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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SINGLE AUDIT OF THE  
STATE OF MONTANA  
FOR THE 2-YEAR PERIOD  
ENDED JUNE 30, 2001**

December 2002

A-77-03-00006

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**MANAGEMENT  
ADVISORY REPORT**

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## **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 16, 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 Montana for the  
2-Year Period Ended June 30, 2002 (A-77-03-00006)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Montana for the 2-year period ended June 30, 2002. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Montana Legislative 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 Legislative 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 Montana 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 Montana Department of Public Health and Human Services (DPHHS) is the Montana DDS parent agency.

DPHHS did not:

1. Control its financial management structure. Specifically, DPHHS did not support Federal reporting, allocate costs between State and Federal programs, or prevent discrepancies between the State's primary accounting system and the Department's subsystems.
2. Reconcile its automated data processing subsystems to the State's primary accounting system, resulting in financial records possibly being misstated (see Attachment A).

Implementation of the corrective action plan is in process to improve financial controls. Work groups have been established to review reconciliation activities and establish additional procedures to improve the automated data processing subsystems.

We recommend SSA ensure DPHHS implement:

1. Financial management controls to ensure accountability and compliance with State and Federal laws and regulations.
2. Policies and procedures to ensure timely completion and resolution of reconciliations between the State's accounting system and DPHHS' various subsystems.

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).

- The Department of Administration was unable to reconcile bank account records to the State's accounting records.
- Controls were not in place to ensure that interest calculation spreadsheets were accurate and reconciled with the accounting records.
- DPHHS drew cash earlier than the clearance patterns established in the Cash Management Improvement Act agreement.
- DPHHS did not adhere to Federal regulations for the review and analysis of data processing and system security issues.
- Procedures were not followed to verify that contractors were not suspended or debarred.
- Expenditure and cash draw records did not identify that expenditures occurred in the period for which the Federal award was available.

Page 3 - Candace Skurnik

- Procedures were not in place to ensure accounting records supported Federal reports.

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

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

Section II - Financial Statement Findings

Finding #1-1

**Criteria:** Internal Control Structure

The National Commission on Fraudulent Financial Reporting (the Treadway Commission) was created in 1985 by the joint sponsorship of five organizations, which composed the Committee of Sponsoring Organizations (COSO):

- The American Institute of Certified Public Accountants
- The American Accounting Association
- The Institute of Management Accountants (formerly the National Association of Accountants)
- The Financial Executives Institute

In 1987, the Treadway Commission recommended COSO develop a common definition of internal control and provide guidance to assist management to better control its organization. COSO issued a document titled *Internal Control - An Integrated Framework*. The definition of internal control includes five elements: control environment, risk assessment, control activities, information and communication, and monitoring.

**Condition:** The Montana Department of Public Health and Human Services' (department) audit report discusses issues related to fiscal and legal accountability within the department. The department could have prevented, or detected in a timely manner, many of these errors if it developed and implemented a sound internal control structure as we recommended in our two prior audit reports. Management has not implemented a control structure adequate to prevent, or timely detect and correct, errors in its financial records and fails to comply with program requirements.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department spends in excess of \$974 million per year for program benefits and administration. Of that total, more than \$675.7 million per year was provided by federal agencies. The department has offices and facilities located geographically throughout the state of Montana and employs 2,702 budgeted full-time equivalent employees working in nine divisions.

**Effect:** The department's financial management control structure is not able to prevent or detect many errors. Because of this weakness, the department cannot ensure payments are made to eligible individuals or to others for allowable purposes. The department's inefficient transaction processing does not accurately support federal reporting, does not demonstrate accurate allocation of costs between state and federal programs, and does not prevent discrepancies from existing between the state's primary accounting system and the department's subsystems. The department is not meeting its fiscal and legal responsibilities.

**Cause:** According to department management, implementation of this recommendation has been hampered by continuing turnover within the Fiscal Bureau; including turnover in supervisory positions, and unforeseen resource demands for implementing the state's new accounting system. Since the issuance of the prior audit report, the department has reorganized certain functions within the Operations and

Technology Division in order to improve operational efficiency and communications. The department has also created a separate Fiscal Policy Office, which provides oversight and assistance in establishing internal control and fiscal policy for the department. In addition, the department hired a deputy director in August 2001 who will be responsible for oversight of department operations, including financial matters, and an internal auditor in October 2001.

**Recommendation:** We recommend the department implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section II - Financial Statement Findings**

**Finding #1-2**

**Criteria:** Montana state law, section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

**Condition:** The Montana Department of Public Health and Human Services (department) does not completely reconcile its automated data processing subsystems to the state's primary accounting system (SABHRS).

**Questioned Costs:** No questioned costs were identified.

**Context:** Department personnel use the Agency Wide Accounting and Client Systems (AWACS) to generate vendor and provider payments. It is also used to prepare financial reports for federal grants. The department uses the Child and Adult Protective Services (CAPS) system to record several types of activity.. One of the modules in the CAPS system is used to account for foster care trust accounts. Foster Care IV-E expenditures for fiscal years 1999-00 and 2000-01 were approximately \$11 million. The department uses its Advanced Revelation (AREV) system to establish accounts receivable for its laboratory operations. The Public Health Laboratory utilizes the AREV system and had an accounts receivable amount of \$231,666 as of June 30, 2001.

**Effect:** The department's financial records may be misstated and thus misleading to users and, federal reports could be misstated.

**Cause:** AWACS - Department personnel noted that AWACS and SABHRS coding are not consistent in some cases, which makes reconciling difficult. During the prior audit, the department had not completely reconciled AWACS to the accounting records during fiscal year 1997-98 and 1998-99. Personnel said certain adjustments to data made directly to the SABHRS are not made on AWACS.

CAPS - The department did make some adjustment to SABHRS in fiscal year 1999-00, so that totals in CAPS matched totals in SABHRS. However, the adjustments were not done based on reconciliation between the two systems. Department personnel said that they were having problems with SABHRS accepting journals so they made the decision to not track the errors and to adjust SABHRS using CAPS totals as support.

AREV - A monthly comparison between SABHRS and AREV is done to determine differences, SABHRS is adjusted but the two systems do not necessarily reflect true balances. By adjusting SABHRS so it reflects AREV amounts, the department is not considering transactions that are only recorded on SABHRS and not AREV.



**Recommendation:** We recommend the department implement policies and procedures to ensure timely completion and resolution of reconciliations between the state's accounting system and the department's various subsystems.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

- Finding #2-47** U.S. Department of Agriculture  
CFDA #10.551 & 10.561 Food Stamp Cluster  
CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and  
Children (WIC)  
CFDA #10.555 National School Lunch Program  
CFDA #10.567 Food Distribution Program on Indian Reservations
- U.S. Department of Education  
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
- U.S. Department of Health and Human Services  
CFDA #93.044 & 93.045 Aging Cluster  
CFDA #93.558 Temporary Assistance for Needy Families Program  
CFDA #93.563 Child Support Enforcement  
CFDA #93.568 Low Income Home Energy Assistance  
CFDA #93.575 & 93.596 Child Care Cluster  
CFDA #93.658 Foster Care - Title IV-E  
CFDA #93.667 Social Service Block Grant  
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster  
CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse  
CFDA #93.767 State Children's Insurance Program
- U.S. Department of Social Security Administration  
CFDA #96.001 Social Security - Disability Insurance

See the Schedule of Findings and Questioned Costs, Section II - Financial Statement Findings, Finding# 1-1 for details.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section 111 - Federal Award Findings and Questioned Costs**

**Finding #2-48** U.S. Department of Agriculture  
CFDA #10.551 & 10.561 Food Stamp Cluster  
CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and  
Children (WIC)  
CFDA #10.555 National School Lunch Program  
CFDA #10.567 Food Distribution Program on Indian Reservations

U.S. Department of Education  
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

U.S. Department of Health and Human Services  
CFDA #93.044 & 93.045 Aging Cluster  
CFDA #93.558 Temporary Assistance for Needy Families Program  
CFDA #93.563 Child Support Enforcement  
CFDA #93.568 Low Income Home Energy Assistance  
CFDA #93.575 & 93.596 Child Care Cluster  
CFDA #93.658 Foster Care - Title IV-E  
CFDA #93.667 Social Service Block Grant  
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster  
CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse  
CFDA #93.767 State Children's Insurance Program

U.S. Department of Social Security Administration  
CFDA #96.001 Social Security - Disability Insurance

See the Schedule of Findings and Questioned Costs, Section II - Financial Statement Findings, Finding #1-2 for details.

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

<b>Finding #</b>	<b>CFDA #</b>	<b>CAP - Corrective Action Plan</b>	<b>Person Responsible for CAP</b>	<b>Target Date</b>
Finding #2-43	10.551, 10.561	A new process is in place and staff has been cross-trained.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-44	Various	The department is reviewing both the TEAMS and CAPS reports to identify and remove unnecessary reports.	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-45	10.555, 81.010, 84.027, 84.078	The Office of Public Instruction contacted the four counties that were, at the time of the audit, still receiving their funds by warrant rather than electronic funds transfer (EFT). Three of those counties now accept EFT payments; Gallatin county is our only hold out. We continue to call and write the Gallatin County Treasurer, asking that she reconsider.	Julia Dilly, FSB Administrator	July 1, 2002
Finding #2-46	17.225	The Department of Revenue will modify the department's computer system to transfer the Unemployment Insurance experience rating from previous employers to successor employers, thereby ensuring rates are calculated properly.	Jeff Miller, Administrator, Policy Management	Implemented March 2002
Finding #2-47	Various	A workplan is in process to improve all areas of financial control.	Marie Matthews, Fiscal Policy Advisor	December 31, 2002
Finding #2-48	Various	The department has established work groups to review reconciliation activities and establish additional procedures as necessary per system. Systems have been prioritized according to risk and are being addressed in that order.	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-49	Various	The Department of Environmental Quality developed and adopted a written Financial Management Control Plan. Agency provides training on policies and procedures and has improved its new employee orientation process to promote the policies and procedures and the information available on the department's Intranet. Fiscal Management Bureau staff have established desk manuals.	Centralized Services Division Administration	April 2000
Finding #2-50	Various	The Department of Environmental Quality developed and implemented written policy and procedures on cash management. In April 2001 the electronic cash receipting log and chain of custody record were implemented and staff was trained on the system.	Centralized Services Division Administration	April 2000
Finding #2-51	84.243	The Office of Commissioner of Higher Education's Director of Accounting and Budgeting will approve all fiscal yearend-adjusting entries. Tech-Prep Consortium will pay all presenter fees, as required by federal regulations.	Jackie Grenfell, OCHE Federal Accountant	March 1, 2002

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section II - Financial Statement Findings**

**Finding #1-6** Various Federal Agencies  
CFDA # Various

**Criteria:** State law, Section 17-1-102(4), MCA requires that before the accounts are closed at fiscal yearend, agencies shall input all transactions to present the receipt, use, and disposition of all money and property in accordance with generally accepted accounting principles. State law, Section 17-1-111, MCA, also provides the general fiscal duties of the state treasurer include receiving and accounting for all money belonging to the state and keeping an account of all money received and disbursed.

**Condition:** The Department of Administration (department) is responsible for reconciling activity within all bank accounts for the State of Montana. Since the implementation of Statewide Accounting, Budgeting, and Human Resource System (SABHRS) beginning in fiscal year 2000, the department has been unable to reconcile its bank account activity to the accounting records.

**Questioned Costs:** No questioned costs identified.

**Context:** The State's General Purpose Financial Statements reported approximately \$156 million and \$164 million in cash deposits at June 30, 2000 and June 30, 2001, respectively. In March 2001, the department made adjustments exceeding \$20 million to the financial statements. As of January 2002, the department recorded a final adjustment of approximately \$755,000 in the General Fund.

**Effect:** The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances. The unreconciled difference between the accounting records and the bank records on October 10, 2001 was \$323,229.

**Cause:** The conversion to SABHRS created unforeseen problems which caused delays in agencies processing their accounting information. In addition, the department has not implemented procedures to facilitate timely reconciliation between bank records and accounting records.

**Recommendation:** We recommend the department implement procedures to promptly reconcile cash balances on the accounting records to the bank records as required by state law.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

Section III - Federal Award Findings and Questioned Costs

**Finding #2-2** U.S. Department of Agriculture  
CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants and  
Children (WIC)  
CFDA #10.555 National School Lunch Program

U.S. Department of Education  
CFDA #84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States

U.S. Department of Health and Human Services  
CFDA #93.468 Low Income Home Energy Assistance  
CFDA #93.558 Temporary Assistance for Needy Families Program  
CFDA #93.596 Child Care Mandatory and Matching Funds of the Child Care and  
Development  
CFDA #93.658 Foster Care - Title IV-E  
CF DA #93.667 Social Services Block Grant  
CFDA #93.778 Medicaid Assistance Program

**Criteria:** The Cash Management Improvement Act (CMIA) agreement between Montana and the U.S. Treasury Department requires the state to calculate interest owed to the federal government as a result of not following the specifications outlined in the agreement.

**Condition:** The Department of Public Health and Human Services (department) personnel did not calculate the beginning cash balances consistently among the different programs. . The total disbursements reported on the spreadsheets did not agree to the total expenditures recorded on the accounting system. The ending cash balances calculated through the spreadsheets did not agree to the balances in the cash accounting at June 30, 2000, and the difference could not be attributed to non-federal sources of cash. In addition to systematic inconsistencies involving beginning cash balances and recorded expenditures, we found a keying error for a Medicaid draw. The interest calculation spreadsheet for Medicaid reported a cash draw of \$12,805,120 when the actual cash draw was \$12,925. The error occurred when the employee who prepared the spreadsheet, intending to enter a formula,  $\$12,805 + \$120$ , did not enter the + sign.

**Questioned Costs:** No questioned costs were identified.

**Context:** We reviewed the interest calculation spreadsheets for eight of the department's nine major federal programs covered by the CMIA agreement in fiscal year 1999-00.

**Effect:** Misstating balances, cash disbursement, or collection activity could result in erroneous CMIA interest calculations.

**Cause:** Due to a lack of internal controls, errors were made on the spreadsheets and not detected.

**Recommendation:** We recommend the department implement controls to ensure the cash management interest obligation calculation spreadsheets submitted to the Department of Administration reconcile with the accounting records and are accurate.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

Schedule III - Federal Award Findings and Questioned Costs

- Finding #2-3** U.S. Department of Agriculture  
CFDA #10.551 & 10.561 Food Stamp Cluster  
CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and  
Children (WIC)  
CFDA #10.555 National School Lunch Program
- U.S. Department of Education  
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
- U.S. Department of Health and Human Services  
CFDA #93.468 Low Income Home Energy Assistance  
CFDA #93.558 Temporary Assistance for Needy Families Program  
CFDA #93.596 Child Care Mandatory and Matching Funds of the Child Care and  
Development  
CFDA #93.658 Foster Care - Title IV-E  
CFDA #93.667 Social Services Block Grant  
CFDA #93.778 Medicaid Assistance Program  
CFDA #93.959 Block Grants for Prevention & Treatment of Substance Abuse  
(SAPT)

**Criteria:** Under the terms of the Cash Management Improvement Act (CMIA) agreement (section 7.9), the Montana Department of Public Health and Human Services (department) must draw funds for each program based on a warrant clearance pattern established by the Montana Department of Administration. OMB Circular A-102, Paragraph 2a states "Agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds."

**Condition:** For the major federal programs covered by the CMIA agreement, we observed instances where the department's fiscal personnel drew cash earlier than the clearance pattern established in the agreement and significantly more instances where they drew cash later than the clearance pattern established in the agreement. We also noted cash draws which were consistently calculated in a manner contrary to that in the CMIA agreement and expenditures which were not considered in the cash draw calculations for any program. The following paragraphs summarize the cash management problems we found.

- The Social Services Block Grant made 172 draws. Of these, only 17 were made in accordance with the CMIA agreement. The remaining 155 cash draws were late by as much as 14 days.
- We reviewed the department's spreadsheet of daily cash receipts and disbursements during fiscal year 1999-00 for administrative costs of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). We identified a seven-month period where no cash draws were made. The department should have made 25 draws under the CMIA clearance



pattern in effect during that period. When the department made a draw to cover administrative costs of the WIC program, it was for \$2,099,520.

- Medicaid matching rates vary based on the date the service was provided. Department personnel calculate Medicaid draws based on service center reports of total warrant and electronic funds transfer amounts, which they multiply times the current matching rate to estimate the federal share. Once a month, the service center provides the actual matching amounts-based on the dates of the services paid. Department personnel reconcile the estimated amounts based on the current rate to the actual amount based on service data. The reconciliation for June 2001 resulted in an accounting adjustment that increased the federal share and reduced the state share of match by \$899,143. The CMIA agreement requires the draws to be based on actual, not estimated disbursements.
- Cash draws for TANF benefits and administrative costs were made based on estimated disbursements. The CMIA agreement required draws be based on actual disbursements. In one instance, department personnel drew \$1,785,564 instead of actual benefit expenditures of \$1,808,073 one day late.
- Department personnel calculate cash draws based on their calculations on cash disbursement transactions, without considering transactions that should offset these draws, such as a correction of matching rates or a return of benefit payments for which an individual was found to be ineligible after payment was disbursed. Because cash was drawn for these disbursements, then returned, the return funds should be used to reduce the next draw.

For the major federal programs not covered by the CMIA agreement (Food Stamps and the Block Grant for the Prevention and Treatment of Substance Abuse), we observed no routine draw pattern and they consistently had negative cash balances during the audit period. We also found the department's fiscal personnel did not consider the cash balance created through inter-entity loans in calculating the amount of cash to draw for these programs. The existence of the inter-entity loans for these programs often made the cash balance for the programs positive when the balance of federal cash was negative. In other situations, the existence of inter-entity loans did not prevent negative cash balances from occurring.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department's expenditures exceeded \$888 million in fiscal year 1999-00 and \$974 million in fiscal year 2000-01, or an average of over \$3.4 million and \$3.7 million, respectively, per working day. The federal government funded 69 percent of these expenditures. In fiscal year 2000-01, the department recorded over \$631 million in federal revenue, a major component of the state's revenue.

**Effect:** The department is not in compliance with CMIA agreement requirements or OMB Circular A-133, cash management requirements. In a state agency this size, it is important to manage cash flow to ensure cash is available to pay warrants and to maximize investment earnings to the various financing sources.

**Cause:** The department's controls during the audit period were not adequate to ensure compliance with the federal cash management requirements and ensure timely recording of financial activity used as a basis for cash draws.

**Recommendation:** We recommend the department:

- A. Implement effective controls to ensure compliance with federal cash management requirements.
- B. Draw federal funds in accordance with federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-27** U.S. Department of Health and Human Services  
CFDA #93.775, 93.777, 93.778 Medicaid Cluster  
CFDA #93.658 Foster Care - Title IV-E  
CFDA #93.563 Child Support Enforcement

**Criteria:** 45 CFR 95.621(f) require the Montana Department of Public Health and Human Services (department) establish procedures for review and analysis of data processing and system security issues for systems used to administer Medicaid, Child Support Enforcement and Title IV-E Foster Care. These regulations include directives regarding risk analyses to ensure both new and existing systems include appropriate, cost effective controls. The department is required to perform risk analysis whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to address evaluation of physical and data security operating procedures, and personnel practices. The department is to maintain reports on the biennial reviews, together with pertinent supporting documentation, for U.S. Department of Health and Human Services onsite reviews.

**Condition:** The automated data processing system, which impact the above programs, are Montana Medicaid Management Information System, The Economic Assistance Management System, System for the Enforcement and Recovery of Child Support, Child and Protective Services, Agency Wide Accounting and Client System and the state's accounting system. The department has just started to gather information on all systems and their related security. The department has not completed the required risk analysis.

**Questioned Costs:** No questioned costs were identified.

**Context:** OMB Circular A-133 Compliance Supplement identifies this regulation as a special test and provision for the Medicaid Cluster. Total expenditures for the Medicaid Cluster in the fiscal years 1999-00 and 2000-01 were approximately \$347.6 million and \$385.9 million, respectively.

**Effect:** The department is not in compliance with federal regulations for review and analysis of data processing and system security issues for systems.

**Cause:** Department management was made aware of these requirements during the prior audit but has not established a system of review and risk analysis.

**Recommendation:** We recommend the department develop a system security and risk review plan and document the results of the review in order to comply with federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-28** U.S. Department of Health and Human Services  
CFDA # Various

**Criteria:** OMB Circular A-102 Section 1, Part d requires agencies to establish procedures for the effective use of the federal List of Parties Excluded from Federal Procurement or Nonprocurement programs to ensure they do not award assistance to listed parties.

**Condition:** The Department of Public Health and Human Services (department) makes payments to medical service providers through the Medicaid Management Information System (MMIS) and payments to certain other sub grantees and vendors through Agency Wide Accounting and Client System (AWACS). When the department renews certain service contracts by extending the date of the original contract, the department does not check suspension and debarment status of the contractor and does not update suspension and debarment contract language.

**Questioned Costs:** No questioned costs were identified.

**Context:** Contracts for service organization, data processing enhancements, and renewals of such service contracts are not reviewed for updated language required by department's legal counsel. These constitute a small number of higher dollar contracts.

**Effect:** The department is not in compliance with federal regulations regarding certification that vendors have not been suspended or debarred.

**Cause:** The department's legal department set contract requirements, but program staff have responsibility to include required language in the contracts executed by the department.

**Recommendation:** We recommend the department develop an approval process to ensure the department is not contracting with suspended or debarred parties.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-29** U.S. Department of Health and Human Services (HHS)  
CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse (SAPT)

**Criteria:** 45 CFR 96.124(a)(1) and (2) requires states to earmark a portion of the Block Grants for prevention and treatment of alcohol and other drugs. The OMB Circular A-133 compliance supplement for SAPT states that a state is required to obligate all of the funds awarded during the fiscal year of the award. Amounts obligated by the state which remain unexpended at the end of the fiscal year for which the amounts were awarded shall remain available until the end of the succeeding fiscal year.

**Condition:** When we reviewed the Department of Public Health and Human Services (department) contract, expenditure, and cash draw records, we were unable to verify that expenditures occurred in the period for which the grant award was available and that limitations on expenditures by earmarked category were satisfied. The department did not record SAPT grant expenditures by grant award year and earmarked category on the state's accounting records.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department made SAPT expenditures of \$4,632,762 and \$4,890,430 in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Department controls do not provide a means for agency personnel to monitor and ensure compliance with SAPT earmarking provisions and period of availability requirements.

**Cause:** Department personnel set up accounts on the state's accounting records in January 2001, to track expenditure by grant award year. Prior to that time, the accounting records did not accumulate expenditures by award year.

**Recommendation:** We recommend the department implement procedures to track earmarked expenditure categories by grant year for the SAPT grant and monitor expenditures to ensure each charge is properly obligated or paid within the period of availability of the grant.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding#2-34** U.S. Department of Health and Human Services (HHS)  
CFDA #93.667 Social Services Block Grant (SSBG)

**Criteria:** 45 CFR 92.20, Part b2 requires grantees to maintain records which adequately identify the source and application of funds provided for financial assisted activities including awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

**Condition:** The financial data reported to HHS by the Department of Public Health and Human Services (department) was not supported by the accounting records. This includes a carryforward on its SSBG program report and an expenditure report for June 30, 2000, which did not include Temporary Assistance for Needy Family Program (TANF) funds transferred to SSBG and spent under SSBG regulations.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department spent SSBG assistance of \$9,378,243 and \$9,750,380 in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** The department submitted unsubstantiated reports to the federal government.

**Cause:** Department personnel indicated the error occurred because three divisions now use SSBG funds instead of one as in previous years.

**Recommendation:** We recommend the department establish procedures to ensure federal Social Services Block Grant reports are supported by the accounting records.

# **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.