ISB and APC Branches. The following information describes the roles and responsibilities used to control the user registration process.

RACF

RACF security is administered by the DCRT and Information Systems Branch (ISB) for resources related to PMS. The user is responsible for establishing an account directly through the DCRT computer center. The ISB Chief and Computer Specialist are responsible for authorizing user access to all PMS libraries (program and database).

PMS

The Lead Accountant in the APC Branch is responsible for entering users into the security tables for PMS which define the transactions users can access via their user profile. The ISB Chief is responsible for entering logical terminal (LTERM) information into the system which is also used to allow user access to PMS resources.

Due to the small size of the staff, the ISB Chief and Computer Specialist perform security administration and application development activities. As a result, they have complete access to PMS production programs, production data and security logs. To provide a compensating control, the APC Branch is responsible for performing an audit of production program changes, on a weekly basis, in order to verify proper authorization. This provides a management control that is used to reduce the risk of unauthorized changes to production programs which may otherwise be undetected as a result of the overlapping duties of the ISB Chief and Computer Specialists.

PMS User Input Segregation

The responsibilities for origination, approval, input/entry, processing, verifying and reconciling PMS data are segregated as described below.

Grant Award Authorizations

Grant award information is initiated by awarding agencies or HHS Operating Divisions (OPDIVs). They are responsible for the origination, approval, and processing of Grant awards into PMS. Most Grant awards are entered into PMS by transmitting a file and online entry. Both methods create a batch file that is processed by PMS during the nightly production job run. However, some Grant award authorizations are processed through In-Transit Authorizations (ITAs). DPM is responsible for entering ITAs into PMS based on the appropriate source document and must be approved by the Liaison Branch Supervisor and APC Branch Chief.

All input is edited for appropriate award authority and data validity. If errors occur, the authorization will be put in a holding file. Corrections can be made by the OPDIV, or the appropriate Liaison or Accounting Payments and Control branches accountant.

Payment Requests

Grant award recipients are responsible for requesting payment advances. There are three methods by which the recipients can enter payment requests into PMS: SMARTLINK II (computer link to PMS), CASHLINE (telephone Voice Response Unit), and a PMS 270 data input form. The Operating Accountant is responsible for entering payment request via the PMS 270 form based on a telephone call from the recipient. Recipients generate and approve payment requests within their own organization. Only authorized recipient personnel are allowed to enter payment information directly into PMS based on predefined system access standards. The

Operating Accountant is responsible for obtaining the proper approval prior to the APC Branch entering the payment request into PMS.

If payment requests fail the PMS editing process, and the Operating Accountant decides to reprocess the suspended transaction, he/she must obtain proper approval prior to forwarding the disposition to the APC Branch for releasing the payment. After a decision has been made, payment requests are then forwarded to the APC Branch for processing.

Recipient Disbursements

Recipients are responsible for reporting the expenditures of payment advances to DPM on a quarterly basis. There are three methods for entering recipient disbursement data into PMS: manual entry by the appropriate Liaison Branch Accountant, a magnetic tape created by an external data entry service, and an electronic file transmitted by the recipient.

Each quarter, a PMS-272 report is produced which contains the recipients grant award amount and the corresponding payment request. The recipient is responsible for verifying the amounts and documenting the total amount of disbursement activity per quarter. After the recipient signs and returns the report to DPM, the Operating Accountant is responsible for ensuring that the data is properly entered into PMS. Items that fail the edit process are resolved by the appropriate Liaison Branch Accountant.

Remittance Processing

Recipients are responsible for remitting cash to DPM as a result of: unexpended funds, duplicate payments, audit disallowances, and interest earned on Federal funds.

The source documents used to remit funds are: checks with supporting documentation, ACH, FEDWIRE, and OPAC. Checks are received in the DPM mail room and distributed to the Collection Desk. The Collection Desk logs the check, distributes a copy to the Operating Accountant, and locks the original in a safe maintained by the APC Branch Chief. After the Operating Accountant reviews and approves the remittance, a disposition of check form is prepared and forwarded to APC. The APC Branch is responsible for entering the transaction into PMS.

Postings

Payments are automatically posted to PMS through the interface of SMARTLINK and CASHLINE. Manual entry is performed by the APC Branch based on an authorized form provided by the Operating Accountant. Once a month, DPM is responsible for sending grant information, including payment advances, to the Department of Treasury via form SF-224. The detail information reported in the SF-224 report is generated by PMS as a result of payments made during the month.

Postings are also reported to the awarding agencies twice a month during a PMS synchronization process.

Tests of Operating Effectiveness

- We reviewed documented DPM policies used to control the payment management process.

- We obtained documented job descriptions and reviewed roles and responsibilities for PMS.

- We determined whether there is adequate segregation of duties between software modification request, approval, development and production implementation.

- We determined whether the job functions of the security administrators are properly segregated.

- We identified individuals responsible for data entry for each area and verified that there is adequate separation of duties for the following:

    - origination
    - approval
    - input/entry
    - processing
    - verification and reconciliation

Results of Tests

No exceptions were noted.

Application Development, Maintenance and Documentation

Control Objective

Policies and procedures provide reasonable assurance that application development and maintenance activities are authorized, and both new and changed applications are properly documented, tested, reviewed and approved prior to implementation.

Description of Policies and Procedures

DPM has formal documentation of its policies and procedures for the application development life cycle. The Department of Health and Human Services (DHHS) also provides policies and procedures that are documented in the DHHS Information Systems Life Cycle Management Guide. The following information describes the process performed by DPM.

Development/Maintenance Requests

The ASB identifies the need for a task based on written requests from users, policy and regulation changes, or quality control reviews. If a task order is appropriate, the Systems Accountant documents a written justification for the task on a program change request form. The ISB also identifies the need for tasks based upon changes to standards required by the NIH/DCRT Computer Center in addition to technical changes required by the vendor to upgrade software or hardware.

The ASB task order (change request form) describes the modification based on why it is appropriate to proceed and also states expected completion date. The second part of the task order describes the task. It includes what the change, modification, or enhancement is and how it will be addressed. If the task order is for an enhancement, all phases of the enhancement will be described. All technical or standard changes are discussed with the ASB for application impact and testing requirements prior to implementation.

The documentation includes all inputs, outputs, edits, and the impact on the databases. If reports or new data screens are required, they will be designed and included with the task order. The second area includes information on whether or not formal testing of the change is required.

All task orders are approved by the Systems Accountant requesting the change and by the ASB Chief. The ASB Chief then adds the task order to the ASB control log. The log identifies the task, the accountant responsible, the programmer assigned, and a brief description.

Once the task order is complete, the Chief of the ISB assigns the new task order an IS control number and a programmer. The assignment of the change control items is maintained in a Task Log by the ISB Chief. This log is maintained in a WYLBUR file that can be accessed by DCRT. In addition, the ISB Task Log is the tool which can be utilized by DPM to follow the status of outstanding change requests. Periodically, the ASB and ISB meet with the development contractors to review the progress of all tasks and determine when there is a need to change priorities. The new status is updated in the ISB Task Log.

All development activity is performed by ISB employees or the contract programmers who report directly to the ISB Chief.

The programmer uses a move form to request specific programs for modification. These programs are kept in a RACF controlled library that allows controlled update. The contract programmers do not have access to the program libraries. Upon receipt of the move request, a copy of the module is put in the programmer's development library by the ISB Chief or Computer Specialist and marked with the PMS control number, date, and name of the person requesting the program module. The production version of the program is also tagged to indicate that development activity is in process. This insures that if another individual requests the source code, appropriate steps will be taken to reconcile the two modified versions prior to updating production.

All changes made to the program module are annotated with a brief narrative in the comments section of the program. Each modified line has the PMS control number as a comment documented directly on the line.

The ISB maintains access control to the production source libraries and production databases. The ISB Chief and the Computer Specialist are the only individuals who have access to the production program libraries.

Testing

Unit testing of the changed module is normally performed by the programmer, occasionally the Systems Accountant is involved. System testing, where the module is permitted to operate in the test environment within the sub-system, is also performed by the programmer. When the programmer has completed the change, modification, or enhancement, he/she performs unit testing based upon test data provided by the assigned Systems Accountant. Unit testing includes using the test library and providing test data or assisting in establishing test conditions. Whenever possible, the ISB requires that test data be provided to the programmer for unit testing to be performed independent of the ASB. The test data also provides a means for the programmer to define processing limitations of the task.

Three testing databases are available for unit testing. Prior to performing unit testing, the data in the test database is either refreshed or regenerated by the ASB. When data is refreshed, it is recreated using the same criteria against the current production data as for the previous test database. When data is regenerated, it is created using new criteria against the current production data.

At this point the programs are moved into the acceptance libraries where the Systems Accountant will perform acceptance testing. The move of all the necessary data elements from the unit test area to the acceptance test area is performed by ISB Chief or Computer Specialist. Formal test plans are not always used, this depends on:

- the complexity of the task;
- the impact the task will have on the entire system;
- database updates;
- introduction of new data;
- significant calculations performed; and
- the introduction of new processes.

Standard testing forms are used if a formal test plan is deemed necessary by the ISB Chief. Each test listed will have a description of the prerequisite transactions required for each test, anticipated test results and the actual test results. Any problems found are documented and a written explanation is provided by the programmer. Formal testing documentation is stored for approximately five years. Other testing documentation is kept for less than one year or until the change has functioned properly several times. Purchased software is subject to the same procedures described above.

Production Implementation

Upon completion of acceptance testing, the Systems Accountant will notify the programmer that the task is completed. A "move" sheet is completed by the programmer listing all programs to be moved from the acceptance libraries into production. The move sheet is signed by the programmer and the Systems Accountant. The ASB Chief will only sign the move sheet if he was involved in the acceptance testing. The signed move sheet is forwarded to the ISB Chief for his approval and for the actual move from acceptance to production by the ISB Chief or Computer Specialist.

Prior to production implementation, the ISB Chief or Computer Specialist will verify whether all necessary approvals are on the move sheet, the person who signed out the source code is the one requesting the final move, and the narrative portion of the code has been updated.

Source and load modules are moved together from the unit testing environment to the acceptance testing environment to the production environment. The program(s) in the production library that are being replaced are backed-up prior to being replaced with the modified version(s).

If a change is particularly complex or affects many modules, both the source and load versions of the program are backed up. If there is a problem when moving the revised files into the production environment, the load version can be re-installed with minimal effort.

Any change to the PMS is reflected in the appropriate documentation. In addition to the documentation changes, a memorandum noting the procedural changes is sent to the affected user community. Once production libraries are updated appropriately, the move sheet is filed in the ISB.

Emergency Program Changes

Emergency program changes are not performed in the PMS processing environment. When a problem occurs, the ISB Chief uses the Job Control Language (JCL) to go around the problem area and performs the remaining processes without emergency intervention. When this situation occurs, PMS is restarted and processing is resumed around the offending module until a fix can be prepared through the normal program change control procedures. This insures that proper testing occurs to completely assess the full impact of the program change on the system as a whole prior to implementation.

Production Program and Library Validation

On a periodic basis, the APC performs an audit of the PMS production code to verify that it has not been changed without proper modification documentation. On a weekly basis, the APC Lead Accountant or his back-up compares the created date of the PMS production program library to the previously documented date. If the dates are different, then the Accountant performs a code comparison to determine what sections of the code have changed. These changes are then traced to the modification request documentation to verify proper authorization. If the change request agrees with the code changes that have been made, no further action is taken. If the changes in addition to the request have been made, then the discrepancies are elevated to the APC Chief to investigate with the ASB and ISB Chiefs until resolved.

Tests of Operating Effectiveness

- We determined whether procedures have been documented regarding performance of application modifications which include provisions for requesting, documenting, approving, designing, coding, testing, training and implementing.

- We reviewed and evaluated change control procedures based on the following:

  - maintenance, implementation and documentation standards
  - how programs are placed into production status

- We selected a sample of completed program modifications performed during the review period and traced to the source documentation and verified that the production move sheet was documented and approved by an appropriate level of IS and Accounting Systems management.

Results of Testing

No exceptions were noted.

Access to Data Files and Programs

Control Objective

Policies and procedures provide reasonable assurance that access to data files and programs is restricted to properly authorized individuals.

Description of Policies and Procedures

The primary logical security is provided using IBM's RACF, which is made available to DPM by DCRT In addition, logical security is implemented at the IMS, and the PMS application levels. The following describes security provided by each of these facilities.

RACF

IBM's RACF software is used to control access and what functions can be performed. The PMS application is under the basic RACF security which is administered by the ISB in conjunction with DCRT.

RACF security is applicable to PMS when its databases and files are accessed via TSO, WYLBUR, or batch jobs. PMS source programs, Program Specification Blocks (PSBs), Data Base Definitions (DBDs), copy libraries, load modules, format libraries, and procedure libraries are maintained in separate production and acceptance libraries. Access to these libraries is limited since they are RACF protected.

The NIH Computer Center requires the account/initials as a prefix on data set names. Each data set that is protected begins with an account/initials combination that has been registered as a RACF group.

IMS Security

On-line PMS access security is provided by IMS through the assignment of LTERMs. The assignment of an LTERM is dependent upon the access path to NIH/DCRT. For DPM Banyan users, the LTERM is based on the node that a terminal is using on the server. Dial-in access users are assigned a logical terminal based on their account and initials.

If an awarding agency user has access to the DIMES network, DCRT must perform an IMS Terminal GEN. The Terminal GEN relates the awarding agency's terminals or nodes to an LTERM. DCRT also performs an IMS Security GEN that relates an authorized series of IMS PMS transactions to the LTERM assignment as per the request of DPM.

If an awarding agency user desires to access PMS through the protocol converter (IMSGATE) via dial-up lines, an LTERM is assigned based on the sign-on account and initials. This association was established during an IMS Security GEN in which LTERMs were related to authorized IMS PMS transactions and specific user-ids; the IMS security is at a user level.

PMS Security

After registering users with NIH/DCRT, the agency must register, in writing, with DPM for PMS access. For DPM users, the requesting Branch Chief will request access from the ISB Chief or the Computer Specialist. For OPDIVs and cross-servicing agencies, an authorized manager contact will contact the ISB Chief directly. Access is approved by either the IS Branch Chief or the Computer Specialist. Access requests should include the following information:

- Agency codes that staff will need, since the PMS inquiry function will not show documents other than those with the authorized agency codes.

- For each user: the DCRT account and initials; employee name, area code, and telephone number; and indication of what functions the employee will perform (i.e., registration or authorization transaction correction). All PMS users are given access for inquiry. This data is currently maintained in the User Profile segment of the miscellaneous database.

Logging on to PMS

To log-on to PMS, IMSGATE users from the awarding agencies must first log-on to DCRT, using the appropriate RACF accounts, initials and passwords. The user then enters IMS for the PMS production environment. Communication with PMS is through a series of formatted screens that are selected from a menu screen. The user enters his or her account/initials on the menu and the PMS password in the "old password" field. To change the PMS password, the user may enter a "new password" as well.

While SMARTLINK II grant recipients also access PMS through IMSGATE, they do not need a DCRT RACF account and initials. However, they are required to submit an access code or password which automatically connects them to a SMARTLINK/PMS security screen. At this point, the recipient enters the correct PMS account and password. After three failed attempts, the line is automatically disconnected.

DPM users access IMS through the Banyan network only after entering the correct Banyan Vines user ID and password. Communication with PMS is through a series of formatted screens that are selected from a menu screen.

For all PMS screens, if the code, account/initials, and/or password are incorrect, or the user is not authorized to use the menu accessed, an error message is displayed. The user must correct the error to continue processing. All on-line processing is subject to the above validation.

PMS User Profile Maintenance

In addition to establishing an account, initials, and password at DCRT, DPM requires a new user to establish a PMS User Profile ID. This process adds another level of security by utilizing PMS software applications to further control access to PMS application programs and information. An account, initials, password, user codes, level codes and transaction category authorizations are assigned to an individual. The following sections further define the application of these functions.

User Codes

The functional application for the user codes will vary if you are an OPDIV Cross Servicing Non-DHHS user or an internal user within DPM. The schema for OPDIVs and Cross Servicing users are based on an Agency (e.g., Food & Drug Administration) or an agency/organization within a Department (Department of Labor/Mine Safety). The user codes will also restrict the Agency or organization from viewing grant awards that are not under their purview. The schema for user codes within the two Liaison Branches

(University & Non-Profit and Governmental & Tribal) are determined by geographic region for which the staff accountant is assigned and responsible for a specific group of PMS accounts. The Accounting Payment & Control Branch staff user codes are defined by payment or control/account maintenance functions.

Level Codes

The functional application for the level code will vary depending on whether the user is a member of DPM or outside DPM. Level codes, which may have values of "1 through 9", are intended to represent increased functionality for the users at each level. Thus, level "1", agency users, have the lowest level, to "9" the highest, ASB Chief. Level code "C" is defined as the Central Registry Office. The schema for level codes within DPM, codes "2 through 9" were intended for functionality restrictions for each of the DPM branches.

Transaction Category Authorizations

The functional application for transaction category authorizations will vary depending on the level code, (i.e., OPDIV or DPM user), and what type of functions the user will be authorized to perform. There are 16 transaction authorization categories (values "01" through "20"), each of which is intended to relate to a series of transactions. Each IMS on-line transaction is associated with a transaction authorization category, and each user has associated transaction authorization categories. It is the account and initials that determine user access. Thus, while a user can access a menu, he/she is permitted to perform only certain processes, or IMS transactions.

DCRT Computer Center

This section summarizes the following aspects of PMS security at the NIH/DCRT Computer Center: user registration, the RACF and IMS access security.

Registration for OPDIV (Operating Division) Users Accessing PMS via IMSGATE

PMS resides on the DCRT mainframe and, therefore, access to PMS, OPDIV users must first have access to DCRT resources. Appropriate OPDIV personnel will make a request to DCRT and a DCRT Account Authorization form available from the Technical Assistance and Support Center (TASC) will be completed. The form requires information about the user including their name, address, email address, phone number, and accounts the user wants to access. The form must be signed by an Account Sponsor for the OPDIV. The Account Sponsor can add user, remove users, and change user information to their own account. Account Sponsors and users are responsible for the proper use of the accounts under their control.

DCRT will issue the new user a four character account number after the authorization form is approved. The user will choose a three character set of initials, and a three character password during the first access session with the DCRT system. The account is used to access DCRT resources and for accounting purposes since OPDIVs are charged for their use of system resources. The account represents a user group while the initials are for individual users (users may have more than one set of initials if they have access through more than one account).

DPM Access Through the Banyan Local Area Network (LAN)

DPM users gain access to the PMS application through direct connectivity to DCRT via the Banyan LAN located in the DPM office. The DPM Banyan LAN file server acts as a 3270 cluster controller to DCRT, allowing each workstation to appear as a 3270 terminal. DCRT assigns a group of LTERMs to a cluster controller (file server) and the LTERMs are assigned through the Banyan network based on the Banyan username.

Users requesting or changing their Banyan access must complete a DPM Local Area Network Registration/Change Request Form. The form requires personal information including user name, address, phone, branch, and PMS functions to be performed and must be approved by the DPM Security Officer and DBA before the user is granted access. Access to the Banyan LAN is controlled by the issuance of a user name consisting of the user's first name plus the initial of the last name, and a password of between 5 and 32 characters.

Protection of IMS Resources

Protection of some IMS/VS resources is provided through RACF. Databases are also secured by careful definition of the Program Specification Block (PSB) of the application programs that will access data. Appropriate PSB definition prohibits a PMS program from accessing any data except that which it needs. Updating of the databases is also controlled via the PSB.

Within IMS, all data communications (DC) resources must be defined. These include physical terminals and logical terminals, both of which must be defined to IMS-DC.

Telecommunications Hardware Security

Telecommunications linking the Department of Treasury are equipped with Department of Treasury supplied data encryption hardware devices. These devices have been approved by the FRB for use on the Federal electronic funds transfer network.

SMARTLINK II is used by certain recipients to request payments under PMS. Under SMARTLINK II, the user enters access codes that presents a security screen. The user then enters his or her identification number and is given the option to change the identification number. The user has three opportunities to enter the correct security information or is disconnected. The PMS Payment Request screen is displayed if the security information was entered correctly.

Security and Violation Monitoring

The DCRT Computer Center monitors the RACF system security information and takes immediate action when it appears that an attempt to breach security has occurred. When logging-onto the system, if the user does not enter the correct RACF password for his/her user ID, the screen displays a security violation message, and after three unsuccessful attempts the system logs the user off and forces the user to start the log-in procedure again. Use of the account/initials related to any security violation is suspended by the DCRT's Computing Facilities Branch (CFB) Security Investigator after a daily examination of the audit logs is performed to determine if a user has exceeded the threshold of attempts.

The Security Investigators contact the Account Sponsor or alternate by telephone and send a confirming memorandum detailing the specific circumstances of the security violation. In such a situation, it is the responsibility of the Account Sponsor to investigate the violation to determine the cause of the problem. The Account Sponsor then returns a written explanation of the violation to the CFB including what steps have been taken to avoid such violations in the future. The CFB staff works with the Account Sponsor as needed.

When the written explanation is received and accepted, the security investigators reinstate the suspended account/initials. A folder of the details of each case, along with all pertinent documentation, is stored in a locking file cabinet.

Physical Security

DPM uses a magnetically encoded card-key system at its Rockwall facility in Rockville, Maryland to control access to authorized personnel. The card-key system is used to control access to all doors of the facility as well as sensitive areas within the facility. DPM also uses a security service to control access to the facility after hours. The installation of sprinklers in the ceiling and fire extinguishers throughout the floor provide adequate environmental controls. The computer (Fox Room), LAN and processor rooms all have additional security features which restrict access. These include reinforced glass, motion detectors, enforced structural barriers within the walls (Fox Room only) and the card-key system.

Tests of Operating Effectiveness

- We evaluated security administration procedures used by the PMS database administrator to restrict access to the database and determined whether procedures have been adequately documented.

- We obtained an access listing for PMS and RACF that includes users, programmers and technical support and assessed whether access to sensitive transactions, production data tables and programs is appropriate based on job function.

- We determined whether ongoing access to the PMS database includes proper preventive and detective control procedures.

- We selected a sample of users from the PMS security profile and traced specific access rights to account authorization documentation and tested for:

  - DCRT account
  - Initials
  - Account Sponsor written approval

- We reviewed the RACF Class Descriptor Table Report and verify that TSO and WYLBUR are included as general resources and the class is active for each.

- We obtained RACF profiles for the PMS on-line production datasets to ensure that access is properly restricted.

- We obtained a listing of all PMS production data sets and ensure that all begin with the naming convention that is protected under RACF.

- We obtained the application security matrix for each level of PMS security and then select security (level) codes associated with sensitive transactions. We obtained a PMS system-generated access report for each sensitive transaction identified, and determine whether access is appropriate based on job function and does not compromise proper segregation of duties.

- We selected a sample of PMS users and reviewed the RACF registration forms for the following:

  - approval of user management
  - agency code
  - functions to perform
  - a list of all LTERMs.

- We traced the RACF information to the PMS security profile and ensured they are in agreement.

- Utilizing the sample selected above we verified that level codes, user codes and transaction authorization categories are consistent with each user's job responsibilities.

- We attempted to log-on to PMS with an invalid user ID and password and determined whether the error must be corrected prior to further access.

- We attempted to log-on to PMS creating three unauthorized attempts and determined whether a security violation message appeared and access is suspended.

- We examined the RACF audit log to verify that the unsuccessful log-ons attempts appeared.
- Utilizing the user ID suspension generated above, we traced the access reinstatement to a written explanation.
- We selected a sample of security violations and determined whether a security violation memorandum was received by the appropriate account sponsor.
- We verified through physical inspection that the card key system was consistently used at DPM and access was limited to appropriate personnel.
- We verified through physical inspection that adequate environmental controls existed at DPM and periodic checks were performed in a timely manner.

Results of Tests

One of the twenty users selected in our sample had access rights in excess of those approved on the registration form.

For two of twenty users selected the RACF registration form could not be located.

No other exceptions were noted.

Job Scheduling

Control Objective

Policies and procedures provide reasonable assurance that production jobs are appropriately scheduled and any deviations are identified and resolved.

Description of Policies and Procedures

DCRT Job Scheduling Procedures

The PMS application support staff provide the DCRT Computer Facilities Branch (CFB) IMS support group with a one year production schedule. Deviations from the schedule are arranged by telephone calls and follow-up electronic mail from the ISB Chief or the Computer Specialist.

Each night at 8:00 PM the PMS application is taken off-line and batches are processed. The IMS support staff verifies the successful completion of nightly processing. The PMS application support staff provides the CFB staff with an on-call list. If necessary, the CFB staff at DCRT contacts PMS personnel to resolve problems. If a PMS batch job abends, the IMS on-call person is notified. The IMS staff member then fixes the job and resubmits it or contacts the PMS on-call person for further assistance in resolving the problem.

Nightly PMS runs are reviewed each morning by IMS staff to determine if any technical problems or errors occurred. If problems are found, the IMS support staff contacts PMS staff and appropriate action is taken to resolve the problem. If all jobs ran successfully the PMS application is brought back on-line at 7:00 AM, otherwise the application is left down until processing is complete. If PMS is not on-line during normal hours, DCRT verbally notifies DPM.

DPM Job Scheduling Responsibilities

Each night batches are run according to the annual schedule described above. Exceptions to the normal batch runs are appropriately scheduled by the ISB Chief. Changes to normal schedules are communicated first by phone to DCRT Production Control personnel, then by email with a follow-up memo. The ISB Chief and the ASB Chief share responsibility for ensuring that all necessary jobs are scheduled through the use of the annual schedule and exception runs.

The ASB Chief reviews all batch job results to ensure production jobs were successfully completed. This is done on-line by reviewing the FAFDAILY report which shows condition codes and control totals. Later, a printed copy of the report is created by DCRT and sent to DPM. The ASB Chief also scans JCL for errors using the WYLBUR text editor. If errors are found, the PMS application is taken off-line and batches are rerun correctly.

Tests of Operating Effectiveness

- We obtained and reviewed a copy of the most recent one year production schedule.
- We reviewed the IMS support staff checklist or log to verify that nightly PMS jobs are being verified each morning.
- We determined whether controls are adequate to ensure that modification to the job schedule is properly approved by IS and user management.
- We selected a sample of batch jobs and reviewed the output generated by the ASB to verify all jobs have been properly authorized.
- We determined whether the proper user ID is associated with the job name by reviewing the appropriate RACF report.
- We determined whether a problem management system is used to report production problems to management.

Results of Tests

No exceptions were noted.

Data Input and Account Maintenance

Control Objective

Policies and procedures provide reasonable assurance that:

- Grant and recipient information is received only from authorized sources;
- Recipient disbursement information is correctly input into the PMS application; and
- Grant awards are validated prior to processing.

Description of Policies and Procedures

Grant and Recipient Information Authorization

There are two methods in which authorization to the PMS databases is verified.

The initial authorization requires a specific predefined modifier code, representing the establishment of a new authorization for the particular Fiscal Year Common Accounting Number Object Class Code (FY-CAN-OC) within a document. If the document does not exist in DPM, a new document is created. Initial authorizations may only be entered using specific, predefined transaction codes by an authorized PMS user.

The follow-on authorization occurs when an amendment or correction is made to an existing grant. A specific modifier code from a predefined set is required. This type of authorization must have been preceded by an initial authorization transaction having the same FY-CAN-OC and Authorization Document Number. A follow-on authorization requires the use of predefined transaction codes by an authorized PMS user.

Grant award information can be transmitted one of three ways to the PMS system:

- Batch File Transmissions;
- Cross Service Menu (agencies with no batch capability); and
- In Transit Authorization (ITA) transactions

The following sections describe the authorization process for these grant award transmission types.

Batch File Transmissions

The first method is for the awarding agency to construct a batch file containing the award authorization information. The data transmitted to DPM must be in a standard format. All batches consist of the following records:

- Batch Header Record;
- Detail Authorization Transactions; and
- Batch Trailer Record

The batch header record for the authorization format contains a four-character batch ID number that is used as the initial form of authorization.

The process used by the OPDIVs for transmitting grant award authentication contain the following authorization edit checks:

- No OPDIV can transmit a transaction that cites another OPDIV code. Otherwise, that (batch) or transaction will be dropped.
- The transmission JOB must be run under the DCRT account and initials in the PMS security table for that OPDIV or the entire transmission will be rejected. If an attempt is made to transmit using an account/initials combination that is not in the PMS security table, DPM will record the event. The next time a valid transaction occurs, the following message will be displayed with real data filled in as follows: "****Unauthorized transmission of your authorization data has been attempted, as follows: DCRT ACCT: AAAA, initials: III, Date: YY/MM/DD, Time: HH:MM:SS."
- The first three digits of the CAN are edited to determine that it is the appropriate agency for the assigned PMS account and initials. If they do not match, the message "USER NOT AUTHORIZED TO ENTER DATA FOR THIS AGENCY" will be displayed on the screen. The user is not allowed to enter any data if this message is received, however, the user can correct the CAN and proceed.

Cross Servicing Menu

Some agencies do not have the capability to send batch transmissions for award authorizations to DCRT, thus a file building screen is provided within PMS to capture these transactions to an authorization data collector database.

To prevent users from entering award authorizations for any agency other than their own, the first three digits of the CAN are edited to determine that it is the appropriate agency for the assigned PMS account and initials. If the digits do not match, the message "USER NOT AUTHORIZED TO ENTER DATA FOR THIS AGENCY" will be displayed on the screen. The user is not allowed to enter any data if this message is received.

At the end of the day, IMS is brought down and a batch job is submitted which builds the equivalent transaction file (as if the user had submitted it via batch) with the same header, detail authorization transactions, and trailer records. In turn, these transaction files are submitted via another batch job to update the PMS database. The resulting batch file is also subject to the same authorization controls described in the previous batch transmission section.

ITA Transactions

In-Transit Authorization Transactions are emergency authorization transactions that are submitted via the appropriate Liaison Branch on behalf of the awarding agency. These situations occur when a payment request needs to be paid to the award recipient, but the awarding agency has not yet submitted the authorization data to PMS.

In order for the Liaison Branch to initiate an ITA transaction via PMS, there must be a notice of grant award and the corresponding awarding agency letter. The input screen is printed and a Payment Branch Supervisor must sign the printed copy.

The information from PMS is written to a Holding File that only the Accounting Payments and Control Branch can access. The Branch Chief reviews the Holding File, the hard copy of the screen and the notice of the grant award for propriety. If the awarding agency does not give official grant authorization via the batch file transmission or via the Cross Servicing Menu within 30 days of the ITA transaction, the transaction can be reversed and collection efforts started.

When the actual authorization transaction (the award authorization, received through the normal submission process) is received, it must match the ITA transaction or the actual award authorization transaction is written to the Holding File. If the award authorization matches the ITA, the transaction is posted to the PMS database and the ITA is reversed.

Recipient information falls into three categories, recipient registration, payment requests and disbursement reporting (PMS 272).

Recipient Registration

Before an authorization can be processed the grant recipient must be added to the PMS database. This process is initiated by the awarding entity or OPDIV who query the PMS system to determine whether the entity already exists. If the entity does not already exist on the PMS system, the OPDIV will supply the Central Registry Office (CRO) the following recipient information:

- Entity Identification Number (EIN);
- Entity Name;
- Entity Type (PMS, Non-PMS);
- Location;
- County Code; and
- City Code

This information can either be transmitted on-line, or by submitting form HHS 558. Cross-serviced agency submissions will also include a form SF-1199 which is a direct deposit form. The CRO will review submissions for data integrity. When the CRO has reviewed and approved the request it is forwarded to a holding file in the appropriate Liaison Branch. An operating accountant reviews the request to ensure that the EIN does not already exist, or that it exists under a slightly different variation. Once the request is reviewed and approved, it is signed by the accountant and either the team leader or the branch chief. The request is then forwarded to the APC Branch.

Any SF-1199 forms received will be sent from the CRO to the ASB for review. The form is reviewed for the user-ID, account type, cross-serviced agency, sequence number and EIN. When the request has been approved by the ASB, it is forwarded to the ACPB holding file.

In the APC Branch the request is reviewed a final time before being posted to the PMS system.

Payment Requests

The following sections describe the two primary methods by which grant recipients can request payments from their awards: SMARTLINK II and CASHLINE.

SMARTLINK II

SMARTLINK II processes payment requests via a computer link to PMS. To access SMARTLINK II, a recipient must use the password, PMS account number, and identification number issued to them by DPM. Account numbers must be five alphanumeric characters with the fifth character specifying the type of account (G-General, B- Block, P-Public Assistance). DPM recommends that the user changes the identification number the first time accessing SMARTLINK II. After three consecutive failed access attempts a user will be automatically disconnected from SMARTLINK II.

CASHLINE

Recipients may request payments by touch-tone telephone using CASHLINE. This method is only allowed for General (G) accounts with no sub-accounts. Users must enter the appropriate PMS account number, password, and identification number. The account number has at least one alphabetical character which is converted for touch-tone based on a table in the CASHLINE User's Guide. The account number is five characters long and converted to a longer alpha numeric sequence for "touch tone" telephone users. The password consists of four numbers. The identification number is 6 digits. All three items are required to use the CASHLINE system.

Recipient Disbursements

On a quarterly basis, recipients are required to account for the disbursements made from the payment requests received during the quarter. Disbursements are captured on the PMS-272 Report and distributed to the recipients to be completed and returned. There are three methods for submitting disbursement information to PMS: electronic file transfer, entry by the Operating Accountant, and magnetic tape from keypunch entry performed by an outside service provider.

On-line Data Entry

In some instances, recipient disbursement data is manually entered into PMS by the Operating Accountant that includes any adjustments resulting from the Cash Management process. Prior to entry, the accountant will verify that the recipient has signed the form as an indication of authentication. However, no list of authorized recipient signatures exists. If totals are not in agreement recipients will indicate differences in the detail of disbursements.

External Service Provider Magnetic Tape Input

Most disbursement data is entered into PMS as a batch of transactions contained on a magnetic tape that is created from the disbursement data keyed by an external service provider. The PMS-272 batches are delivered to the APC Branch who sends the information to the external service provider with an attached batch control log. When the data is returned to DPM on magnetic tape, the batches are loaded into PMS. The batch header records must be completed before PMS will begin posting the transactions to the recipient account. When the batches are returned to DPM, the mailroom distributes the PMS reports to the appropriate liaison branch. The Operating Accountant reviews the reports for completeness

Batch File Transmission

DPM recently piloted a program to implement a process that would allow recipients to transmit a batch file into their DCRT account that is processed as input into PMS. The recipient must obtain proper authorization prior to using the batch file transmission method. Approximately ten to fifteen percent of PMS recipients have implemented the batch file transmission process. DPM expects the number to increase significantly within the next few months.

FEDWIRE (ECS) Payment Advances

For same day payment requests sent by recipients, DPM uses FEDWIRE to process the payment with the Department of Treasury. An authorized APC Branch Accountant will use the Electronic Cash System (ECS) to submit a request. The accountant must enter their PIN in order to gain access to the software, otherwise they will be disallowed from making a payment request. All ECS submissions are reviewed for agreement between PMS and ECS records by a Certifying Officer before they can be released to the Department of Treasury. All FEDWIRE payments are made only to direct deposit accounts certified by the recipient and their bank.

ACH (Fedline) Payment Advances

Electronic payment requests that are submitted and pass all edit checks are placed in an Automated Clearing House (ACH) holding file for review. Authorization for this payment method was verified when the request was made to DPM. After passing all edits the requests are transmitted periodically throughout the day to the Treasury Payment System using Fedline. Requests are verified by reconciling daily control totals and faxing a debit voucher to the Department of Treasury. The Department of Treasury creates a matching debit voucher and mails it as a response verifying the totals.

OPAC Data Entry

The On-line Payment and Collection System (OPAC) is used for several activities including:

- check cancellations - the process of rendering a Department of Treasury issued check non-negotiable and repaying the amount to an appropriation fund or account;

- check recoveries - the process of returning a check to the administrative agency after an Unavailable Check Cancellation SF-1184 action has been taken;

- interest collections;

- Indian health service contracts;

- third party drafts; and

- interagency billing and collection.

OPAC charges and credits affecting the Grant Management Fund (GMF) are reviewed by the Liaison Branches and forwarded to the APC Branch for action. Once entered, PMS performs on-line validations of OPAC transfers ensuring that sufficient authorization levels on both the account and sub-account level are present. Each month, an accountant reconciles OPAC transactions comparing source documents, PMS subsidiary ledgers, and Department of Treasury records to further verify all transactions are authorized and correctly entered.

Recipient Disbursement Information Integrity

The PMS-272A contains grant disbursement information which includes the following:

- Line number;
- Grant identification number;
- Recipient document number;
- Authorized amount;
- Net disbursements (since last report); and
- Current cumulative disbursement amount

Information sent to DPM is entered into the appropriate fields based on a standard electronic format used by the external service provider. Recipients who submit the file electronically use the same standard format with specific field layouts to simplify processing. On-line information entered by the Operating Accountant is updated to a batch file in the same format as well. All disbursement batch files are subject to the same batch edit routines described previously. Edits of the batch information ensures the validity of the information contained in the disbursement detail records.

Grant Award Input Validation

The vast majority of the authorization data provided by the awarding agency has been previously posted by the awarding agency's automated accounting systems. As such, they were judged valid by those systems. However, there are two primary reasons why DPM performs additional automated validation of the data before it is posted: DPM cannot be assured the awarding agency systems performed all the necessary edit checks in a compatible manner; and, particularly disastrous consequences could flow from erroneous data going into PMS, including the loss of Federal cash. Accordingly, DPM serves as a secondary check used to further validate obligation data.

The criteria that is applied by DPM to ensure only valid data is entered into the system falls into two categories: generic and logical. Generic edit checks verify the information in the transaction itself. These checks consist primarily of determining that the correct type of data is present (i.e., numeric, alpha or blank). They also involve checking the coding for one set of the valid codes (i.e., reverse code = 1 or 2). Before any award authorization transaction can successfully update the PMS databases the recipient must be verified as a registered recipient in the PMS database.

Logical edit checks, or database edit checks, validate the action represented by the transaction in light of those transactions which have been previously posted. This type of edit check is performed by DPM for every transaction. The specific logical edit checks performed by DPM on awarding agency authorization data are either cautionary (i.e., duplicate transaction) or explain a data condition which will not permit the transaction to be posted (i.e., insufficient funds). With each of these error messages it is necessary to correct the transaction or verify the condition of the database via the on-line inquiry before proceeding with the transaction.

To prevent grant award authorization duplication, DPM maintains a detailed history of the prior 79 transmissions by OPDIVs. If an OPDIV transmits an exact duplicate of a prior transmissions, the job will be aborted. However, OPDIVs may need to make duplicate award transactions (uniform quarterly awards) and can do so using the FORCE command allowing the transaction to bypass the duplicate payment edit. Use of the FORCE command for other transactions will cause the job to abort.

Corrected batch and on-line transactions are re-edited through the same procedure as described above. Once completed, re-posting will be attempted immediately. If there are no problems, the database will be updated. If the transaction is still in error, the user will be notified and the erroneous transaction will be returned to the Holding File.

Tests of Operating Effectiveness

- We reviewed documentation and/or manuals to determine that they contain the following control areas:

  - system calculation descriptions;
  - transaction and screen descriptions;
  - edits used during initial input;
  - error messages for each area;
  - establishment of control logs that record errors and expectations;
  - error correction and error code descriptions;
  - communicating the loss of missing data;
  - return routing to the originator for approval or correction;
  - balancing and reconciliation;
  - description of transactions and processing cycles; and
  - explanation of output and control reports

- We ensured that modifications and enhancements to PMS functions are reflected in user manuals.

- We determined whether controls are in place for each area of input that include:

  - transmittal documents for transmissions (sending and receiving);
  - predetermined transaction documents for tape processing (sending and receiving);
  - batch balancing techniques;
  - reconciliation (sending and receiving systems); and
  - logging techniques.

- We determined whether source documents were pre-numbered and if not, reviewed procedures used to ensure all source documents have been entered and can be accounted for.

- We determined whether the following techniques are used to control PMS on-line processing:

  - terminals are located in physically secured rooms;
  - access is denied after a predetermined number of unsuccessful attempts;
  - passwords are not printed and not displayed;
  - individual IDs are used to provide accountability; and
  - security features prevent access to unauthorized transactions.

- We identified users with sensitive access and ensured his/her terminal is adequately logged off when away from the workstation.

- We selected a sample of ITA transactions and verified that the appropriate grant award and corresponding awarding agency letter exists.

- Utilizing the sample selected above we verified that a copy of the ITA screen input was printed and approved by the appropriate liaison branch supervisor.

- Utilizing the sample selected above we verified that the:

  - ITA was properly entered into PMS;
  - Grant Award was reviewed from the OPDIV; and
  - ITA was promptly removed.

- We attempted to process an entity without registering it in CRS and verified that the entity does not exist.

- We attempted to add a record without all necessary fields completed and verified that the system rejects the transaction.

- We attempted to add a record without both the Payee PIN and EIN and verified that the system rejects the transaction.

- We deleted a previously entered transaction both in and outside of the 15 minute window to verified that the transaction must occur within the 15 window.

- We attempted to delete an entity with an unauthorized user ID and verified the transaction will fail.

- We selected a sample of OPDIV changes and verified that the changes are properly reviewed and approved prior to processing.

- We selected a sample of recipients and verified that the Direct Deposit forms contain evidence of the review for completeness and accuracy.

- Utilizing the Direct Deposit forms sample selected above we verified the appropriate Liaison Branch signatures are included.

- We selected a sample of new EINs and verified whether the:

  - Operating Accountant and Supervisor approved HHS entities;

  - Systems Accountant and Supervisor approved for cross-servicing agencies; and

  - APC Branch Control Desk performed the final approval.

- We performed the following edit and validation tests on-line to ensure that the edits are functioning properly:

  - Entered improper data, (non-numeric versus numeric data);

  - Attempted to input invalid data in a payment request to test the following logical edit checks: EIN (non-registered or non-PMS EIN number), account type (not A, B, D, F, G, P or V), account number (one that does not exist under a cited PIN);

  - Attempted to perform an action not currently defined in one's access rights;

  - While updating an account, attempted to locate a sub-account that exists under another account all within one payee;

  - Attempted to close an award segment where the issue date is in the future;

  - Attempted to close an In-Transit Authorization which has not been resolved; and

  - Attempted to create a sub-account for a vouched account.

Results of Tests

No exceptions were noted.

Batch Processing

Control Objective

Policies and procedures provide reasonable assurance that batch balancing procedures for all transactions have been included in the transmission of the batch.

Description of Policies and Procedures

Grant Award Authorizations

Awarding agencies send grant award authorizations to DPM in the form of an electronic file transmission on a daily basis. Award authorizations are captured in a data file assigned to each individual awarding agency. Each night, a PMS batch job is executed that reviews the files and extracts grant award authorizations based on the data file name.

Each batch is validated to verify that all records are included in the batch by counting the number of records read and verifying the total dollar amount through the calculation of the total dollar value or hash value. These control totals are compared to the trailer record supplied by the awarding agency for the batch. Batches that do not balance are identified as erroneous and placed in a Holding File for correction by the awarding agency. If the batch header record is missing, the batch is also sent to the Holding File. If the batch does contain a header record and the batch totals (amounts and dollars) agree with the system-generated totals, the batch is accepted for processing by PMS.

If a batch is out-of-balance, the awarding agency is responsible for investigating the cause of the error and correcting it. Failed batches force all detail transactions into the Holding File until the batch is balanced. DPM tags the failed batch in a manner that allows the awarding agency to recognize a particular out-of-balance condition on the Holding File. After the awarding agency corrects the transaction and the batch agrees with the system-generated totals, the transaction and batch are released from their respective Holding Files for further processing.

There is the possibility of having an error that is caused by an imbalance between the individual transactions and the batch totals. In that case, the batches are placed in their entirety into a special section of the Holding File under the proper team and section. The batch trailer information is presented to the user along with informational fields that enables the awarding agency to correct the problem. Once the problem is corrected, the entire batch is placed in the pending section of the Daily Activity File for batch processing in the daily job run.

Payment Requests

In addition to on-line edit and validation checks, PMS performs batch edit and validation checks, such as verifying the fund ceiling amount for each payment request. Initially, payment requests go through the batch edit process. Payment requests that pass both the on-line and batch edit checks are sent through a PMS batch file to the Federal Reserve Bank in Richmond as an ACH transmission. Those that fail the batch edit checks are forwarded to the Holding File for follow up. DPM performs a reconciliation of ACH transactions on a daily basis.

The APC Branch reviews the Holding File several times throughout the day for invalid payment requests. The accountant either approves or disapproves the request. The approved payment requests are corrected and moved from the Holding File into the open transaction schedule. The open transaction schedule goes through the batch edits mentioned above and is then closed by the individual assigned. The closed file is then transmitted to the Federal Reserve Bank in Richmond. The FRB in Richmond will accept or reject batch transmissions sent by PMS based on the edit process that occurs within the FRB production system.

DPM uses the Electronic Certification System (ECS) to submit a batch of same day payment requests (FEDWIRES) to the FRB. ECS was developed to provide federal program agencies with a secure automated mechanism for voucher preparation, certification, transmission, and verification of payment data. ECS allows data entry, electronic certification, batch transmission, and verification of payment data transmitted by PMS. All batch payment transmissions are verified using the Message Authentication Code Technology before being accepted and processed.

The accountant prepares a reconciliation form to document a comparison of the PMS payment requests to the ESC transaction report. Differences are indicated directly on the reconciliation form with an error notation. All errors are corrected by the end of the day unless a change in the system is required. The APC Branch Chief reviews the reconciliation for reasonableness, then date stamps and initials the ECS report as indication of his approval.

Payment Requests Warehousing

The warehousing process allows a recipient to request funds up to thirty days before they must be deposited into the recipient's bank account. Recipients require prior approval before becoming eligible for payment requests warehousing.

Payment requests that are eligible for warehousing are placed in the PMS Pending File Activity Database. Five days prior to the payment request date, PMS automatically creates an ACH payment advance transaction which moves the payment request from the Pending File into an In-transit File. Payment will be held by the Federal Reserve Bank and transmitted to the recipient's bank on the settlement date.

As part of the nightly batch process, an analysis is conducted of items currently in the warehouse file that identifies problems such as excess cash, over-advances, over-disbursements, and late reporting. Only accounts that have had activity during the day are analyzed.

CAN Table Updates

Common Account Number (CAN) tables are primarily updated at the beginning of the fiscal year. A batch file is transmitted to PMS by the awarding agency and transferred into a specific dataset at the DCRT computer center in Rockville, Maryland. The OPDIV contacts DPM when a CAN file has been transmitted for processing.

Prior to being accepted into PMS, a pre-edit process occurs that compares the new CAN file with the prior year's file. Items that pass the pre-edit process are then edited for proper format and completion. Items that do not pass the edit process are sent to an error file which is used to produce a printed report during the PMS nightly batch process. DPM is responsible for contacting the awarding agency for resolution.

Recipient Disbursements (Expenditures)

Once a quarter, PMS generates a PMS-272 report for each recipient. Each report contains grant award amounts and the total amount of advances made. DPM requires that the recipient verify these amounts. Once the report is verified and completed, the recipient must sign, date and return the report to DPM.

Most disbursement data is entered into PMS as a batch of transactions contained on a magnetic tape that is created from the disbursement data keypunched by an external service provider. When the batches are returned to DPM, the mailroom distributes the reports to the appropriate liaison branch. The Operating Accountant reviews the reports for completeness. The PMS-272 batches are delivered to the APC Branch who sends the information to the external service provider with an attached batch control log. When the data is returned to DPM on magnetic tape, the batches are loaded into PMS. The batch header records must be complete before PMS will begin posting the transactions to the recipient account.

DPM recently piloted a program to implement a process that would allow recipients to transmit a batch file into their DCRT account that is processed as input into PMS. Approximately ten to fifteen percent of PMS recipients have implemented the batch file transmission process. DPM expects the number to increase significantly within the next few months.

Batch balancing issues are resolved by the Operating Accountant through the Information Systems Branch. Once the tape has been processed and the disbursement transactions have been posted to PMS, the Operating Accountant uses PMS on-line inquiry to verify production results. In the end, the recipient has the ultimate responsibility for ensuring that transactions have been correctly posted to their grant award accounts.

Tests of Operating Effectiveness

- We simulated an awarding agency and attempted to process transactions with the following conditions:

  - Changed the batch count in the trailer record so that it does not reconcile to the actual number of transactions in the detail records;

  - Changed the batch count in the trailer record so that it does not reconcile to batch count in the header record; and

  - Changed the Batch Dollar Total in the trailer record so that it does not match the net sum of the incremental dollar amounts; these all need to be completed to ensure that each of the transactions are posted to the Holding File.

- We obtained the transaction code TC 951 for the current and previous process runs and determined whether errors are being promptly resolved and removed from the Holding File.

Results of Tests

No exceptions were noted.

Federal Outlays

Control Objective

Policies and procedures provide reasonable assurance that:

- All payment requests are validated;
- Funds in excess of the fund ceiling are not advanced;
- Holding file transactions are identified, resolved and approved prior to further processing;
- Warehousing transactions are properly stored, edited and accounted for; and
- Advances to recipients are timely.

Description of Policies and Procedures

Payment Request Validation

Payment requests from grant recipients can be entered into PMS under three different methods, CASHLINE, SMARTLINK II and the I-27 dial-ups which are based on telephone calls received from recipients. CASHLINE payment request method is a Voice Response Unit enabling a recipient to request payment using a touch-tone telephone, and ACH payment requests enter the system through SMARTLINK II.

There are two primary payment methods utilized: ACH and FEDWIRE. ACH (Automated Clearing House) covers approximately 97% of requests, the second is FEDWIRE that covers nearly 3%. ACH payments are processed through a system provided by the Federal Reserve Bank known as FedLine. DPM uses the Electronic Certification System to submit FEDWIRES (same day payment requests).

CASHLINE

CASHLINE is an electronic method that allows a grant recipient organization to use a touch-tone telephone to dial directly into DPM's voice-response application. Recipients can only request ACH payments through CASHLINE. A FEDWIRE could be processed through CASHLINE if the recipient account was placed on manual review and posted to the Holding File. Then the request will be processed in PMS by an Operating Accountant.

The recipient dials the CASHLINE number which is answered by a voice response computer system. The voice automation instructions assist the recipient in entering account number and dollar amount information with the keypad on their telephone. The voice indicates a verification of the transaction as entered. Depending on the payment method the recipient is assigned, the funds will be direct deposited into the recipient's bank account. If the funds are deposited directly into the recipient's bank account, the payment is made available the following business day if ACH, or the same day if FEDWIRE. CASHLINE can only be used to request payments for general accounts with no sub-accounts. The CASHLINE service is used by dialing directly into the Voice Response Unit.

Various edit and validation checks are performed. The correct 6-digit Identification Number provided by DPM must also be entered to allow a user to request funds via CASHLINE. The identification number relates to a recipient's specific PMS account number and can be changed as frequently as necessary. Recipients are required to change their ID the first time they use the CASHLINE system.

The amount requested, cash balance on hand, and the expected disbursement amount are fields that must be entered. The CASHLINE Voice Response Unit allows a limited amount of time to pass when making an entry. Failure to respond to a system prompt in the amount of time allowed is considered an error. After three errors, the user is disconnected from the system.

SMARTLINK II

Recipients with access to a personal computer (PC) and modem are eligible for the use of SMARTLINK II. SMARTLINK II allows recipients direct access to PMS. Recipients dial in to the mainframe at NIH and authenticate themselves. Kermit is the communications software supplied to recipients and SMARTLINK II enables recipients to connect their PC into PMS which allows the PC to be used for data input into PMS.

The application permits the recipient to enter the account and drawdown information and then generates a message indicating the outcome of the transaction. Within seconds, the transaction is complete. The funds then are directly deposited into the recipient's bank account on the following business day as described in the previous section. Recipients using this method receive complete documentation of the request procedures. This is the only method for recipients whose accounts contain sub-accounts; however, I-27 procedures may be used on a short-term basis until the recipient can enter their requests using their own computer systems.

SMARTLINK II requires the recipient to enter the correct account number and associated identification number. The fifth character of the account number must be an alpha character representing the account type (G = General, B = Block and P = Public Assistance). After the payment request screen is selected, the payment due date must be entered with a YYMMDD format. The payment due date must be greater than the current date. If the system is not tagged as a warehousing transaction, then the due date defaults to the next day. Only accounts that are authorized for warehousing will be allowed to have payment due dates from four to thirty days in the future.

The total amount requested, the federal cash balance on hand, and the expected disbursement amount must all be entered. The estimated disbursement amount must equal the total amount requested plus (or minus, if cash balance is a negative amount) the federal cash balance on hand. If an account has sub-accounts, the recipient must indicate the programs (sub-accounts) for which he/she is requesting funds. If the account does not have sub-accounts, then none is entered. This applies to general accounts. SMARTLINK

II requires that a payment amount is entered for each sub-account. If a sub-account exists, at least one sub-account must be entered. The sum of all sub-account amounts must equal the total amount requested prior to the request being accepting into PMS for processing.

I-27s

This method is also known as "dialups." It is used internally at DPM by accountants to process requests for recipients who cannot access SMARTLINK II or CASHLINE. The request is placed on an I-27 form which is approved by a manager and senior accountant. The request is entered into PMS by the Accountant and forwarded to Payment Control which releases the payment. I-27 payment requests are deposited directly into the recipient's bank account.

FedLine

If an electronic request passes all programmed edits, the payment will be placed on the open ACH schedule. The requests are then batched and downloaded through the FedLine terminal and transmitted to the Federal Reserve in Richmond. A report is produced for any ACH transmission errors.

Electronic Certification System (ECS)

DPM uses ECS to submit same day payment requests (FEDWIRES). Members of the APC Branch are the only individuals who have access to ECS. When an accountant enters FEDWIRES into ESC, a personal identification number (PIN) is required which is the primary security feature of the system. ECS data entry error messages will appear if the following payment request edits are not in compliance:

- The Agency Location Code (ALC) must be keyed in and only numerics are allowed;
- The ALC must be in the ALC Table or a data entry error message will appear;
- The date of the payment is mandatory and only numerics are allowed in the format of MM/DD/YYYY;
- The Receiving Bank's ABA Number (routing number), ABA Name, ABA City, and ABA State are all required fields. Only numerics are allowed in the ABA Number. Two positions are required on the ABA State field and must be in accordance with the U.S. Postal abbreviations designated for the United States;
- All payments must have a type code with a value of either 10 (for standard payments) or 15 (for foreign central banks);
- The product code must be keyed in with a value of either CTR/ (for customer funds transfer) or BTR/ (for institution-to-institution funds transfer). The BNF field is mandatory and represents the Beneficiary or ultimate recipient of the funds; or

- The payment amount must be entered. Up to nine numeric digits before the decimal point may be entered.

APC assigns individuals to close the FEDWIRE approved payment requests and place them on a schedule in the Certify Queue for authorized certification. A log of individual transactions using Same Day Pay, and the schedule totals are generated from ECS. The log and totals from ECS, along with the log and totals from PMS, are used by a DPM Certifying Officer to verify the schedule's transactions before releasing the transmission. The certifying officer uses a card reader to access the schedule in the Certify Queue. The DPM Certifying Officer then compares the detail of the payment records with the overall total and transmits the data to the Philadelphia Treasury transmission center.

The Fund Ceiling

The PMS Payment Subsystem performs on-line logical tests to ensure that the payment amount requested does not cause cumulative payments, against the account or the sub-account(s), to exceed the in-effect authorization value established by the Authorization Subsystem. Those processes (e.g., warehousing advances) which require batch updates during the daily run also have batch logical tests applied to ensure that funds in excess of the fund ceiling are not advanced.

General Accounts

The edit check against the grant ceiling for general accounts exists at the recipient level because there are no sub-accounts. This means that when a recipient with multiple awards makes a payment request, the fund ceiling is calculated as the sum of all grant awards for that recipient.

General accounts are HHS grants. HHS accounts comprise approximately 10% of the monthly PMS payment activity in dollars, and 75% of the transactions.

Block Grant and Public Assistance Grant Accounts

For the purpose of managing block grant accounts, recipients are assumed to have a cash needs pattern similar to that which prevailed historically under the various programs. Payment requests will fail PMS edits if contrary to the following information: the historical draw down patterns for the previous programs which have been incorporated into the block grant; the available (undrawn) award authority; and the information provided by recipient organization officials. In addition, the Medicaid and Aid for Families with Dependent Children (AFDC) programs have specific edits. If the payment is for a sub-account identified as Medicaid or AFDC, PMS will perform a test to ensure that payments in the first two months of the quarter do not exceed the following guidelines:

	AFDC	Medicaid
1st month	35% of quarterly total	40% of quarterly total
2nd month	70% of quarterly total	70% of quarterly total

Payment requests do not go through batch edits. The edits are performed on-line. The edits include sufficiency of funds, validity of sub-account numbers, a reasonableness check against prior advances and verifies whether DPM has imposed a manual review. Those payment requests that fail the edit fund ceiling checks are moved into a Holding File for follow-up. The Holding File is reviewed throughout the day by the Operating Accountant. Holding File dispositions are initially approved for payment or disapproved by the Operating Accountant. A Team Leader or Branch Chief then reviews the documented disposition and determines final approval.

PMS Holding File

PMS has a single database file to hold all errors, reminders of pending actions, and warning messages generated by the system. The Holding File is structured to provide a tailored service to all PMS users based on their job function. PMS application security builds discrete sections of the Holding File for each activity and then prioritizes the transaction errors, warning messages, and pending actions within the confines of each user's code. Each agency will have a separately accessible section of the Holding File that is restricted/protected by the user's ID and password. Liaison Branch Holding Files may be accessed by multiple users depending on work assignments. In such situations, Liaison Accountants are permitted to review and approve the Holding File contents within their assigned work area.

PMS routes problems, messages, and transactions requiring review to the Holding File. These issues must be resolved by appropriate DPM units or in the case of authorizations, by the OPDIVs. The data on the Holding File includes the original transaction, its most recent correction, any calculation which identifies the source of the problem, and possible options available to the user to solve the problem.

The transactions placed in the Holding File are keyed by the DPM user and the account number for the Holding File transaction. An example of a Holding File transaction is one produced by a payment request posted to the "M" priority Holding File--The error message(s) "This payment must be manually reviewed" appears on the Holding File record. All transaction related problems are categorized by the type of the error. If the error relates to a request for payment, priority levels are assigned to the error depending on the method used to request payment.

A "9" Holding File item does not necessarily have a lower priority than a "6" item. The priority is an identifier, not a sign of importance. The types of records that can be found in the Holding File include the following:

- M - ACH payments and L items that are released and require manual review or that do not satisfy system edits;
- L - Dial up requests;
- D - Add or change an entity;
- E - Request for a bank change;
- 8 - New PIN being assigned;
- 4 - ITA transactions;
- 6 - Disbursements; or
- 9 - Award Authorizations

All Holding File records that are reviewed or corrected will show the initials and terminal number of the user taking the corrective action. Payment corrections are initiated by the Operating Accountant and entered into PMS by the APC Branch. The Operating Accountant is responsible for specifying action as identified on the disposition form. After approval and correction of Holding File items, the edited transactions are moved to the open transaction schedule. PMS will automatically re-process the corrected items during the regular closing and transmission process. If a condition which prevented the transaction from being processed has been fixed, the transaction will process successfully. There is no record of the individual performing the correction and posting payment request to the priority "6" Holding File.

On-line transactions are thoroughly edited upon entry. Invalid transactions are returned to the accountant for correction. The accountant has the option of immediately correcting the transaction and re-attempting processing. Only those transactions which fail the system edits will be placed in the Holding File for later correction. Batch transactions are thoroughly edited; erroneous transactions, which fail the editing process, are routed to the Holding File.

The PMS system is capable of reprocessing any transaction or deleting it from the Holding File upon request of the user. Any transaction that is successfully reprocessed during the Daily Job Stream (DJS) is deleted from the Holding File. For example, the DJS may approve a transaction that previously did not have enough money in the GMF to be approved. During the course of the day, sufficient money may have become available. If the transactions cannot be reprocessed, the user is notified of the reason(s) and the user can optionally return the transaction to the Holding File. Accountants are not able to examine, change, or delete transactions not assigned to them. This is controlled by the application security access rights.

The APC Branch is responsible for releasing payment transactions from the "M" priority Holding File. The Liaison Accountant releases disbursement errors from the "6" priority Holding File. OPDIVs release authorization transactions from the "9" priority Holding File.

Holding File items are processed over the course of the entire day when the dispositions are forwarded to the APC Branch. In order to process these transactions in a timely and expedient manner, HHS policy states that each item in the Holding File must be resolved and corrected within two hours. The Branch Chief is able to monitor that the Operating Accountants are resolving the items in the Holding File specific to their assigned accounts in a timely fashion through two methods.

The first method involves the Branch Chief having browse capabilities over each Operating Accountant in the Branch. The second method involves the Branch Chief reviewing the time and date fields within the open items per the Holding File. The Branch is responsible for pursuing and correcting payment and/or disbursement errors. Awarding agencies are responsible for correcting award authorization problems. The APC is responsible for deleting or releasing a transaction from the Holding File. If the transaction relates to a payment or disbursement, the APC cannot update the Holding File until it has received authorization and documentation from the Operations Branches; specifically, a disposition which must be signed and dated by the Operating Accountant and approved by the Branch Chief or Team Leader. The dispositions are then forwarded to the APC for the required action.

If a request for payment needs to be deleted (i.e., the recipient's request for funds is denied) the rejected disposition must be stamped "DISAPPROVED-DO NOT PAY," initialed and dated by the accountant and noted with the name and telephone number of the person who was contacted to advise why the payment was not being made. The Team Leader or Operating Branch Chief must also initial and date the request prior to its release to the APC Branch. The APC Branch then has the authority to delete the applicable transaction upon receipt and review of the authorized supporting documentation from the Operations Branch. A deleted transaction will be automatically removed from the Holding File. If a request for payment can only be released after a change is made relating to sub-accounts, the APC Branch will inform the Operating Accountant. If the Operating Accountant concurs with the change, a disposition must be prepared in order to release the request from the "M" Holding File. The APC Branch has the authority to release transactions from the Holding File.

OPDIVs and other agencies are responsible for reviewing their segment of the Holding File for award authorizations and correcting and resolving transactions contained therein. The Operating Accountants are responsible for reviewing the Holding File transactions, correcting and resolving the errors and/or issues for the accounts assigned to them within the time frame detailed above. The APC Branch is required to clear all Holding File transactions prior to the next scheduled ACH transmittal to the Federal Reserve Bank. In addition, the Holding File is reviewed daily in conjunction with the PMS reconciliation process and reviewed by the Senior Accountant.

If a payment request that is placed in the Holding File is resubmitted by the requester, it is possible that both transactions will ultimately be processed and two payments will be made. However, there are edits to prevent the fund ceiling from being exceeded.

Payment Request Warehousing

The warehousing process allows an approved recipient to request funds up to thirty days in advance. Warehouse requests from two to four days are forwarded to the Federal Reserve Bank (FRB) the same day of the request. Warehouse requests from 5 to 30 days are "warehoused" in PMS until four work days before the payment due date. At that time, the payment will be transmitted through the normal ACH process. Each ACH payment will have a settlement date (effective date) based upon the payment due date provided by the recipient. These payments will be held by the recipient's bank until the settlement date. These warehouse payments are isolated from the regular ACH payments via the numeric schedule range.

When the recipient requests funds through CASHLINE or SMARTLINK II, the recipient enters the date the funds should be deposited. If the recipient is not authorized to warehouse payments, the payment due date entered by the recipient will be treated as if the date entered is the next work day. If the requester is authorized for warehousing and the payment due date is greater than thirty days in the future an error message "PAY DATE CANNOT BE GREATER THAN 30 DAYS" will be displayed.

Once the recipient has requested funds and the request has passed the on-line PMS edits, a determination, based on the settlement date, will be made whether the request is to be warehoused in PMS or forwarded to the recipient's bank. If the payment due date is between one and four workdays into the future, excluding the current work day and the next work day, the request will be posted to the requester's account and added to the open ACH schedule. In the event that funds are not available to cover all warehoused payments, PMS will post transactions to the Holding File based on the warehoused payment with the furthest date in the future, to the extent necessary until funds are available. Note that in determining whether the payment due date is greater than four working days in the future, weekends and holidays are excluded. Payment requests which have the current day or the next work day as the payment due date, will be treated as payment type indicator "S" or same day ACH payments.

If the payment due date is greater than five working days but less than thirty working days, the request for funds will be routed to the pending warehouse payment file. Each night, as part of the batch process, each warehoused payment will be edited. These edits will check for availability of funds, manual review flags, stop payment flags and other errors (e.g., invalid account and/or sub-account number(s)). If any warehoused payment fails an edit, it will be written to the appropriate Holding File for further action. The duplicate payment edit will not be made for warehoused payments unless the transaction is being released from the Holding File. However, if a recipient does request funds more than once, an over advance on their grant or award could occur which would cause the system to reject the payment.

If the warehoused payment passes all PMS edits, a check of the payment due date is performed. If the warehoused payment's due date is four days in the future (current day plus three), the payment will be written to the open warehouse schedule during the nightly batch process for transmission to the Federal Reserve Bank the following work day.

Once a warehousing payment request is posted to the pending daily activity file, the request cannot be changed. In the event it is necessary to change or withhold the payment, then it must be canceled from the pending daily activity file. The cancellation process will be executed via the TC "C27" transaction process which requires a disposition and the Treasury Link Courtesy Copy form to be completed with two levels of approval. The first level is the Operating Accountant who is responsible for the particular account and the second level is the Branch Chief or a Senior Accountant from either liaison branch.

Each time a request for funds is made, a check will be made to determine whether the account is set up to warehouse payments. At this time, all warehousing accounts must use CASHLINE. If the payment type is "F" and the payment due date is up to thirty days into the future, the transaction will be processed. If the payment type is not "F" and the payment due date is greater than four days into the future, an error message "PAYMENT DUE DATE CANNOT EXCEED 4 DAYS" will be displayed on the requester's screen. If an account is not set up for warehousing and the recipient enters a payment due date within the four day range, the request will be paid the next work day.

Each valid future payment request will update the amount stored in the pending advance field for the account and the appropriate sub-account(s). Each time a request is made, the pending advance field will be used as part of the edit for funds availability. This edit will also be performed as part of the batch process. When payment of the warehoused transaction is made, the related amount is subtracted from the pending advances field and added to the in transit advanced field. These edits will be the same as the on-line edits. In addition, reasonableness edit checks will be conducted to ensure that payments, in comparison to previous quarter activity, appear appropriate and within allowable ranges.

In order to track and control payments which are warehoused, the following four reports are utilized:

- Closed & Transmitted Schedules During the Business Day -- lists all current day schedules that have been closed and transmitted to the FRB but have not been confirmed. This report reflects both same day ACH schedules and the warehousing schedules which can be differentiated from one another based on their schedule numbers.

- Schedules Opened & Not Closed at Close of Business -- lists all open schedules that were not transmitted during the current business day.

- Warehoused ACH Transaction Activity -- acts as a roll-forward of all daily activity for transactions to be warehoused by PMS. Section I of this report details all pending warehouse payment balances at the beginning of the business day, Section II details all activity during the business day, Section III details the activity during the nightly batch process of that business day, and Section IV details the balances at the end of the business day.

- Unconfirmed ACH Schedules -- lists all ACH schedules for the current business day and warehoused schedules that have been closed (transmitted to the FRB but the debit date has not been entered).

The Audit Trail Report, which is created during the nightly batch process, includes warehouse payment requests received during the current business day.

Payment Advances

There are two primary methods by which recipients receive funds; ACH and FEDWIRE. Since ACH is a method of electronic funds transfer, the direct deposit method is used to process the funds so that funds will be available during the next business day. FEDWIRE is a direct deposit method that makes funds available the same business day. However, FEDWIRE is used under specific circumstances and is occasionally used in support of specially legislated programs and emergency payments.

Payments are made to recipients via ACH and FEDWIRE. Recipients who use SMARTLINK II receive payments through ACH. CASHLINE users can receive an ACH or FEDWIRE. When recipients have temporary problems accessing SMARTLINK II or CASHLINE, they will call their DPM account representative and request funds over the telephone. These requests are called I-27 dial-ups.

Recipients of ACH and FEDWIRE must complete a Direct Deposit Sign-up Form (SF-1199A) to authorize funds to be electronically deposited into their bank account. The recipient's financial institution is responsible for disseminating copies of the three-part form in accordance with the destination information located at the bottom of the form. The Government Agency Copy is forwarded to DPM.

<u>Automated Clearing House (ACH)</u>

ACH is a central distribution point for transferring funds electronically for participating depository financial institutions. Rather than each payment being sent separately, ACH transactions are accumulated and sorted by destination for transmission during a predetermined period. ACH primarily functions through the Federal Reserve Bank which uses procedures and programs developed by the Regional ACH Association under the direction of the National Automated Clearing House Association (NACHA).

If an electronic request passes all programmed edits, the payment will be placed on the open next day ACH schedule. If the recipient is placed on manual review or if the payment did not pass the programmed edits, the request will be routed to a separate

Holding File for review. Those that fail the edit check require further investigation. ACH funds are deposited in the recipient's bank the following day. ACH transactions are posted through the FEDLINE terminal.

Holding File items are processed throughout the day as the dispositions are forwarded to the APC Branch. Payment requests are usually removed from the Holding File by the end of the business day in which the advance was requested.

A report is produced for any ACH errors and requests remaining unapproved. At the end of the day, a senior accountant reviews the log of files transmitted for any unusual circumstances. Follow-up is performed as needed. Control totals for the day's transmissions are prepared the following morning for reconciliation and review. A debit voucher is prepared and faxed to the FRB in Richmond to support the previous day's transmissions. The FRB creates matching debit vouchers and then mails carbon copies of the vouchers back to DPM.

FEDWIRE Payment Method

FEDWIRE is an electronic funds transfer system that allows DPM to use a transaction-by-transaction processing system designed for only high-dollar, low-volume items that must be received by payees the same day as originated by the agency. Most of the FEDWIRES are initiated as a result of the provisions of the Cash Management Improvement Act of 1990. The intent is to minimize the use of Federal funds by requiring the grantee to only request funds for immediate needs. All FEDWIRE transactions are routed through the Treasury Fedline Payment System (FEDLINE) that has a direct link to the Federal Reserve Communications System (FRCS) through the Federal Reserve Bank of New York (FRBNY). FedLine is used by the Financial Management Service (FMS) to electronically make payments for a Federal program agency's financial obligations.

DPM is currently in the process of integrating PMS with ECS's personal computer. Meanwhile, the same day requests (FEDWIRE) are handled through the ACH request via SMARTLINK II but are profiled with a manual approval flag by the appropriate Liaison Branch. This flag is one of the edit checks that automatically places the payment request into a PMS User's Holding file for additional investigation. The applicable Liaison Branch accesses their Holding File and prints out each individual record. The printout is used to prepare the manual "Same Day Payment Request" form. This form requires approval signatures from either the Liaison Branch Chief or Lead Accountant. The Liaison Branch person must also submit a disapprove ACH request so that the accountants in the APC Branch can delete this item from their Holding File. Once the form is received in APC, the information is posted to PMS for validation of funds available. A print out of the PMS input screen includes a message which states the transaction was successfully (Funds Available) posted to the data base is also generated. Also included, is a printout of the detailed payments and total amount for the schedule. These printouts are used for supporting documentation.

The Same Day Request Form and supporting documentation are used by the APC Branch to enter the request into the ECS machine. A Data Entry Operator may access the ECS system after entering his/her PIN.

FEDWIRES are initiated using SMARTLINK or telephone or fax in the case of an emergency. Accounts which have FEDWIRE as their payment method are designated with a "W." These accounts are flagged for manual review. FEDWIRES submitted with the "W" payment indicator through SMARTLINK are automatically placed into the Holding file for additional investigation. The file is then printed by the appropriate Liaison Branch and forwarded to the APC Branch for PMS entry. This listing is used to manually prepare Same Day Pay Request Forms. These forms require approval signatures from either the Liaison Branch Chief or a Lead Accountant. The Liaison Branch must approve the payment request so that APC Branch can delete this transaction from the Holding File. After the item is deleted from the Holding File, the APC Branch will be process the payment as a FEDWIRE.

The Same Day Pay Request Form is the source document used by the APC accountant to remove the transaction from the Holding File. The payment requests are subject to a series of PMS programmed edit checks to determine whether the transactions meet the necessary requirements for payment. A report of FEDWIRE transactions and processing totals is produced for the certifying officer. A certifying officer must electronically authorize the FEDWIRE transactions before the file can be transmitted to the Philadelphia Treasury.

The Same Day Request Form and Holding File release documentation are then used as source documents for entering the payment request into the ECS. DPM uses the ECS to submit same day payment requests (FEDWIRES).

The accountant prepares a Reconciliation of the Manual Wire Process form that is used to document a comparison of the payments from the Same Day Request Forms to the ECS transaction report. Differences are indicated directly on the reconciliation form with an error notation. All errors are corrected by the end of the day unless a change in the system is required. The APC Branch Chief reviews the reconciliation for reasonableness, then date stamps and initials the ECS report as indication of his approval.

Tests of Operating Effectiveness

- We verified that documented policies and procedures exist for the following DPM functional areas:

  - Requesting Payments
  - Processing Payment Request Holding Files
  - Warehousing Payment Requests
  - Processing Payment Advances

- We dialed into the SMARTLINK II system and entered the following to verify the edits and security features are functioning properly:

    - A valid account number and associated ID into the security screen;
    - Three consecutive errors in the account number;
    - Payment due date prior to current date;
    - Payment due date greater than 30 days in the future;
    - A payment request without the required fields;
    - An estimated disbursement amount that does not equal the total amount requested;
    - Alpha characters in fields expecting numeric;
    - "0" as the total amount requested;
    - Payment request utilizing an invalid sub-account name/code;
    - Payment request without entering at least one sub-account;
    - Payment request where the sum of all sub-accounts do not equal the total amount requested; and
    - Payment request entering a sub-account for an account that does not have sub-accounts.

- We entered the following into CASHLINE to verify the edits and security features are functioning properly:

    - An account number that does not end in "G";
    - A payment request that does not contain the required fields;
    - Three consecutive errors;
    - Three attempts at keying in the wrong account number or ID; and
    - An expected disbursement amount that does not equal the cash balance.

In addition, we:

- Obtained a report copy of individuals receiving FEDWIRE payments and traced to the Same Day Pay Request Form; and
- Ensured that requests resulting in an entry to the Holding File were removed and not transmitted as ACH.

- We reviewed the most recent Disposition forms used for reviewing OPAC transfers.

- We entered the following OPAC charge transactions (TC 920) to verify that the edits are functioning properly:

    - the charge amount is greater than the authorization; and
    - the charge amount is greater than a sub-account authorization level.

- We utilized transaction code 920 and entered the following to verify the edits were functioning properly:

  - a future date; and
  - an improper sub account date.

- We attempted to override the fund ceiling edit.

- We selected a sample of Holding File transactions including Holding Files "D", "E", "8", and "4" to ensure items are being reviewed and released by the appropriate Branch Chief, Team Leader or Branch Accountant.

- We selected a sample of journal vouchers and verified that all the required information is contained in the documentation.

- We reviewed a rejected payment request transaction record content and determined whether it contains such information as:

  - codes identifying the error type;
  - date and time when entry was captured;
  - identification of individual responsible; and
  - identification of the terminal

- We determined whether payment request corrections are reviewed and approved by an independent supervisor prior to being re-entered.

- We determined whether the system provides reports for management to periodically review rejected input to analyze the frequency and status of uncorrected transactions in the payment request Holding File.

- We determined which individuals have the ability to remove rejected data from the suspense file and ensure procedures include proper detective controls.

- We selected a sample of suspended transactions that occurred during the audit period and trace each transaction to its resolution to ensure proper control procedures were followed in the process.

- We selected a sample of transactions that consisted of a systems calculation that have occurred during the audit period and verified that the calculation was performed correctly.

- We reviewed the on-line activity and selected a recipient payment request that would be identified by PMS as a warehoused transaction. Based on the activity date and the effective date, we verified the propriety of the transaction being classified as warehoused.

- We selected a sample of warehoused transactions and ensured that each of the following criteria was properly verified by PMS: availability of funds, manual review flags, stop payment flags and an invalid account and/or sub-account number.

- We reviewed the Daily Activity File and verified that all warehoused transactions for a sample day were properly accounted for in one of the following files/processes: the Holding File, the Warehouse Pending File, the Daily Activity Pending File or the nightly batch job processing.

- As a valid recipient with warehouse capabilities, we attempted to enter a request for payment at a future date in excess of 30 days and ensured that the following error is displayed: message "PAY DATE CANNOT BE GREATER THAN 30 DAYS."

- As a valid recipient with no warehouse capabilities, we attempted to enter a request for payment at a future date within the allowable warehouse parameters (greater than four days but less than 30 days).

- We reviewed the Holding File and the Daily Activity Pending File to identify warehoused transactions by the schedule numbers 4500 through 4999 and ensured that the timing of these transactions appears reasonable based on the expected or actual date of processing.

- We reviewed the pending warehouse payment file for propriety of posting for these warehoused transactions (payment due date is greater than five work days but less than 30 work days).

- We selected a sample of days and verified evidence that the ACH/FED reconciliation was performed in a timely manner.

- We selected a sample of days that had ACH errors and verified evidence that the APC Branch Chief performed the investigation.

- We selected a sample of days and verified evidence the APC Branch Chief approved all payment reconciliations.

- We verified that payment requests received by fax processed during the audit period were approved by the Liaison Branch Supervisor.

- We selected a sample of I-27 payment requests and verified that the transactions were approved by the Liaison Branch Supervisor.

Results of Tests

No exceptions were noted.

Posting

Control Objective

Policies and procedures provide reasonable assurance that all transactions are correctly posted and the proper:

- Awarding agencies are charged; and
- Recipient grant accounts are accurately posted.

Description of Policies and Procedures

Awarding Agency Charging

Payment advances, made to grant recipients, are not automatically charged to the agency's appropriation through PMS but instead are charged to the Grants Management Fund. On a monthly basis, advances processed by PMS are manually reported to the Department of Treasury for actual charging to the agency's appropriation. Payment advances are posted in a Grant Management Fund throughout the month until advanced amounts are reported to Treasury and charged to a specific agency. The procedure followed by DPM is classified as either direct charging or cash pooling. For direct charges, certain controls are built into PMS that allocate the payment advance directly to a particular awarding agency. For cash pooling, PMS applies an algorithm that allocates the payment advances across several grants affecting different awarding agencies. Once a month, the Department of Treasury requires DPM to submit a SF-224 report that is used to actually charge all payment advances made by DPM. During the SF-224 process, payment advances are removed from the HHS Grant Management Fund and applied to the proper appropriations.

PMS Automated Charging Process (Direct Charging)

Each recipient has been assigned a personal identification number (PIN) which must be entered into the system when making a payment request. PMS validates the PINs prior to accepting the payment request for processing. Major programs have been assigned a sub-account number (alpha and/or numeric) which has to be entered into the system when a payment request is made. Sub-accounts are associated with appropriations and Common Account Numbers (CANs). PMS identifies appropriations based on corresponding awarding agencies, and PMS has an internal table that contains all sub-accounts. The agencies/OPDIVs are responsible for maintaining the integrity of their own CAN tables.

Payment requests are processed against block grants, public assistance accounts, cross-servicing or general accounts. Public assistance and block accounts are directly charged since the recipient is required to state the name of the program from which the funds are being requested. Considering the name of the program, there is a one to one relationship between the payment request and the agency. This means that PMS will automatically apply the payment advance to a specific grant account without human intervention.

The charging process for general accounts is completely different. General accounts are those accounts other than public assistance, block and cross-servicing. DPM executes a monthly PMS job that allocates these advances based on an algorithm. This algorithm was developed by HHS to charge one payment amount across several recipient grant numbers which is required for recipients that have been awarded multiple grants from multiple appropriations such as Colleges and Universities. Once a month following this algorithm charging process, DPM sends the charging results to the HHS Office of the Secretary for review and approval.

Manual Charging (Cash Pooling)

During the PMS automated charging process, advances which are not directly charged or allocated are forwarded to the HHS Office of the Secretary for resolution.

On a regular basis, each HHS awarding agency submits a listing of expected charges, summarized on a monthly basis, to the Office of the Secretary. This information is used to estimate the amount charged per agency and allocate the remaining advances that are not to be charged during the automated process. The estimated amount is cumulative but acts more as a suspense amount until the agency receives exact expenditure information for each recipient.

The Department of Treasury Reporting

The Department of Treasury requires that all governmental agencies account for all financial transactions performed during the month. In addition, financial transactions need to be identified as to the awarding agencies for all funds issued by DPM throughout the month. The SF-224 Statement of Transactions is the required form for this balancing operation. DPM, because it has three Agency Location Codes (ALCs), is required to file three SF-224s as described below:

- ALC 75-08-0032—Captures ACH payments and collection activities affecting the Grants Management Fund.

- ALC 75-08-0098—Captures non-ACH and miscellaneous payments and collection activities affecting the Grants Management Fund.

- ALC 75-08-9701—Charging of the OPDIVs appropriation or fund symbols and replenishing the Grants Management Fund.

Documents supporting the 75-08-0032 SF-224 are reports of ACH transactions and copies of the debit vouchers and deposit tickets generated by the Federal Reserve Bank in Richmond. The Federal Reserve Bank accepts and forwards all the ACH payment batches from DPM. Duplicates of these documents are maintained in the APC Branch. Documents supporting the 75-08-0098 SF-224 are all the other miscellaneous accounting documents generated during the month. They include SF-1166s for check payments, FEDWIRE same-day schedules, Journal Vouchers, SF-215s for collections and other supporting schedules and forms.

The purpose of the GMF is to accumulate all the payments and collections in a single accounting point. When DPM finalizes the subsidiary SF-224s (75-08-0032 and 75-08-0098), the total financial affect to the GMF is computed. This is the amount the OPDIVs will be charged for payments and collections made on their behalf during the month. The charging process is the process by which the financial activity is allocated amongst the various agencies serviced by DPM. SF-224s, from the other two accounting points, must be balanced to the GMF before it can be released to HHS. The SF-224s are returned to DPM. This final allocation is reported to the Department of Treasury.

PMS Synchronization Process

On a monthly basis, a synchronization process occurs when PMS develops a file that is divided by grant numbers and includes all authorized amounts, disbursements and charged amounts.

Disbursement information for the prior quarter is reported by the recipient to DPM during the quarterly PMS-272 process. This synchronization file is then sent to each OPDIV via tape or electronic transmission and a printed copy for their review. DPM requires that the OPDIVs sign and return a certification letter as verification of receipt and as a vehicle for classifying all the types of differences found. DPM investigates all outstanding certification letters.

The Department of Treasury Reconciliation (GOALS and CASHLINK)

During the month, the Department of Treasury identifies all instruments DPM used to move funds by two unique Agency Location Codes. The SF-224 report is used by the Department of Treasury to ensure that all funds moved during the month by DPM have been charged to an authorized awarding agency. This charging process brings the Grant Management Fund at the Department of Treasury back to its normal zero balance. Once the SF-224 reporting process is complete, DPM sends the information to the awarding agency's OPDIV to update the records within their accounting system.

Recipient Grant Account Charging

Recipient Transaction Posting

During the initial PMS registration process, each recipient is assigned a PIN and account which must be entered into the system when making a payment request. Monthly, funds advanced to recipients are automatically allocated to an open grant. Each payment request is posted to PMS in a record that identifies the recipient, the payment amount and the account number, if available. PMS verifies the recipient's authorization based on the PIN and account number prior to accepting the payment request.

Once a quarter, PMS generates a PMS-272 report for each recipient that has active and open grants. Each report contains grant award amounts and the total amount of advances made. DPM requires that the recipient verify these amounts. In addition, the recipient must document on the PMS-272 the total amount of disbursements made. Once verification is completed, the recipient must sign, date and return the report to DPM. Reports are received by the accountant and are reviewed for completeness.

In certain instances, recipient disbursement data is manually entered into PMS by the Operating Accountant including any adjustments resulting from the reconciliation process. However, most of the data is entered into PMS via magnetic tape that is created from the disbursement data being keypunched by an external service provider. The data is captured in a specified PMS record layout. DPM processes disbursement information for approximately 15,000 recipients.

The PMS-272 reports are mailed out and the completed reports are required to be returned to DPM within 45 days from the start of the quarter. The mailroom distributes the reports to the appropriate liaison branch, and the Operating Accountant reviews and batches the reports. The PMS-272 batches are delivered to the APC Branch who sends the information to the external service provider with an attached batch control log.

When the data is sent to DPM via magnetic tape and loaded into PMS, header records must be complete before PMS will begin posting those transactions to the recipient account. Each PMS-272 report is individually balanced. PMS also maintains control tables that are used to identify the recipient according to PIN and account number. If the PIN and account number are invalid, PMS will send the transaction to a Holding File for research. Once the tape is processed, PMS generates PMS-501, PMS-502 and PMS-503 which are reports of disbursement data entered into the system. There is also a PMS inquiry that can be performed to determine whether the data has been properly entered into the system and correctly posted to the proper recipient account.

DPM recently piloted a program to implement a process that would allow recipients to transmit a disbursement file electronically that would be used as input into PMS. Approximately ten to fifteen percent of PMS recipients have implemented the file transmission process. DPM expects the number to increase significantly within the next few months.

Disbursement Data Verification

On a quarterly basis, DPM sends the recipient a PMS-272 report that is used to report disbursements that should be verified by the recipient. The report reflects the following:

- cumulative disbursements from prior quarterly reporting;
- sub-account data;
- the amount (authority) of the grant award; and
- the advances.

Grant award data is entered into PMS by the OPDIV. Therefore, if the recipient reports to DPM that there is a discrepancy in the award amount, DPM requires that the recipient submit a copy of the actual grant award for verification. If payment information is allocated to the wrong account or sub-account, the payment is traced through the system based on PIN and account number.

Disbursement transactions are also sent to the OPDIVs twice a month via an electronic file transmission and/or the PMS-82 and 98D Expenditure Reports. The OPDIVs also receive expenditure information from the recipient via the SF-269 report.

DPM accountants are responsible for following-up with the PMS-272 reporting to ensure that all reports are generated, distributed and promptly returned with the appropriate information. The PMS-272S (Stub Report) is utilized as a check list to verify that all reports are distributed and returned with the appropriate information. Batch balancing issues are resolved by the Operating Accountant.

Once the tape has been processed and the disbursement transactions have been posted to PMS, the Operating Accountant uses PMS on-line inquiry to verify production results. In the end, the recipient has the ultimate responsibility for ensuring that transactions have been correctly posted to their grant award accounts.

Tests of Operating Effectiveness

- We entered payment requests (block grants and public assistance grants) and traced each transaction to the proper awarding agency.

- We entered payment requests that must be allocated across more than one grant number and traced each transaction to the proper awarding agency.

- We entered a payment request for a block grant without providing the program name and observed the method in which the system rejected the transaction.

- We selected a sample of SF-224 reports and verified that they were approved by the HHS Office of the Secretary and APC Branch Chief.

- We verified that SF-224 reports for 1996 are maintained at DPM in an orderly manner.

- We evaluated the process used to make the SF-224 report available to the OPDIVs.

- We randomly selected a sample of recipients with grant awards currently open on PMS and ensured that a PMS-272 report was generated during the prior quarterly reporting period.

- Utilizing the sample selected above we traced the recipient's 272 reports on the appropriate Status/Stub Report.

- Utilizing the sample selected above we verified the existence of the recipient's signature on the 272 reports and ensured that the reports were returned by the recipient to DPM in a timely manner.

- We reviewed the rejected disbursement transaction record content and determined whether it contains such information as:

  - codes identifying the error type;
  - date and time when entry was captured;
  - identification of individual responsible; and
  - identification of the terminal

- We determined whether all disbursement corrections are reviewed and approved by an independent supervisor prior to being re-entered.

- We determined which individuals have the ability to remove rejected disbursement data from the Holding File.

- We selected a sample of suspended disbursement transactions and traced each transaction to its resolution to ensure proper control procedures were followed in the process.

- We selected a sample of batch control sheets used for the PMS-272 data entry and review them for completeness and proper identification of the DPM accountant.

- Utilizing the reports selected, we verified the existence of the DPM accountant's signature.

- We reviewed procedures followed when the header record does not balance to the total number of disbursement records on tape and ensured that PMS rejected the batch and transactions did not post to any of the recipients accounts.

- Utilized the sample selected we ensured that a PMS-501 report was generated for each batch of transactions.

- Utilizing the sample selected we verified that batch balancing was performed prior to the transaction being posted to the recipient account.

Results of Testing

No exceptions were noted.

Remittance Processing

Control Objective

Policies and procedures provide reasonable assurance that remittances from the recipient are processed completely and accurately.

Description of Policies and Procedures

Recipients submit funds to DPM for posting to grant awards as a result of the following:

- Unexpended Funds;
- Duplicate Payments;
- Audit Disallowances; and
- Interest Payments (OMB Circular A-110)

Unexpended Funds

Unexpended funds are identified as a result of a cash management analysis that occurs during the PMS 272 reporting process. DPM requests via a letter that excess cash must be remitted. Payments that have been advanced to the recipient and not reported as disbursed, are considered excess cash. Recipients will also initiate refunds as a result of their own cash management review process.

Duplicate Payments

Occasionally, duplicate payments occur that cannot be prevented through the processing edits occurring in PMS. When a duplicate payment occurs, the Operating Accountant contacts the recipient and requests that the payment amount be refunded to the account. If the Operating Accountant is not aware of the duplicate payment, the recipient is required to notify DPM to determine a proper resolution.

Audit Disallowances

Financial audits that occur at the awarding agency could result in a grant award being deobligated. When a grant award is deobligated, the recipient is required to refund this amount to DPM as soon as possible.

Interest Payments

OMB Circular A-110 requires certain recipients to maintain advances of Federal funds in interest bearing accounts unless:

- the annual award is less than $120,000;

- the best reasonably available interest bearing account would not be expected to earn interest in excess of $250 per year on Federal cash balances; or

- The depository would require an average minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.

Interest payments are made by both PMS and non-PMS grantees. The amount of interest payments received from each source is approximately the same.

The Operating Accountant identifies the posting entry required for a specific account within PMS. In some instances, the recipient has specified the agency account in which the earned interest should be posted. When the sub-account affected has not been specified in the remittance documentation, the interest is posted to any sub-account within the organization.

Each Operating Accountant maintains a log of remittances that they have processed. On a monthly basis, the information is reported to the Liaison Branch Chief for review. All remittances are forwarded by the APC Branch to the Department of Treasury during the SF-224 reporting process. A copy of the check, disposition form and supporting documentation are maintained in a file within the Liaison Branch.

Funds Transfer

There are four methods in which a grant recipient may remit funds to DPM: check, ACH, FEDWIRE and OPAC. DPM encourages all grant recipients to use an electronic funds transfer method (ACH and FEDWIRE) per the Department of Treasury's revised collection and deposit regulations (31 CFR, Part 206).

Check Remittance

The DPM mail room receives the checks and distributes them, along with related correspondence, to the Collection Desk. The Collection Desk prepares a daily listing of checks received and two photocopies including any related correspondence. A PMS inquiry is then used to determine the accountant responsible. The user code and date are annotated on both photocopies. One copy is distributed to the appropriate Liaison Branch, and the original checks and correspondence are placed in a locked safe maintained by the APC Branch Chief. The Operating Accountant reviews, verifies and approves all remittances. The Accountant also prepares a Disposition of Check form and forwards the form to the APC Branch for processing. Once the form is received, the information is posted to PMS according to the requirements on the Disposition form, which states specific instructions on how and where (account and document number when necessary) to allocate the funds (e.g., principal versus interest). A schedule of check receipts and a Deposit Ticket (SF-215) are prepared and deposited to the bank on a daily basis. Once the APC Branch has processed the remittance, all of the supporting documentation is placed in a file.

Electronic Funds Transfer (ACH)

The Remittance Express (REX) system is used by the grant recipients to submit funds via the ACH network. REX is an electronic funds transfer system that allows use of the Automated Clearing House (ACH) network to receive payments from grantees. The grantee satisfies an obligation by sending an ACH credit transaction to a unique routing transit number (RTN) at the Federal Reserve Bank (FRB). FRB then credits DPM's Remittance Express account. The detail information is passed to the Treasury CASHLINK deposit reporting system. CASHLINK is a worldwide deposit reporting and cash concentration system designed to record, move and manage all of the Federal agency deposits. Funds are collected through eight collections networks, including REX. Deposit information is concentrated into a single database to expedite agency reconciliation.

The APC Branch uses the Agency Access module of CASHLINK to perform daily inquiry of detail deposit transactions. Detail information includes payments, a summary of deposits, the program and the recipient. This information also identifies both the sender and purpose of payment. CASHLINK information is printed and then distributed to the appropriate Liaison Branch. The Operating Accountant reviews the printout and prepares an ACH System Collection disposition form and then forwards it to the APC Branch for processing. Once the form is received, the information is posted to PMS according to the requirements on the disposition form which states specific instructions on how to allocate the funds (e.g., principal versus interest). All supporting documentation is placed in a file.

Electronic Funds Transfer (FEDWIRE)

The FEDWIRE Deposit System (FDS) is used by the recipient to submit funds promptly. All FDS collections are routed to the Department of Treasury in the New York Federal Reserve Bank for credit to the GMF Account. The detail information is passed into the CASHLINK deposit reporting system. The APC Branch uses the Agency Access module of CASHLINK to perform daily inquiry of detail deposit information. The CASHLINK detail is printed and then distributed to the appropriate Liaison Branch. The Operating Accountant reviews the printout and prepares a FEDWIRE Deposit System Collection disposition form and forwards it to the APC Branch for processing. Once the form is received, the information is posted to PMS according to the requirements on the disposition form which states specific instruction on how to allocate the funds (e.g., principal versus interest). All supporting documentation is placed in a file.

On-line Payment and Account Collection System (OPAC)

OPAC is used by the various agencies (including HHS) for interagency billing and collection. For those billings and collections which affect the GMF, Transaction 920 from the Miscellaneous Receipts Sub-Menu of PMS is used to record the transfers. While PMS does not initiate OPAC payment transactions, this information must be recorded in PMS to ensure proper balances of charged appropriations for the Awarding Agencies and to ensure that sufficient information is stored for the generation of the SF-224 report.

Reconciliations

The APC Branch performs monthly cash reconciliations that compare the source documents (Collection Form Dispositions) to PMS subsidiary ledgers and the Department of Treasury information. On a quarterly basis, a PMS-272 reporting process occurs which requires that the grantee reconcile payment advances to disbursement activity. The PMS-272B Statement of Cash Accountability report illustrates the recipient's cash accountability as derived by DPM which includes refund checks, interest transfers, Journal Vouchers and OPAC/1081.

Additional information is required by a cross-servicing recipient in order to reconcile appropriately. The PMS-272E is the Major Project Statement that illustrates advances by major programs. The advance breakdown shows which sub-accounts/grant awards were affected by remittance processing. The PMS-272B does not reflect this specific data.

Tests of Operating Effectiveness

- We verified that documented policies and procedures exist in the liaison branches for processing remittances, such as various refunds, and criteria for posting interest to the proper receivable account.

- We verified that documented policies and procedures exist in the ACP Branch for processing cash receipts.

- We selected a sample of refund transactions that are system generated and traced to the proper supporting documentation to ensure that the refund is posted to the proper receivable account.

- We selected a sample of interest transactions that are system generated and traced to the proper supporting documentation and ensured the refund is posted to the proper grant account or sub-account.

Results of Tests

No exceptions were noted.

User Control Consideration

Users are ultimately responsible for reviewing the PMS 272 reports and ensuring all remittances are completely and accurately recorded.

PMS Reports

Control Objective

Policies and procedures provide reasonable assurance that reports are generated completely and accurately.

Description of Policies and Procedures

Various PMS reports are made available to the awarding agencies by the DPM. Included in this section is a description of the reports and other forms of output developed to control the automated payment management process. Data output controls are described according to the different areas of responsibility.

Output Production

The daily reports are produced by PMS based on the procedures defined within the production job streams. DCRT executes the production job stream that produces extract files and places them on a "hold" queue. The following morning, the ASB Chief reviews computer processing results on-line to ensure that all production jobs were executed as scheduled. After all jobs are verified, based on daily check-out procedures, various routines are followed to execute programs and produce reports utilizing the files made available as a result of production. A production schedule is distributed annually to inform users when to expect bi-weekly, monthly, quarterly and annual processing to occur.

Output Distribution

The APC Branch is responsible for report distribution once output is received from the DCRT Computer Center. The APC Branch has developed procedures that include a checklist to verify all processing was completed. On a daily basis, reports and tapes containing file numbers are generated by DCRT and placed in the DPM mail room. Some daily and monthly PMS reports are utilized internally and some are sent to Awarding Agencies and OPDIVs. On a quarterly basis, in excess of 15,000 reports are generated for recipients and distributed by the Government and Tribal Payment Branch and the University and non-Profit Payment Branch of DPM. PMS generates a Stub Report that summarizes the number of recipient reports produced which is used by the Operating Accountants to control the distribution process.

External reports are distributed based on a distribution database. The database contains the name of each person who receives the reports and defines what output is expected. When the output arrives in the DPM mailroom, it is distributed to the proper OPDIV or agency according to the database set-up. Reports are mailed to a designated individual within the OPDIV's Accounting Department and/or program office. A Memorandum of Understanding between the OPDIVs and DPM addresses the reporting requirements.

Output Accuracy and Completeness

The OPDIVs and recipients are responsible for verifying that data contained on the reports are complete and accurate. DPM ensures normal completion of the report by verifying that reports have totals and that "end of run" is indicated. Control totals are used to facilitate verification of accuracy. The Expenditure Report and Funds Control Report totals are reconciled by DPM. DPM compares the footed amounts on the Expenditure Report (PMS-R82) to the General Ledger entries (PMS-207). Control totals for the Funds Control Report are compared to the total amount of funds advanced the previous day. Synchronization reports are reviewed by the OPDIVs and errors/omissions are addressed in the following month.

Program Agencies (OPDIV) Output

Once a grant has been established and the information is entered into PMS, funds are available for recipient advancement. On an "as needed" basis, each OPDIV transmits a file to PMS that contains authorized payment processing transactions. This transmission only occurs when the OPDIV has authorizations to send PMS.

DPM batches those transactions and produces the daily Authorization Transaction Report (PMS-84). This report is then sent to each OPDIV via a file transmission to verify accuracy and completeness of the data actually received by PMS. This is used by the OPDIV to determine whether any transactions were lost during the transmission process. Transactions are subject to PMS edits. Transactions that fail the edit process are posted to the OPDIV's Holding File. The OPDIV is responsible for investigating, releasing, or deleting such transactions from their respective Holding File.

When recipients request payments, the transactions are entered into PMS. Once these transactions have been processed and edited by PMS, the information must be reported to the Department of Treasury. The DPM is considered as three separate agency stations. Therefore, DPM is responsible for submitting three separate Statement of Transaction Reports (SF-224) monthly. The first agency station (75-08-0032) report contains ACH activity, the second (75-08-0098) contains miscellaneous FEDWIRES, remittances, OPAC and miscellaneous transactions, and the third agency station (75-08-9701) allocates the GMF activity to the respective appropriation. The information reported in the SF-224 originates from the following sources: 1) PMS printout of ACH Transactions, 2) ECS Report for wire transfers, 3) the OPAC Report for Transferring Funds between Government Agencies, and 4) other source documents used to initiate various transactions related to the financial accounting of the GMF. The Department of Treasury then uses the SF-224 to allocate appropriations thereby reducing an agency's available funds.

Grant Award Closing

Once the grant period has ended, the PMS files must be closed. Each recipient sends a Final Report of Expenditures (Financial Status Report SF-269) to the OPDIV. This report is used to ensure that all expended amounts are accurate and allowable, that the grant will not be renewed and that all terms have been adequately fulfilled. To close the grant on PMS and to prevent an additional disbursement of funds, the OPDIV transmits a file to PMS that contain a transaction code to change the grant's status. PMS produces two separate close-out reports that DPM sends to the respective OPDIVs.

The Document Closed But Not Purged Report (PMS-R81) contains all grants that have been closed but the document data still remains on PMS.

The Close-out Special Audit Report contains grants with the following status:

Status	Description
O	Grant is a working document subject to changes in authorization and the posting of disbursements and advances. No closing transaction code is posted.
P	Grant has been closed by the OPDIV but there is a difference between the authorized and the disbursed amounts. This difference must be reconciled before the document can be officially closed.
E	Grant has been closed by the OPDIV and the authorized and disbursed amounts agree, but there is a different charged amount. If the recipient has multiple documents, this difference may require additional time to research.

Grants on this report must have a budget ending date at least six months old and have no disbursing activity reported during the last nine months.

Another OPDIV report includes the various Special M Account Reports (FAFR817). Twice a year, DPM creates reports to warn OPDIV/Agencies with open grants containing funds that are expected to soon cancel. Congress requires that all unobligated fiscal year funding be automatically canceled after five years.

The items contained within this report are as follows:

- *FAFR817A* -- Account is ready to expire. Authorized amounts equal the disbursed and charged amounts; however, the status remains open.

- *FAFR817G* -- Accounts that have a difference between the authorized amount and the disbursed amount that is greater than $100. It also has a status code of "P" or "E" that indicates a closing transaction has been posted.

- *FAFR817J* -- Accounts that have a difference between the authorized amount and the disbursed amount is less than or equal to $100. However, the closing transaction has not yet been posted.

- *FAFR817K* -- Accounts that have a difference between the authorized amount and the disbursed amount that is greater than $100, but do not contain a transaction code that is required once the correct authorized amount has been determined.

Grantee Disbursements

Based on the disbursement data reported by the recipient during the PMS-272 cash management process (see description below), DPM generates two OPDIV reports: A Summary of Expenditures (PMS-R82) and Accounting Transactions by Agency (PMS-98D). The PMS-R82 report is a summary of the detail in the PMS-98D. The disbursement data is written to magnetic tapes and printed for distribution. Tapes and reports are sent to the HHS OPDIVs bi-weekly for posting to their accounts. Non-HHS OPDIVs download advance payment data each day and use this information to post both disbursed and expended amounts to their records.

Each month DPM produces the PMS Synchronization Report (PMS-R817) for the OPDIVs. Some OPDIVs even receive the actual production file from which the report was generated. The synchronization report contains cumulative accounting data as of the end of the month and is provided to the OPDIV by the 15th of the following month. This allows the OPDIV to reconcile with their award recipients.

Grant/Cash Recipients Output

PMS recipient reporting requirements are consistent with the OMB policies and the standards for government reporting. Quarterly, DPM generates the Federal Cash Transaction Report (PMS-272) for each recipient. These reports are used by the recipient to report fund transactions and disbursement reconciliation.

Division of Payment Management (DPM) Output

DPM utilizes the daily Proof of Cash Management Report (PMS-R205) along with the Daily OPDIV Subsidiary Control Ledger Report (PMS-R207) to verify control totals prior to distributing production output. DPM also produces various ad hoc reports as requested internally by DPM employees and OPDIVs. Reports are also produced as requested via the Freedom of Information Act (FOA). When requests are acknowledged and approved by the FOA office, a form is completed and forwarded to DPM. At that time, the feasibility and the financial costs associated with the job are determined. Ad hoc reports are generated and forwarded to the requester. However, in the case of FOA, all reports are forwarded to an authorized person within the FOA Department for proper distribution. Ad hoc report requests are reviewed and approved at DPM by the Manager of the APC Branch.

The Department of Treasury Output

SF-224

The Department of Treasury requires agencies to report their cash transactions via the Statement of Transaction Report SF-224. This report summarizes cash transactions by appropriations and charges the correct agency, thereby reducing the available funds. The report is used by The Department of Treasury to reconcile recipient disbursement activity to the amounts charged in the SF-224 process.

SF-220.9

On a quarterly basis, DPM submits a report on Receivables Due From the Public (SF220.9) to the Program Support Center that compiles the DPM information with every other division within the Program Support Center. Treasury reconciles the financial items processed to the overall amounts reported on the SF-224.

SF6653

The Undisbursed/Receipts Report SF6653 is sent to the OPDIV, on a monthly basis, to review for reasonableness. This report contains detailed account information for each appropriation which is an accumulation of activity as of the day the report is produced. The OPDIV is responsible for verifying, correcting and following-up with DPM if necessary.

Federal Reserve Bank Output

DPM has a personal computer that contains the Federal Reserve Bank's FedLine application to facilitate processing ACH transactions daily. Batches are entered and transmitted seven times a day. A FedLine Incoming Processor Report (FLIP) is received by the DPM daily that contains all ACH batches submitted. The SMARTLINK II Audit Trial Report produced by PMS illustrates data corresponding to each request for funds by call date.

This report is used by DPM to complete the Daily Reconciliation form that calculates the daily payment settlement amount. For each batch, DPM prepares a Total of All Batch Accepted Report, and a debit voucher (SF-5515). This information is faxed to the Federal Reserve Bank in Richmond. The Federal Reserve Bank completes a debit voucher for the total amounts and mails a copy of the vouchers to DPM, which uses the information to reconcile with the source documents.

Once FEDWIRE transactions have been entered into ECS, a Payment Schedule Printout is produced that includes payment details as well as totals. The Philadelphia Treasury produces a daily report of FEDWIRES processed, but transactions contained on that report are three days old.

To compensate, DPM produces a report from the GOALS System (Agency Confirmation Report) which illustrates daily advancements made by the Department of Treasury. FEDWIRES are included on this report. FEDWIRES make up only a small percentage of disbursements and are used only to advance funds that must be credited the same day.

Tests of Operating Effectiveness

- We verified that documented policies and procedures exist for all reports/output being distributed by DPM.

- Based on interviews with selected users, we determined whether:

  - the reports they receive are relevant;
  - data presented is accurate and reliable;
  - they should be removed from any report distribution list;
  - should they be added to any report distribution list; and
  - they have suggestions for improving format, content, frequency and timing.

- We observed the output distribution process and ensured procedures exist to promptly identify the correct addressee for all output distributed.

- We selected a sample of days and verified the evidence of balancing control totals.

- We selected a sample of OPDIVs and verified the existence of a signed Memo of Understanding on file at DPM.

- We selected a sample of OPDIVs and verified that a signed Certification Letter was sent for that specific month.

Results of Tests

We noted that for one of twenty of the OPDIVs selected, a signed Certification Letter could not be located. Expanded testing revealed no additional exceptions. No other exceptions were noted.