OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE
STATE OF MAINE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001

December 2002 A-77-03-00005

MANAGEMENT ADVISORY REPORT

Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- **Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- **Promote economy, effectiveness, and efficiency within the agency.**
- **Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- **Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- **Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- **Independence to determine what reviews to perform.**
- **Access to all information necessary for the reviews.**
- **Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

SOCIAL SECURITY

MEMORANDUM

Date: December 12, 2002

Refer To:

To: Candace Skurnik
Acting Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Maine for the Fiscal Year Ended June 30, 2001 (A-77-03-00005)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Maine for the Fiscal Year ended June 30, 2001. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Maine State Auditor performed the audit. The Department of Health and Human Services' (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the State Auditor and the reviews performed by HHS.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Maine Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Department of Human Services (DHS) is the Maine DDS parent agency.

DHS was not in compliance with the Cash Management Improvement Act (CMIA) agreement. Specifically, DHS did not follow the average clearance pattern method when drawing Federal funds (see Attachment A). DHS' corrective action plan indicates that a meeting was held to review draw down methodologies and make adjustments as needed.

We recommend SSA ensure the DHS has implemented procedures for DDS draws of Federal funds in accordance with the clearance patterns established in the CMIA agreement.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. We bring these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency (see Attachment B).

- Internal controls were not adequate to ensure complete and accurate recording of fixed assets.
- Controls and procedures were not in place to record and disclose operating lease transactions.
- Quarterly financial reports were not reconciled to accounting records.
- Payroll costs were charged to the wrong Federal program.
- Costs were submitted for reimbursement twice.
- Policies and procedures were inadequate to ensure contracts were not awarded to debarred or suspended parties.
- Controls were inadequate to ensure complete and accurate reporting for the Schedules of Expenditures of Federal Awards.
- The time between the receipt and disbursement of Federal funds was not minimized.
- Documentation was not adequate to support salary expenditures.
- Controls were not in place to ensure cost allocations plans contained accurate financial information.
- Internal controls were inadequate to ensure compliance with the CMIA agreement.

Please send copies of the final Audit Clearance Document to Mark Bailey in Kansas City and Paul Wood in Baltimore. If you have questions contact Mark Bailey at (816) 936-5591.

Steven L. Schaeffer

Attachments

Department of Human Services

(01-47) Division of Financial Services

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Agriculture
U.S. Department of Health and Human Services
Social Security Administration
Federal Award Number: Various

Finding: Procedures do not ensure compliance with the Cash Management Improvement Act (Prior Year Finding)

The Division of Financial Services of the Department of Human Services is not in compliance with the written agreement between the State and the U. S. Secretary of the Treasury that implements the Cash Management Improvement Act.

We tested eight programs for which compliance with the Act was material to the program. Two, Medicaid and Childhood Immunization Grants, were found to be in compliance. The remainder listed below either did not comply or documentation was insufficient for us to determine compliance.

CFDA#	Grant Name
10.557	Supplemental Food Program for Women, Infants and Children
93.558	Temporary Assistance to Needy Families (TANF)
93.575 & 93.596	Child Care and Development Block Grant
93.658	Foster Care IV-E
93.667	Social Services Block Grant
96.001	Social Security Disability Insurance

In addition, we relied on previous year audit testing for two programs that were in noncompliance in the prior year and that saw no change as of the end of this fiscal year:

- Child and Adult Care Food Program, CFDA 10.558
- State Administrative Matching Grants for Food Stamps Program, CFDA 10.561

We noted the following four types of noncompliance:

Department of Human Services

1) Title 31 CFR Section 205.17 (e) requires a State to maintain records supporting the implementation of the Cash Management Improvement Act The Division of Financial Services did not maintain adequate records to support drawdown amounts for the following four programs:

   - State Administrative Matching Grants for Food Stamps Program
   - Temporary Assistance to Needy Families
   - Child Care and Development Block Grant
   - Social Services Block Grant

2) The Cash Management Improvement Act Agreement establishes provisions for individual programs to draw federal funds. Although the State's methods did not comply with the Agreement, it did not hold excess federal funds. The following programs did not comply with the funding technique assigned:

   - Temporary Assistance to Needy Families
     The Agreement states that payments to clients are to be drawn using an average clearance pattern of two days. The Department deposited funds for payments to clients 2-28 days after the corresponding payments to clients.

   - Child Care Developmental Block Grant
     All administrative costs are to be drawn biweekly for deposit on the average day of clearance for the State payroll (two days after payroll). Instead, the State has been drawing down funds seven days after payroll.

   - Foster Care
     Direct administrative funds are to be drawn biweekly for deposit on the average day of clearance for the State payroll. Indirect costs are to be drawn once per quarter by applying an approved indirect cost rate to the direct costs of the previous quarter. Instead, the State has drawn funds by calculating the adjusted deficit balance in the accounting system.

   - Social Security Disability Insurance
     The Agreement states that payments to Service Providers are to be drawn using an average clearance pattern of four days. The Department deposited funds 5-35 days after having made the corresponding payments to service providers.

3) The Department did not minimize time elapsed between the drawdown of federal funds and the expenditure of those funds for the following programs:

   - Supplemental Food Program for Women, Infants and Children

Department of Human Services

The Agreement states that the State shall request funds such that they are deposited in a State account not more than two days prior to the day the State makes a disbursement to vendors. The Department had excess cash on hand for fiscal year 2001. The average daily cash on hand for the year was $353,015 and the 3-day average of disbursements for the year was $120,041.

- Temporary Assistance to Needy Families

  Direct administrative funds are to be drawn biweekly for deposit on the average day of clearance for the State payroll. Cash draws for direct administrative costs of the TANF program were deposited into the State's bank account before the average day of clearance for 5 of 23 drawdowns.

- Child and Adult Care Food Program

  The CMIA Agreement requires that federal cash be deposited in a State account no more than four days prior to disbursement. Testing revealed items deposited from six to ten days earlier than disbursement. Note: The 2001 CMIA Agreement was amended for this program to extend the time allowed from two days to four.

4) For the Food Stamps program, the Department could not substantiate how the amounts of two drawdowns tested were determined and had no process in place to draw funds on the approved basis. The Cash Management Improvement Act Agreement requires that 1/6 or 1/7 of the quarterly grant award for administrative costs be drawn biweekly.

Recommendation:

We recommend that the Division of Financial Services of the Department of Human Services, establish and implement procedures to ensure compliance with the Cash Management Improvement Act Agreement. In addition, we recommend that the Department contact the State Treasurer to revise the State Treasury Agreement so that its actual practice will be consistent with the agreed procedures.

Auditee Response/Corrective Action Plan:

Contact Person: John Mower

Department of Human Services

The Department of Human Services did not always comply with the draw down methodologies outlined for the various federal programs in the CMIA agreement. Occasionally funds were drawn down as needed (pre-issuance). Federal Obligations were not to be held until the next scheduled draw down. Plus, staff; who draw down cash and the Account Managers who account for these federal programs were not aware of the many different draw down methodologies for each grant. Three things have occurred to correct this sometime during the 1st quarter of FY 02. l.) A meeting was held with the Financial Services staff responsible for draw downs to go over the CMIA Agreement and make sure they have an understanding of the different methods. 2.) Some invoice processing like Adult and Child Care Food Program and WIC obligations are scheduled on a certain days instead at random. And 3.) I meet with the Deputy State Treasurer annually before the next CMIA Agreement is to be finalized to go over our draw down methodologies and see if they still fit the cash flow needs of the program and make adjustments as needed.

(01-48) Division of Financial Services

CFDA#: Various Questioned Cost: $1,290,881

U.S. Department of Agriculture
U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)

Controls at the Department of Human Services are inadequate to ensure accurate financial reporting of federal grant award expenditures. The Department included certain expenditures as both direct program costs and as costs to be allocated through its departmental cost allocation plan. As a result, the Department overcharged the federal government $1,290,881 and overstated expenditures by the same amount in State fiscal year 2001. Of the thirteen Federal programs tested, we identified duplicate charges in the following three programs:

CFDA #	Program Name	Amount
10.561	Food Stamps	$496,063
93.658	Foster Care	4,973
93.667	Social Services Block Grant	789,845
		$1, 290,881

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section II - Financial Statement Findings

Department of Administrative and Financial Services

(01-01) Bureau of Accounts and Control

Finding: Inadequate controls to ensure complete and accurate recording of general fixed assets

The Bureau of Accounts and Control did not sufficiently monitor agencies for compliance with fixed asset internal control policies that are designed to ensure complete and accurate recording of the State of Maine's fixed assets. General Fixed Assets Account Group records included duplicate entries, assets that were sold but not deleted from the system, and valuations for which supporting documentation could not be produced. In addition, construction in progress was not included. The identified errors were corrected on the financial statements.

Title S MRSA § 1541 requires the Bureau of Accounts and Control to maintain an official statewide system for fixed assets for all State agencies to update and reconcile annually.

The Bureau of Accounts and Control fixed asset policy manual requires agencies to:
1. develop internal policies and procedures,
2. designate a property officer or officers,
3. conduct physical inventories annually or tri-annually for distributed assets,
4. document the inventory program and have it approved by, the Bureau of Accounts and Control,
5. develop written inventory instructions and properly train employees participating in inventories,
6. reconcile inventory counts with the records in the fixed asset system,
7. maintain written certification by the property officer of the inventory and reconciliation, and
8. maintain supporting documentation of fixed asset transactions for examination by appropriate audit organizations.

Recommendation:

We recommend that the Bureau of Accounts and Control monitor and provide clear guidance to agencies to ensure compliance with fixed asset internal control policies and to ensure that the recorded amounts appear reasonable. We also recommend that each agency follow the internal control policies established in the fixed asset manual.

Department of Administrative and Financial Services

Auditee Response/Corrective Action Plan:

Contact Person: Carol F. Whitney, 626-8421

Clear guidance is given to agencies via the Fixed Assets Policy Manual (last updated 1/10/02) distributed to each Agency's Property Officer and in electronic format on the Bureau's home page. A Bureau Senior Accountant is assigned active oversight of Fixed Assets policy compliance. Within the Finding's list of activities, the Bureau accountant is responsible for 2,5,7, and 8, with assistance offered for 6.

It is the intent of Bureau management to maintain Agency compliance as stated in State Audit's Recommendation section.

(01-02) Bureau of Accounts and Control
Division of Financial and Personnel Services
Bureau of General Services

Finding: Inadequate internal control over identification, classification, and reporting of lease transactions (Prior Year Finding)

The State of Maine did not identify, classify, and report lease transactions in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 13, *Accounting for Leases.*

Capital lease assets, the related accumulated depreciation and obligations under capital leases were recorded in the State's financial statements and related information was included in the notes to the financial statements. However, there were errors and inconsistencies in determining valuations that resulted in a qualification to the audit opinion.

The Division of Financial and Personnel Services and the Bureau of General Services are currently working on a project to evaluate the leases recorded in an Internal Service Fund. The Bureau of Accounts and Control requires each agency to report any significant leasing transactions.

Recommendation:

We recommend that the State continue to refine control and review procedures used to record and disclose capital and operating lease transactions.

Department of Administrative and Finance Services

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Kirsten Figueroa. 624-7413

We agree with the recommendation to refine control and review procedures used to record and disclose capital and operating lease transactions.

DFPS has created and is using a database that automates the management, classification, accounting, and billing of the Lease Property Fund. This database has helped tremendously to organize data in a way that helps us evaluate which leases are capital and which are operating. Once that determination is made, we then record the leases appropriately on the financial statements. It should be noted that DFPS does report all leasing arrangements. There has been confusion in the Bureau of General Services Real Property Leasing Program regarding the proper application of GAAP .instructions, particularly in the area of Fair Market Value. Because Fair Market Value is such a critical factor in determining whether a lease is capital or operating, it is important that these values be accurate. DFPS has taken on the task to reevaluate the Fair Market Values assigned by BGS for all current lease arrangements. This work is currently being conducted and it is our intention to finish the work in time for the Fiscal Year 2002 audit.

Work on this database is ongoing. As we understand the GAAP instructions better, we improve the database. We expect to be in compliance for the FY02 audit.

Department of Human Services

DHS concurs with the recommendations of the above finding. The Department currently conducts an annual reconciliation for the TANF Block Grant at the close of the Federal grant year. Adjustments were made accordingly based on the annual reconciliation. The annual reconciliation is based upon the federal grant year not the state fiscal year. The Department will reconcile cumulative expenditure amounts on a quarterly basis instead of annually.

The Child Care Development Block Grant receives revenue transfers from the TANF Block Grant. The department will create a procedure to ensure that the reported transfers for CCDF will be based upon the actual expenditures.

DHS does not concur with the finding of overstated State Maintenance of Effort. Audit posted MOE in the amount of $997,535 in the transportation category. MOE was reported correctly for Transportation 9-00 in the amount of $14,942.

DHS also informed Audit that annual reconciliation was in progress at the time of the Audit. $300,000 for PAS Child Care had been corrected as well as $1,302,091 for Systems. These corrections were made to September 2001 Final SF269 for TANF Block Grant.

DHS concurs that there may have been $151,857 in overstated Maintenance of Effort that had not been reconciled as of the audit date but has since been reconciled.

(01-22) Bureau of Child and Family Services

Child Care Development Block Grant
CFDA#: 93.575 & 93.596 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: G001MECCDF

Finding: Inaccurate federal financial reporting (Prior Year Finding)

The Department of Human Services did not have adequate documentation to support Child Care Development Block Grant financial reports. It did not reconcile accounting records with quarterly financial reports and did not retain the detail behind matching, level of effort and earmarking expenditures that were reported.

Department of Human Services

For the federal grant period 2001, we compared the reported amounts to the State's accounting system and found the following variances: the Department underreported Discretionary Fund expenditures by $4,670,946, overreported the State/federal shares of matching fund expenditures by $275,258 and $132,430 respectively, and overreported level of effort expenditures by $929,053. Although the amounts reported were in error, the Department satisfied level of effort and matching requirements.

In addition, the Department reported transfers to the Child Care Development Block Grant (CCDBG) from the Temporary Assistance to Needy Families (TANF) program that are inconsistent with amounts reported on the TANF federal financial reports as having been transferred. For the audit period, the Department reported that TANF transferred $1.4 million to the CCDBG program. For the same period, the Department reported that CCDBG received $3 million, or $1.6 million more then the TANF report indicated.

Recommendation:

To ensure accurate financial reporting, we recommend that the Department of Human Services:

1. maintain records in accordance with the Office of Management and Budget Common Rule standards for financial management systems to clearly support the reported financial information,
2. reconcile quarterly reports of cumulative expenditure and transfer amounts to the accounting records, and
3. create a record to support transfers from the TANF program by using revenue transfer journals.

Auditee Response/Corrective Action Plan:

Contract Person: Patricia V. Shaw, 287-1855
Carol Bean, 287-1869

The Department is working to correct reports to bring them in balance with each grant.
The Department will maintain supporting documentation for all TANF revenue transfer journals.

(01-23) Bureau of Child and Family Services

Child Care Development Block Grant
CFDA#: 93.575 & 93.596 **Questioned Cost:** $82,730

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: G001MECCDF

Finding: Unallowable payroll costs (Prior Year Finding)

The Department of Human Services charged the Child Care Development Block Grant program with payroll costs of three employees who performed administrative duties involving several federal and/or state programs. The Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* allows costs to be charged to a federal program only to the extent that benefits are received.

We question the amount of payroll costs for these employees that represents work benefiting other programs.

Recommendation:

We recommend that the Department develop procedures to ensure that salaries and fringe benefits are allocated to programs based on benefits received:

Auditee Response/Corrective Action Plan:

The Department of Human Services has not yet provided a written response to the finding.

(01-24) Bureau of Child and Family Services

Foster Care Title IV-E
CFDA#: 93.658 **Questioned Cost:** $65,203

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401

Finding: Costs claimed more than once

The Department of Human Services reported and was reimbursed for the same expenditures twice. The Department uses certain accounting codes to report Foster Care expenditures in the State's accounting system, MFASIS. In addition to these accounting codes, the Department obtains reports from the Maine Automated Child Welfare Information System (MACWIS) of other qualifying expenditures initially charged to other accounts. The Department submits both the direct charges and other amounts reported as program expenditures for reimbursement.

Department of Human Services

Other charges reported included expenditures for transportation and daycare. The Department submitted these qualifying expenditures both on the Title IV-E Gap report (amounts originally paid from the General Fund coded to appropriation organization 0139 - Child Welfare) and on the transportation and daycare reimbursable reports. We tested expenditures claimed for ten children and found all ten on both reports. Known questioned costs for the ten are $3,171. Likely questioned costs, the remainder of the expenditures coded to the account, are $627,111.

We also found that the transportation and daycare expenditure totals included both Federal Expenditure Fund and General Fund Foster Care direct charge accounts (appropriation organization 0137). Because these accounts are already included in the MFASIS reported expenditures, including them in the MACWIS report means that they also were reported twice. Our testing of these accounts identified $62,032 in known questioned costs and $18,430 in likely questioned costs. The total known questioned costs are $65,203 ($3,171 and $62,032) and likely questioned costs are $645,541 ($627,111 and $18,430.)

The Department has experienced considerable personnel turnover. The MACWIS computer system is relatively new. The personnel involved in program administration and financial reporting do not have a complete understanding. of how the program is funded and where information is reported. These two factors, in conjunction with the use of the accounting system to capture information but not actually posting activity to the accounts that ultimately absorb the cost, makes program reporting prone to errors.

Recommendation:

We recommend that the Department document its accounting procedures. It should identify which funds and accounts are used and for what. One individual should review all sources of information used to report program activity to ensure that program expenditures are not reported more than once and that federal reimbursement is requested only once.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia Y. Shaw, 287-1855

This was identified and corrected on the 12/31/01 and 3/31/02 reports. An individual in BCFS checks each report before being submitted to Financial Services to be used as reporting information.

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: OIME1401

Finding: Inadequate suspension and debarment procedures

The Department of Human Services, the Division of Technology Services, had no established policies and procedures to ensure compliance with suspension and debarment requirements for contracts related to the Foster Care Program. Title 45 CFR Part 76.200 and the Compliance Supplement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* prohibit non-federal organizations from contracting with parties that are suspended or debarred. Contractors receiving awards of $100,000 or more must certify that the organization and its principals are not suspended or debarred.

Of the two contracts subject to the suspension and debarment requirements, we found that neither of them contained the required suspension and debarment certification. Payment for the two contracts totaled $2,403,417, or 87% of the amount of contract expenditures for the fiscal year.

Recommendation:

We recommend that the Division require all contractors who are awarded $100,000 or more to certify that the organization and its principals are not suspended or debarred. We further recommend that an internal control system be developed to provide reasonable assurance that computer technology contracts are in compliance with federal suspension and debarment requirements.

Auditee Response/Corrective Action Plan:

Contact Person: Joseph Radziszewski, 287-1748

The Division of Technology Services will require that all contracts over $100,000 add a suspension & disbarment requirement certifying that the organization and its principals are not suspended or debarred.

(01-28) Bureau of Child and Family Services

Foster Care - Title IV-E
CFDA#: 93.658 **Questioned Cost:** $37,179

Department of Human Services

Federal Award Number: Various

<u>Finding</u>: Costs reported in excess of allowed federal share

The Department of Human Services reported as federal costs $10,614 that should have been reported as the State's share. The Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* states that costs must be allocable in order to be charged to a federal program.

<u>Recommendation</u>:

We recommend that the Department adjust .the incorrectly reported costs, and use due care when compiling program activity.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Carol Bean, 287-1869

The Department of Human Services concurs with the above finding. The department has revised the reported federal amount on the SF-269 to reflect. the, appropriate recipients share of expenditures. The revision has been made to 3-31-01 Review and Modification SF-269.

(01-36) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
<u>CFDA</u>#: 93.563 **<u>Questioned Cost</u>:** None

U.S. Department of Health and Human Services
Federal Award Number: Various

<u>Finding</u>: Inadequate controls and procedures to ensure complete and accurate reporting for the Schedule of Expenditures of Federal Awards

The Department of Human Services initially reported $11,002,519 in federal Child Support Enforcement program expenditures to be included in the Schedule of Expenditures of Federal Awards (SEFA). The actual SEFA expenditures were $1.4 million higher, or $12,419,688.

Department of Human Services

Adjustments were necessary to delete funds passed through to and expended by other agencies, to add expenditures paid from program income and to reflect a federal audit adjustment.

The Office of Management and Budget Circular A; *133, Audits of States, Local Governments, and Non-Profit Organizations,* requires that auditees prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards; entities should also be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that Department of Human Services personnel develop controls to ensure accurate reporting for the .Schedule of Expenditures of Federal Awards.

Auditee Response/Corrective Action Plan:

Contract Person: Carol Bean, 287-1869

The Department of Human Services concurs with the above finding. The department reports federal interest earned on Child Support Collections. DHS did not add back in the interest income when preparing the Schedule of Expenditures of Federal Awards. This oversight caused the federal Child Support Administrative expenditures to be understated by the amount of interest income earned. The adjustment has been posted to the 2001 SEFA.

(01-37) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Cost:** $73,448

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: : Inadequate controls and procedures to ensure that only program-related payroll costs are charged to the program

Department of Human Services

From the perspective of the Department of Human Services, DHS should routinely transfer cash in support of budgeted transfers to the Office of the Attorney General based on the projected Legal Services Cost Allocation Schedule. When DHS transfers cash to The Office of the Attorney General they do not know the specific funding source because the source of *funds transferred is determined by DHS Therefore, to reflect accurately the fiends transferred, DHS will supply the source of funds to the Office of the Attorney General's and ensure transfers come from all Programs and not mainly Child Support Enforcement.*

(01-40) Bureau of Health

Supplemental Food Program for Women, Infants and Children
CFDA#: 10.557 **Questioned Cost:** None

U.S. Department of Agriculture
Federal Program Number: 4ME700701

Finding: Noncompliance with cash management requirements

The Department of Human Services did not minimize the time elapsed between drawdown of federal funds and the expenditure of those funds for the Supplemental Food Program for Women, Infants and Children. Most of the program funds are disbursed to program participants using food instruments, which are redeemed by the Financial Services Management Corporation (FSMC) on behalf of the State. FSMC had excess State funds on hand. Its average daily cash balance during the fiscal year was $353,015, while its 3-day average cash needs were $120,041.

Title 31 CFR 205.7 requires that "a State and a Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out."

Recommendation:

We recommend that the Department minimize federal cash on hand, in compliance with 31 CFR.

Auditee Response/Corrective Action Plan:

Contact Person: Sandra Davidson, 287-1904

Department of Human Services

The cash was drawn down bi-weekly at $310, 000. As of February, 2002 we have been drawing down $180,000 weekly. We don't draw down when we receive a rebate check because these checks average about $300,000.00. The WIC Accountant is making sure the average daily cash on hand is not as high.

(01-41) Bureau of Health

Supplemental Food Program for Women, Infants and Children
CFDA#: 10:557 **Questioned Cost:** None

U.S. Department of Agriculture
Federal Award Number: 4ME700701

Finding: Schedule of Expenditures of Federal Awards not accurate

The Department of Human Services submitted an inaccurate report of federal expenditures to the State Controller for inclusion in the Schedule of Expenditures of Federal Awards. Expenditures reported as $13,946,646 for the Supplemental Food Program for Women, Infants and Children (WIC) for fiscal year 2001 were overstated by $3,613,742.

The reporting inaccuracies were primarily due to the inclusion of $3,801,805 of rebated food costs.

Office of Management and Budget Circular No. A-133, *Audits of States; Local Governments, and Non-Profit Organizations,* requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that WIC program personnel report expenditures net of food rebates.

Auditee Response/Corrective Action Plan:

Contact Person: Ron Bansmer, 287-5342

Department of Human Services

3) adopt procedures for supervisory oversight of the inventory system, and
4) exercise greater care in the preparation of amounts used for the SEFA.

Auditee Response/Corrective Action Plan:

Contact Person: Lisa Tuttle, 287-3746

After a review of the information provided by the auditor, the Maine Immunization Program concurs with the finding. As this finding was carried forth from a prior year, we have already began corrective action. Following is our corrective action plan:

Vaccines that are not purchased directly through the federal software system will be recorded on a separate Vaccine Purchase Tracking Spreadsheet. Vaccine purchases through the federal software system will be reconciled monthly against the spreadsheet.

The amounts prepared for the SEFA will be reviewed by the Assistant Director of the MIP before submission to the State's official accounting records. The review will consist of a series of checks. against documents regarding the purchase of vaccines with federal and non-federal funds.

A team of MIP staff will meet monthly to discuss the vaccine management issues and make recommendations for vaccine purchase. During each monthly review, the latest weekly vaccine inventory will be reviewed and a monthly distribution record will be compared to the Vaccine Purchase Tracking Spreadsheet.

(01-4) Bureau of Health

Immunization Grants
CFDA#: 93.268 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-11

Finding: Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)

Department of Human Services

Five of twenty Immunization Program employees worked on multiple activities or cost objectives but the distribution of their salaries or wages was supported by budgetary estimates rather than by personnel activity reports. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* states:

> Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system ...or other substitute system has been approved by the cognizant Federal agency.

Recommendation:

We recommend that the Bureau of Health of the Department of Human Services ensure compliance with requirements for employees who work on multiple activities or cost objectives.

Auditee Response/Corrective Action Plan:

Contact Person: Lisa Tuttle, 287-3746

The Maine Immunization Program concurs with the finding. After exploration into a variety of tools to address the issues highlighted in the finding, we have decided to use a simple spreadsheet for employees who work on multiple funding streams to track their percentage of *time across multiple finding streams. This spreadsheet will be put into place by June 1, 2002.*

(01-45) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant
CFDA#: 93.959 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: 99 BI ME SAPT-O1

Finding: Noncompliance with cash management requirements (Prior Year Finding)

The Office of Substance Abuse did not disburse federal funds as required by the provisions of the State's Cash Management Improvement Act (CMIA) Agreement for the Substance Abuse Block Grant. Failure to abide by provisions of the Agreement may result in earned interest having to be paid to the federal government.

Department of Human Services

The Department of Human Services did not always comply with the draw down methodologies outlined for the various federal programs in the CMIA agreement. Occasionally funds were drawn down as needed (pre-issuance). Federal Obligations were not to be held until the next scheduled draw down. Plus, staff, who draw down cash and the Account Managers who account for these federal programs were not aware of the many different draw down methodologies for each grant. Three things have occurred to correct this sometime during the 1st quarter of FY 02. l.) A meeting was held with the Financial Services staff responsible for draw downs to go over the CMIA Agreement and make sure they have an understanding of the different methods. 2.) Some invoice processing like Adult and Child Care Food Program and WIC obligations are scheduled on a certain days instead at random. And 3.) 1 meet with the Deputy State Treasurer annually before the next CMIA Agreement is to be finalized to go over our draw down methodologies and see if they still fit the cash flow needs of the program and make adjustments as needed.

(01-48) Division of Financial Services,

CFDA#: Various **Questioned Cost:** $1,290,881

U.S. Department of Agriculture
U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)

Controls at the Department of Human Services are inadequate to ensure accurate financial reporting of federal grant award expenditures. The Department included certain expenditures as both direct program costs and as costs to be allocated through its departmental cost allocation plan. As a result, the Department overcharged the federal government $1,290,881 and overstated expenditures by the same amount in State fiscal year 2001. Of the thirteen Federal programs tested, we identified duplicate charges in the following three programs:

CFDA #	Program Name	Amount
10.561	Food Stamps	$496,063
93.658	Foster Care	4,973
93.667	Social Services Block Grant	789,845
		$1,29,881

Department of Human Services

Additionally, we noted that in a fourth program, Temporary Assistance for Needy Families (TANF), certain amounts were duplicated when reporting a total of $1,710,096. In September 2001 (the final quarter of federal fiscal year 2001), the problem was identified and corrected through a reconciliation process. Inconsistent methods for preparing the quarterly TANF financial reports caused the initial duplications and caused confusion in tracking the expenditures that were reported.

The Department's cost allocation plan included incorrect rates in a significant cost pool within a primary allocation schedule for the cost allocation plan. Additionally, another primary schedule understated one of the allocated cost pools by $1 million, causing another cost pool to be overstated. These misstated cost pools resulted in some programs being overcharged and others undercharged. Pertinent financial reports were not always revised to reflect amendments to cost allocation schedules. In addition, data extracted from the financial accounting system, rather than from allocation schedules, was sometimes used to complete financial reports. This inconsistency contributed to inaccurate reporting and the duplicate recording of expenditures. The Department has experienced staff turnover, which has resulted in a lack of familiarity with the cost allocation plan.

Recommendation:

We recommend that the Department:
1. document its processes. so staff will have guidance to follow,
2. develop controls to ensure that costs are not reported both as allocated and as direct costs,
3. direct staff to consistently use the same source of information to complete financial reports, and
4. revise financial reports as allocation schedules are amended.

Auditee Response/Corrective Action Plan:

Contact Person: John Mower

1. *The Division of Financial Services Assistant Director has been tasked to compile a Procedures Manual. The Assistant Director will be working with the Division's Account Managers to document procedures on how to complete various FSRs and some of the reoccurring transactions like journal entries and schedules that have to be done periodically. This will be done over time beginning in the* 3rd *quarter of FY 02.*

Department of Human Services

2. *The issue* of *picking* tip *the same costs as a direct and an allocated cost can be attributed to new staff and errors when not differentiating between what costs are allocated by cost allocation schedules and what are picked* tip *as direct. The procedures manual listed earlier will address this by outlining the difference between the direct and the allocated costs when completing the FSR. Also the new staff member, who oversees the cost allocation plan, will go over these CAP Schedules with each Account Manager so they all have a better understanding of where the figures originate from and make sure other costs are not double counted. This is scheduled to occur over the last two quarters of CY 2002.*

3. *The Account Managers have been re-educated to the fact that they have to use the costs from MFASIS, the state's accounting system for reporting requirements unless otherwise specified. Either the standard computer generated report or a GQL data warehouse query from the same source. MFASIS is the official accounting system record of the State.*

4. *Various accounting staff members compile the cost allocation plan schedules. Occasionally, a revision is made to a schedule, and this change is not communicated to the other accountants that utilize the schedule. Starting during the 1st quarter of FY 2002 all schedules once completed are turned over to the person responsible for CAP. Any changes to schedules have to be coordinated by this person who sees the revised schedule is distributed to the accountants affected by the change.*

(01-49) Community Services Center
Division of Audit

<u>CFDA</u>#: Various **<u>Questioned Cost</u>:** None

U.S. Department of Health and Human Services Federal Award Number: Various

<u>Finding</u>: Pass-through responsibilities not met: untimely receipt of corrective action plans and untimely issuance of management decisions (Prior Year Finding)

Office of the Treasurer of State

(01-59) Office of the Treasurer of State

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Treasury
Federal Award Number: Various

Finding: Internal controls not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)

The Office of the Treasurer of State did not satisfy all administrative requirements of the Cash Management Improvement Act (CMIA). The Office is responsible for administering the Act for the State of Maine. These responsibilities include negotiating the annual CMIA Agreement between the State and the U.S. Department of the Treasury, preparing the CMIA Annual Report and monitoring State agency compliance with CMIA provisions. The Office did not maintain sufficient contact with agencies responsible for administering programs under the CMIA to allow the State's assigned CMIA coordinator to monitor compliance, gather data, and communicate information regarding appropriate and compliant cash management for programs subject to the agreement.

We noted the following instances of inadequate internal control or of noncompliance:

- The CMIA coordinator did not periodically review agency cash management records for programs with interest-neutral drawdown methods, as required by the *CMIA Policy and Procedures Manual.* The Office did review records relating to pre-issuance funded program components.

- The Departments of Labor, Human Services, Education, Behavioral and Developmental Services, Transportation, and Defense, Veterans, and Emergency Management did not comply with drawdown procedures outlined in the Treasury State Agreement for certain programs included in the Agreement. The Office of the Treasurer did not take action to change the drawdown procedures for these departments or to report an interest accrual on all instances of premature drawdowns. Interest accruals were calculated only if the drawdowns were made on a pre-issuance basis or when reported as exceptions by State agencies.

- Interest calculations for four programs netted negative cash balances against positive ones, resulting in lower than actual reported liabilities.

Office of the Treasurer of State

Recommendation:

We recommend that the Office of the Treasurer monitor agencies' compliance with drawdown methods and ensure that all agencies provide sufficient information to provide an accurate interest liability calculation. We recommend that the Office continue working towards amending the Agreement so that for any given drawdown, the specified funding technique is compatible with the purpose of the draw. We recommend that interest calculations include only periods with positive cash balances.

Auditee Response/Corrective Action Plan:

Contact Person: Holly Maffei, 624-7477

The Treasurer's Office will take the following steps during FY 2003:

Due to conflicting responsibilities of the Treasurer's Office, it has been difficult to fulfill *its Coordinator responsibilities effectively. Approval has been obtained to use the direct cost allowance permitted under CMIA 31 CFR Part 205 to fund a position dedicated to the coordination of the Treasury-State Agreement (TSA) and to monitor federal drawdown requests. This position will work with State Agencies to educate and gather a better understanding of the processes and required documentation pertaining to the receipt of federal finds.*

The CMIA Policy and Procedures Manual recommends spot checks and periodic examinations of State Agency reports documenting federal drawdown requests in order to monitor compliance with CMIA. A sampling of such documentation will be scheduled and requested from State Agencies, which shall include the determination of and the amount of federal funds drawn, the date funds are requested and credited to the State's bank account, and the amount and dates of *program-related issuance.*

In addition, the Treasurer's Office has expressed a desire to work more closely with the Department of Audit to understand the issues raised and the procedures used in the audit of *State Agencies. Although sampling may uncover an incidence* of *noncompliance, the Treasurer's Office is reliant on an Agency's signed Statement of Compliance or their reporting of refunds and/or exceptions in the calculation of the liability owed to the federal government.*

At the beginning of *FY 2002, The Treasurer's Office began providing a complete copy* of *the TSA to each State Agency that is guided by the TSA terms and conditions: The designated Agency representative is requested to sign acknowledging receipt of the contract, understanding and agreement to the terms and drawdown methodology cited and agreement to communicate any changes that would affect the TSA to the Treasurer's Office.*

Office of the Treasurer of State

The purpose of the Cash Management Improvement Act is to promote the efficient transfer of Federal funds between the Federal Government and States. CMIA permits the accrual of a federal liability to a State when the federal obligational authority is late in transferring funds to a State that has paid out funds for program purposes and has requested reimbursement in accordance with the TSA. The State has opted to take the more conservative approach with its preissuance interest liability and has consistently ignored any instances of overall federal-liability-to-State in the filing of its Annual Report. In following the format used in previous years, the Office did include monthly negative cash balances against monthly positive cash balances within individual federal programs. The Treasurer's Office, in cooperation with the Bureau of Accounts and Control, has worked to transition State Agencies to interest neutral draw down techniques in the receipt of federal funds rather than the federal liability-incurring technique of preissuance. Since most Agencies are transitioning to interest neutral drawdown techniques, this should not be an issue in the future.

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.