OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE
STATE OF MAINE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002

March 2004 **A-77-04-00010**

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: March 24, 2004

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison 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, 2002 (A-77-04-00010)

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, 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 Maine State Auditor performed the audit. The Department of Health and Human Services (HHS) 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 Maine 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.

The single audit reported that cash draws for the disability program were not made in accordance with the Cash Management Improvement Act (CMIA) agreement. Specifically, funds were drawn 3 to 30 days after checks were issued, resulting in a negative average daily cash balance. The corrective action plan indicates that DHS will review the CMIA agreement and determine issues that lead to untimely cash draws (Attachment A, pages 1 through 4).

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

The single audit also disclosed the following findings that may impact DDS operations, although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- DHS did not have the necessary procedures or systems in place to properly account for Federal funds (Attachment B, pages 1 through 5).
- Controls were not adequate to ensure that Federal financial reports were accurately prepared (Attachment B, pages 6 and 7).
- Quarterly financial reports were inaccurate and were not reconciled to the State's accounting system (Attachment B, pages 8 through 10).
- Controls were not in place to ensure that only program-related payroll costs were charged to each program (Attachment B, pages 11 through 13).
- Incorrect amounts were recorded and documentation was not maintained for training costs (Attachment B, pages 13 and 14).
- Costs recorded on the Financial Status Reports were inaccurate (Attachment B, pages 15 and 16).
- DOH temporarily charged the Federal Program for the State's share of program expenses (Attachment B, pages 17 and 18).
- DOH did not have a system in place to ensure that financial reports were accurately prepared and filed timely (Attachment B, pages 19 and 20).
- DOH did not have adequate controls in place to ensure accurate financial reporting with prescribed methods to allocate costs (Attachment B, pages 21 and 22).

Please send copies of the final Audit Clearance Document to Shannon Agee and Rona Rustigian. If you have questions contact Shannon Agee at (816) 936-5590.

Steven L. Schaeffer

Steven L. Schaeffer

Attachments

Department of Human Services

(02-76) Division of Financial Services

Various
CFDA#: Various **Questioned Costs:** None

Federal Award Number: Various

Finding: Cash management and accounting records inadequate (Prior Year Finding)

The Department of Human Services is not in compliance with the Cash Management Improvement Act (CMIA) Agreement, which establishes provisions for individual programs to draw federal funds, and 31 CFR Part 205.17 (e), which requires a State to maintain records supporting implementation of the CMIA Agreement. Also, the Department's accounting procedures do not comply with 45 CFR Part 92.20, which promulgates standards for financial management systems. The Department has poor accountability over its federal funds because of the non-compliance and lack of cash controls.

We tested nine programs for which compliance with the Agreement was material to the program. Three programs, Medicaid, Food Stamps, and Supplemental Food Program for Women, Infants, and Children, were found to be in compliance. The remaining six were not in compliance, as is described below.

1) The Division of Financial Services of the Department of Human Services did not minimize the time between the payment of funds for program purposes and the transfer of funds from the United States Treasury. According to 31 CFR part 205.7, "A State 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 payout." In addition, funding methods specified in the CMIA Agreement were not followed.

2) The Agreement establishes the methods that must be used to draw federal funds for individual programs.

   Temporary Assistance to Needy Families (TANF) CFDA# 93.558
   The Agreement specifies an average clearance method for TANF payments to clients. The State has established an average clearance pattern of two days. Of the thirteen TANF draws that we reviewed, six were deposited from one to eleven days early and two drawdowns were deposited up to four days late.

   The Agreement specifies a proportionate share method for TANF allocated costs. Funds are to be drawn down once a quarter according to each approved indirect cost allocation plan. The amount of each draw is to be determined by applying an approved direct cost rate to the appropriate direct costs for the quarter. The Department is not in compliance with this method: the Department drew cash for allocated costs bi-weekly in some instances, and quarterly in others. Additionally, the Department did not draw funds for indirect costs by applying an approved indirect cost rate to the appropriate direct costs of the quarter.

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Child Care Development Block Grant CFDA# 93.575 and 93.596
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. Our testing revealed that two out of three draws selected for testing were deposited three days early.

Foster Care CFDA# 93.658
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. Due to the deficiencies in the design of the accounting structure used for this program, we encountered difficulties in tracing the drawdown amounts to program expenditures. Of the amounts we were able to trace as being correctly drawn down from the Foster Care program, it was determined that funds were drawn down two to eleven days late.

Social Services Block Grant (SSBG) CFDA# 93.667
The Agreement specifies an average clearance method for payments of program costs and a bi-weekly drawdown technique for all administrative costs. The State has established an average clearance pattern of four days for payments for program costs. An average clearance pattern of one day has been determined for administrative drawdowns. SSBG funds are drawn down by the Department of Human Services (DHS) and then posted to three State agencies receiving funds: DHS, the Department of Behavioral and Developmental Services (BDS), and the Department of the Attorney General. We reviewed drawdown and payment activity for these three State agencies. The following deficiencies were noted:

- There were fluctuations in the cash balance of SSBG funds drawn down by DHS for payment to subrecipients, ranging from a high of $438,581 to a negative cash balance of -$714,589.

- SSBG funds were drawn down haphazardly for payments to BDS subrecipients with no consideration given to the timing of deposit and payment activity. The cash balance at BDS ranged from a high of $367,305 to a negative cash balance of $254,458.

Social Security Disability Insurance CFDA# 96.001
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. A review of selected drawdowns revealed that federal funds were drawn down ranging from 3 to 30 days after the check issuance date. An analysis to determine the average daily cash balance for this program was performed. The results identified a negative average daily cash balance for each of four months, indicating that the Department may have used funds from other sources to provide for the immediate cash needs of this program.

Adoption Assistance CFDA# 93.659
The Agreement specifies an average clearance method for all administrative costs. Funds are required to be requested such that they are deposited on the average day of clearance for

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these types of payments. Our review of Adoption Assistance draws indicates that the Division did not draw down funds for administrative costs for this grant.

2) Procedures do not allow for the proper accounting of grant funds. Title 45 CFR Part 92.20 (a)(2) states that a State must maintain fiscal control and accounting procedures that are sufficient to "permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

   Temporary Assistance to Needy Families (TANF)
   The Department did not maintain adequate records to support a significant drawdown in the amount of $3,590,817 for TANF grant expenditures. Additionally, the Department could not provide support for the calculation of a fixed amount of cash drawn biweekly for reimbursement of direct administrative payments. Due to the complexities of the accounting system, we were not able to trace the funds to an adequate level of expenditure to determine if the proceeds were spent in compliance with program guidelines.

   It was also noted during our review of TANF that methods used to determine the amount of funds needed for payments associated with Aspire activities are inadequate to ensure compliance with the CMIA. Amounts drawn are determined based on several sources of information: B909 impact reports, MACWIS payment reports, and estimates of encumbered contract balances.

   Child Care Development Block Grant
   During our review of Child Care Development Block Grant draws we discovered that $2,519,965 was drawn as reimbursement for expenditures incurred in a prior fiscal year. The determination that the expenditures had been incurred, but the revenue had not been drawn, did not occur until after the filing of the final quarterly expenditure report for federal fiscal year 2001.

   Foster Care and Adoption Assistance
   Deficiencies in the design of the accounting structure and the methodology used to calculate drawdowns for these two programs were noted. Due to the commingling of Foster Care, Adoption Assistance, and Independent Living program funds with Title IV-E shared funds, excessive cash was drawn down from the Foster Care program to provide for the immediate cash needs of the other programs. Additionally, we identified a calculation error, which caused $1.1 million dollars of excess funds to be drawn from Foster Care. The error was corrected in a subsequent draw.

Recommendation:

We recommend that the Department of Human Services:

1. improve grant accounting systems so that program managers and accountants are able to minimize the number of days between payment and the subsequent drawing down of funds,

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2. perform routine cash balance examinations to ensure that State and federal resources are being used efficiently, that no excess cash is on hand, or that no other resources are being used when federal cash is not drawn and deposited promptly,
3. revise accounting practices to provide for the separate accounting of Foster Care, Adoption Assistance, Independent Living, and Title IV-E shared funds, and
4. maintain documentation used to support draws of federal cash.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

For the Department of Human Services' Division of Financial Services to follow the recommendations of this finding, it will require a significant increase in personnel to monitor the flow of cash of each program and be responsible for the increase in separate accounts as recommended. It can be difficult, once funds are drawn down in good faith, to guarantee the amount of time between the draw and the pay date is minimize due to circumstances out side our control. But, with a new CMIA Agreement beginning July 1st 2003 The Division Director will go over the new draw down methodologies with staff as usual, and this particular finding, to find out what issues led to early or late draws as documented. The Division of Financial Services has reduced the number of draw downs not in compliance with the CMIA agreement significantly over the past few years to the point that the agency has almost alleviated them. One other reason for non-compliant draw downs has been to process large Information Technology (IT) invoices when there isn't enough cash in the MFASIS system, and the next scheduled draw down will not be large enough to cover the expense. The Department is working with the State Treasurer's Office to revise the CMIA agreement for fiscal year 2004 to segregate IT costs from other administrative costs, and use the pre-issuance draw down methodology. This will be in the agreement for 2004. When there is a draw down exception, it is reported annually to the CMIA Coordinator at the State Treasurer's Office.

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(02-12) Division of Financial Services

<u>Finding</u>: Accounting for federal funds inadequate

The Department of Human Services does not have adequate systems and procedures in place to ensure that the federal funds are properly accounted for and expended in compliance with regulations.

The Department has not used the State's accounting system to establish a separate account for each program; "reporting organizations" are established for individual programs but combine into a single "appropriation organization," which controls the cash for multiple programs. The Department has not been able to provide a complete and accurate list of the accounts established and used for each program. It also does not always post transactions to the affected accounts but rather attempts to track the effect that the transactions would have had, and adjusts reports or other activity accordingly. This is particularly true for costs allocated through the Department's cost allocation plan. Those costs are significant as they include regional office costs and other costs that benefit multiple programs. Because the actual activity is not always posted, the accounting record of transaction activity and account balances is not complete or entirely reliable. The Department does not consistently review and document its reconciliations of its accounts.

The Department lacks co-ordination and communication between the individuals who are assigned responsibility for funds that are drawn and expenditures that are reported. This has resulted in funds of one program being used to fund expenditures of other unrelated programs. For one program (Temporary Assistance for Needy Families), $19 million more was requested than the Department reported as expended for program purposes. In fiscal year 2002, one other program (Title IV-E Foster Care) funded $1.9 million in expenditures for a closely related program. Over multiple years the same program also drew an additional $6.4 million more than it reported as expended. The control system at the federal level also does not match program draws with reported expenditures. Because multiple programs are on the same Letter of Credit, significant mismatches between cash requests and expenditures can occur before being questioned. Program funds have been drawn based on cash need within an account but not reconciled to program expenditures. The cash draws lose their identity to some extent once they are entered into the accounting system, because of the failure to establish a unique account structure for each program. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C section 300.a, states that the auditee shall "Identify, in its accounts, all federal awards received and expended and the federal program under which they were received."

The Department has had an incomplete understanding of Cash Management Improvement Act requirements and has not complied with them. Federal cash draws cannot be readily associated with underlying expenditures.

The Department has not documented its use of accounts or the logic underlying certain established procedures. As the Department has experienced personnel turnover, institutional memory has been adversely affected. It can no longer explain why certain procedures are

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followed, and does not have a complete understanding of the effects of some of those procedures. Accounting personnel do not have a written manual of financial procedures to follow. New personnel must learn as they go. Because certain procedures are unique to individual programs, the loss of experienced personnel results in oversights and errors. Individual accountants have responsibility for multiple programs. Five account managers are responsible for 86 federal programs, which include some of the largest and most complex programs in the State. Accounting personnel vary in their professional qualifications. The Department has had difficulty recruiting and retaining highly trained individuals. The time required to process routine transactions leaves little time to investigate or analyze unusual balances or to determine the cause of or to correct identified errors.

Management of certain programs is decentralized in regional offices. Program personnel and accountants do not always share a common understanding of how funds flow or the consequences of actions taken. Certain programs have not complied with eligibility requirements for program participation and have charged costs that are not allowable to the program.

The Department has filed reports that it cannot support with adequate documentation of the underlying costs. Supporting documentation is not well organized or consistently maintained. We identified some charges that were reported more than once and for more than one program. We also identified some charges that were allowable but that had not been reported for federal reimbursement. Reports frequently require revision following review by federal program personnel. The unsupported charges can result in reported expenditures being disallowed and money having to be returned or not being received.

Please note that this finding summarizes issues that are developed in other findings in this report.

<u>Recommendation</u>:

We recommend that the Department of Human Services:
- identify program activity with specific accounts,
- establish and maintain a chart of accounts,
- document its procedures,
- record all transactions in the accounting system,
- review and reconcile account activity,
- maintain neat and orderly supporting documentation for all reports filed,
- establish standards for consistent reporting and document retention,
- ensure that accounting personnel are trained and qualified,
- comply with Cash Management Improvement Act criteria,
- request federal program cash only for that program, and
- ensure that program personnel charge only allowable expenditures for eligible program participants.

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

Department of Human Services

Contact Person: John D. Mower

I have been taken aback by this finding since the Division's "administration of federal funds" has never been an Audit Department finding in the seventeen years that I have worked in the Division and we have been utilizing the same accounting practices to administer federal funds during that period.

- *Identify program activity with specific accounts:*

This recommendation to establish separate accounts for each Program or funding source would serve to simplify accounting and auditing. The expansion of accounts without more staff and resources could lead to more inadequate fund administration. This is because creating more accounts would require more accounting, more budgeting, thus more work. Also, this creation of more accounts would have to be approved by the Administration and the Legislature.

- *Establish and maintain a chart of accounts:*

The Department does not concur with the statement that it cannot provide a complete and accurate chart of account as we do have all of the report orgs applicable to each appropriation org. The Division has a database that is updated regularly and has printed out annually said Chart of Accounts.

- *Document its procedures:*

The Assistant Director of the Division has been tasked to compile a procedures manual, which is a work in progress. It is expected to be complete by the end of 2004.

- *Record all transactions in the accounting system:*

The Department does concur with that the actual cost allocation activity does not occur in MFASIS at the detailed or lower level that the Department of Audit requests. This would be a major change in current accounting practices in the Division of Financial Services and, again would require more staff and resources to track and process all the transactions necessary to satisfy this finding. If to satisfy this particular issue means transferring revenues to each individual reporting organization in MFASIS, this is a lot of work that would require even more staff.

- *Review and reconcile account activity:*

The Department, again, due to lack of staffing and resources, "does not consistently review and document its reconciliation of its accounts."

- *Maintain neat and orderly supporting documentation for all reports filed:*

The Department questions the materiality of this bullet. The Division of Financial Services has too heavy of a workload and not enough resources to neatly organize it's documentation to satisfy the Audit Department. However, the senior staff will be asked to do some self-analysis of their reporting requirements to come up with better ways to document.

- *Establish standards for consistent reporting and document retention:*

See the above response.

- *Ensure that accounting personnel are trained and qualified:*

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The finding mentioned the Division of Financial Services has 5 Account Managers (Management Analyst IIs and Senior Staff Accountants). There are really only 4, as one works on the Cost Allocation Plan. Also, it is noteworthy that the qualifications for these senior positions are in question. The Department agrees these positions should be upgraded. Unfortunately, the Bureau of Human Resources, as recently as this month, disapproved FJA-1s to upgrade these senior positions to Financial Analysts, stating these positions were properly classified. We observe that at least one agency, with apparently much simpler accounting, has 3 Financial Analysts, and we will pursue this further. The Department has a very small Central Administration budget, and training funds are scarce. In C. 451 the Department of Administration and Financial Services has been tasked to see that agency fiscal staff have access to proper training.

- *Comply with Cash Management Improvement Act criteria:*

The Department does not concur with the statement that it has an incomplete understanding of the Cash Management Improvement Act. Occasionally, the agency has drawn down federal funds not in compliance with the CMIA Agreement. However this was to cover outstanding state obligations, and in order not to hold bills until the next scheduled draw down, per CMIA agreement. The agency has worked closely with the CMIA Coordinator at the State Treasurer's Office annually to revise the draw down methodology to fit the Departments cash needs. This has led to the Department alleviating the overwhelming majority of non-compliant drawdowns.

- *Request federal program cash only for that program:*

The Department realizes the communication / co-ordination between the one staff member who draws down all the agency's federal cash and the Accountant Managers who are responsible for the accounting of each program needed to improve and has been since several findings over the last few years have noted this deficiency. The Department does not concur with relating this communication issue with the overdraw of $19 million in TANF and $ 8.3 million in Title IV-E Foster Care as stated in this finding. A lack of communication / coordination was not the major factor contributing to these over draws. (See the specific responses to the specific findings.)

- *Ensure that program personnel charge only allowable expenditures for eligible program participants:*

The Department's program personnel are usually very aware of what is an allowable cost for their specific programs.

The Department has had a high turnover staff rate over the last few years due mostly to retirement of senior and long-time employees. It is calculated at 71%, over a two-year period. While it is true that a lot of institutional knowledge has left, it can also be said some of the new personnel are doing better accounting then these predecessors. The Department of Audit has also expanded their staff significantly, thus expanding the scope of their audit, and discovering multi-year issues that were not uncovered in prior audits.

The Division of Financial Services has not had an increase in staff in the seventeen years I have been here, while the number; complexity and dollar value of DHS Programs has increased dramatically. It will require significantly more staff to comply with this finding. The Division

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personnel currently focuses on its massive daily workload and does not have the human resources for checks and balances, reconciliations and internal controls

Recently, there has been a movement by the state to increase oversight with a new agency and by increasing the staff in the Department of Administration and Financial Services in the area of internal control. While this may well be warranted, until there are more human resources to do financial work at the Department of Human Services not much can be improved.

(02-13) Division of Financial Services

Finding: Inadequate internal controls over subrecipient cash balances, reporting, and cash collection

Internal controls are inadequate to ensure that subrecipient cash balances for programs supported by State funds are not excessive, that reporting of amounts due the General Fund is accurate, and that excess cash held by subrecipients is subsequently collected. The Division of Financial Services of the Department of Human Services has not established adequate internal controls to ensure accurate recording and reporting of accounts receivable resulting from agreement settlements with subrecipients. The accounting for agreement settlements for programs supported by the General Fund results in the overstatement of revenue and expenditures, and the misclassification of agreement settlements between the General Fund and the Special Revenue Fund. Some amounts due were recorded in the Special Revenue Fund and not in the General Fund, from which the money was originally disbursed. Also, the current accounting methodology allows the Department to "re-spend" reimbursed amounts without additional budget authorization. Division personnel reported that it is not uncommon to receive reimbursements from subrecipients for which there is no record of a receivable in the State's accounting system.

Program managers of the Department of Human Services have broad discretion over how annual agreement settlements with subrecipients are liquidated. These managers decide whether the subrecipient will be allowed to keep the balance to fund future operating needs or whether the subrecipient will be required to return the balance to the Department. In the case of programs supported by State funds, the Department does not sufficiently monitor subrecipient cash balances to ensure these balances are not excessive. For example, the Bureau of Elder and Adult Services reported that Bureau personnel do not require subrecipients of State funded grants to report cash balances when submitting the quarterly report of revenue and expenditures.

The Division does not regularly prepare a listing and aging of amounts due and overdue, and then reconcile the listing to the balance recorded in the accounting system. The listing prepared by the Division in response to this audit could, for the most part, be reconciled to the accounting system. However, both contained a material overstatement of $4,976,772. The overstatement resulted from the inclusion of two receivables that were known to be uncollectible as of June 30, 2002. One receivable for $2,688,100 was uncollectible because program personnel allowed the subrecipient to keep the predominantly State funds to support future operating needs. The other receivable for $2,288,672 was uncollectible because the subrecipient is no longer in business.

Department of Human Services

(02-43) Division of Financial Services

Administrative and Matching Grants for the Food Stamp Program
CFDA#: 10.561 **Questioned Costs**: None

Federal Award Number: 2002IS251444

Finding: Inadequate controls over financial reporting

The Department of Human Services does not have adequate controls in place to prevent or detect errors in reporting federal Food Stamp program expenditures on the Schedule of Expenditures of Federal awards. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*, requires entities that expend federal awards to be able to provide reasonable assurance that financial statements are reliable.

Total expenditures originally reported to the Bureau of Accounts and Control for inclusion in the State's Schedule of Expenditures of Federal Awards (SEFA) were overstated by approximately $1.8 million. The $1.8 million primarily comprised the following errors:

- Expenditures of $1.6 million incurred by the Bureau of Health were included twice due to a misunderstanding between the accountant responsible for preparing the SEFA and the program accountant.
- Expenditures of $546,812 were included as both direct and allocated costs. The program accountant was apparently not aware that the costs were included in the cost allocation schedules.
- Expenditures of $547,925 for nutrition education were omitted because the program accountant used the figures from a quarterly expenditure prior to its being amended.

All errors were disclosed to program personnel and the SEFA was subsequently corrected to more accurately reflect actual program expenditures.

In addition to the overstatement of the SEFA, we also found that the Financial Status Report (SF 269) was overstated by the $546,812 noted above. The error was subsequently corrected and an amended report filed with the federal oversight agency.

Recommendation:

We recommend that the Department of Human Services implement control procedures to ensure that future federal financial reports are stated accurately.

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Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The Department of Human Services does not have the staffing to implement the internal controls to oversee every work task of the Division. The Division Director will meet with its senior staff early in fiscal year 2004 to go over this finding in detail and make sure they have an understanding of the sources of information for compiling the SEFA.

The State has contracted with an accounting firm to review the Department's accounting practices and make recommendations. One of the areas they will focus on is adequate staffing and internal controls requirements.

(02-44) Bureau of Health

Immunization Program
CFDA#: 93.268 **Questioned Costs:** None

Federal Award Number: H23/CCH104482-12-2

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

One employee working on multiple activities, and supporting the allocation of his time with monthly "Report of Effort" forms, prepares these forms in advance based on budget estimates. The forms are signed by the employee and his supervisor. Employees working solely on the Immunization Program do not prepare the semi-annual certifications that are required for employees who work only on one program. 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 agency. They must reflect an after the fact distribution of the actual activity of each employee.
>
> Where employees are expected to work solely on a single Federal award or objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

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Recommendation:

We recommend that the Department of Human Services draw federal cash for the Immunization Program rather than relying on non-federal cash resources. We further recommend that the Department segregate the Immunization Program account from non-federal accounts, in order that the federal cash balance can be easily identified.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The cash management accountant, as of March 31, 2003, is weekly drawing down federal cash for the Immunization program payrolls, and will continue to do so in the future.

(02-46) Division of Financial Services

Temporary Assistance for Needy Families
CFDA#: 93.558 **Questioned Cost:** $1,763,688

Federal Award Number: G-0101METANF
G-0201METANF

Finding: Inaccurate financial reporting (Prior Year Finding)

The Department of Human Services submits quarterly federal financial reports (ACF-196) for the TANF Block Grant. Our review of these quarterly ACF-196 reports revealed the following:

1. The cumulative reporting method used by the program accountant to compile the ACF-196 expenditures led to inconsistencies in the reported expenditure accounts each quarter. Since the ACF-196 reports are cumulative, and the accountants method of querying the State's accounting system (MFASIS) is in a summarized manner each quarter, this summarized method has led to instances where (a) MFASIS accounts are switched in different quarters from being a federal expenditure to a state expenditure and back to being a federal expenditure, (b) MFASIS expenditure accounts being reported in different expense categories (Administrative, Systems, etc.) within the different quarters, and (c) expenditures initially reported in one quarter are ultimately not included in the subsequent quarter amounts as a result of the accountant not including an account in a subsequent cumulative query.

2. Duplicate expenditures were reported within the various TANF expense categories of the ACF-196 Report. These duplicate expenditures totaled $289,770. The accountant indicated that a revised ACF-196 report would be submitted to correct the double

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counted expenditures. This revised report had not been submitted by the end of our fieldwork date.

3. DHS draws funds in accordance with the regulations of the TANF Block Grant that are ultimately used by the Social Services Block Grant (SSBG) and the Child Care Development Fund (CCDF) programs. The amounts reported in the TANF ACF-196 report for the transfers is the actual expenditures incurred by SSBG and CCDF and not the amount drawn by the TANF program.

   Because TANF funds are transferred to and expended by the SSBG and CCDF programs, the amounts reported by TANF should be the actual amounts transferred to these other programs. The SSBG and CCDF programs currently report the actual expenditures in accordance with their program regulations.

4. Child Care and Other Supportive Service expenditures were reported on the ACF-196 reports as being entirely "assistance" type payments. "Assistance" payments per 45 CFR 260.31(a)(3) include supportive services such as transportation and childcare provided to families who are **not** employed. Eligibility testing revealed that some childcare and other supportive service expenditures paid on behalf of TANF clients who were employed were recorded as "assistance" type payments.

5. Worksheets inaccurately prepared by the auditee and used for reporting TANF GAP and Pass-Through expenditures were overstated by $1,763,688. These overstated expenditures will be questioned.

Recommendation: We recommend the following:

1. Cumulatively reported expenditures should be current quarter expenditures built upon the amounts reported on the previous quarter's ACF-196 report. Reproducing the queries each quarter for financial reporting in a summarized manner leads to reporting inconsistencies and inaccuracies.
2. Reconcile reported expenditures within the various expense categories of the ACF-196 report each quarter to the State's accounting system and supporting schedules.
3. Report actual TANF transfers to the SSBG and CCDF programs based on draw down and journal activities.
4. Report TANF expenditures in their appropriate expenditure categories (i.e. "assistance" and "non-assistance").
5. Reconcile the supporting worksheets utilized in reporting TANF expenditures to the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services concurs that a worksheet for the Temporary Assistance for Needy Families Program "Gap and Pass-Through" components needed adjusting due to an

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error in the amount of $1,763,688. DHS has revised the 2001 and 2002 federal ACF-196 TANF reports, as of 5-29-03, to reflect the adjustment.

The Department of Human Services concurs that expenditures for the ACF – 196 report should be accumulated quarterly and built upon the amounts previously reported. The Department will revise the MFASIS GQL Warehouse queries to reflect quarterly expenditures instead of cumulative expenditures. The Department of Human Services also concurs and does prepare quarterly reconciliations to the supporting schedules and the State Accounting System.

The Department of Human Services concurs with item #3. The Department of Human Services does erroneously report expenditures instead of revenue transfers. on the ACF-196 TANF Report. Also the Department of Human Services realizes it is difficult to reconcile TANF revenues to expenditures by federal fiscal year because the FIFO methodology was used in drawing down block grant funds. The Accountant Manager for the TANF Program has re-established cash balances for each years' grant, coordinating with those responsible for cash draw downs. Now that this change in reporting transfers instead of expenses is necessary, the ACF-196 reports will have to be revised during the first quarter of SFY 2004. We will contact the ACF about this issue. The Department will also begin drawing TANF funds into a TANF account, then transfer the funds to SSBG or CCDF, for a cleaner audit trail.

The Department of Human Services understands the Audit Department's opinion that TANF expenditures for "assistance" and "non assistance" should be segregated based on whether clients are employed or non-employed. However, the Department has e-mailed its federal partners for their interpretation as to how they expect childcare expenses to be reported on their ACF-196 report. Specific questions have been asked concerning "assistance" and "non assistance" and on which lines childcare is to be reported for both employed and non-employed families. DHS has included the Audit Department in its e-mail to the federal government.

(02-47) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Costs:** None

Federal Award Number: Various

Finding: Inadequate controls over accounting for child support (Prior Year Finding)

The Department of Human Services has not reconciled cash balances in the Child Support collections and distributions accounts. The cash balances in the accounting system for these accounts totaled $15.4 million at June 30, 2002. That balance, which should represent

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2. reconcile the NECSES system to the MFASIS system, and determine the reasons for and correct the cash variances,
3. accurately and carefully record State and federal shares and all entries
4. record the $2.5 million State reimbursement,
5. transfer all program income to program accounts, and
6. maintain documentation to support all entries and to ensure that all necessary entries are recorded.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services does not concur with the Audit Department interpretation of the $5.7 million dollar transfer being inappropriate. PL 2001, Chapter 358, Section KK3, and PL 2001, Chapter 439, Sections X-11, X-7 and Y-1, authorize the transfer of expenditures from the GF TANF account (010 10A 0138) to the OSR Child Support account (014 10A 0138). Journal Voucher # 81CB848 accomplishes this.

The Department of Human Services has recorded the $2.5 million dollar state reimbursement through Journal Vouchers #81CBCS06 dated 12-02-02, and #81CBCS0206A, dated 01-10-03.

The Department of Human Services is working toward the goal of reconciling the NECSES and MACWIS IT systems to the MFASIS system. Currently, the Department is working out the details as to why Foster Care collections balances vary. The Foster Care collections posted to NECSES are not equal to the Foster Care Collections reported in MACWIS. DHS is also instituting the use of revenue sources that will not net out the child support collections figures for MaineCare (Medicaid). Other discrepancies that exist involve refunds for overpayments. NECSES records/posts all revenue, while MFASIS figures are a net after refunds are returned. The Department estimates that this reconciliation will be completed by June 2004.

(02-48) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 — **Questioned Costs:** $90,700

Federal Award Number: Various

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

Department of Human Services

Payroll costs of two employees totaling $51,595 were charged to the Child Support Enforcement program while none of those costs were program-related. The total is unallowable, and we question the federal portion (66%), or $34,053.

Payroll costs of another employee totaling $27,680 were charged to the Child Support Enforcement program. This represents 72% of the employee's total costs of $38,507. Department personnel could not provide support for the portion charged to the program. For the two biweekly timesheets examined, 2% of the employee's time was spent on program-related activities. The allowable portion of payroll costs would be $770, which exceeds the amount charged to the program by $26,910. We question the federal portion (66%), or $17,761.

All payroll costs of four other employees, totaling $144,217, were charged to the Child Support Enforcement program although those employees sometimes worked for other programs. Department personnel could not provide support for the portion charged to this program. For the two biweekly timesheets examined for each employee, $85,299 of the payroll costs were for program-related activities. The remaining $58,918 is unallowable. We question the federal portion (66%), or $38,886.

The total of unsupported or incorrect payroll charges is $137,423; total questioned costs are $90,700.

In addition, Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires that timesheets of employees who work for more than one program be compared to accounting distributions and that adjustments to actual activity be recorded at least quarterly. No such adjustments were made, and no such analyses were available on request.

Although correcting entries were made for unallowable prior year payroll costs, the entries resulted in further reducing program cash instead of reimbursing the program.

Recommendation:

We recommend that Department of Human Services develop controls to ensure that only Child Support Enforcement program-related payroll costs are charged to the program. We recommend that reporting and accounting adjustments be made for the unallowable costs and that the Department exercise care in making these adjustments. We also recommend that timesheet analyses and quarterly adjustments to actual be performed for employees who work for more than one program.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services' position, as a whole, is that this certification requirement is being met by an electronic Time and Attendance Management System (TOMS/TAMS). Through

Department of Human Services

this IT system employees can go on-line and enter their time, and also their respective programs. They then forward it to their supervisor, with an electronic signature, for approval.

Adjustments will be made according to electronic time slips for the staff members who work for programs other than Child Support for SFY 2002. Future adjustments will be made on a quarterly basis.

Adjustments were posted to the dedicated account instead of the Federal Child Support account for SFY 2001. Journals have been processed to correct this error.

The adjustments were processed on the below listed journals:

10A 8133SERCU
10A 812DSERCU
10A 812DSERDV
10A 812DSERMH
10A 812DSERLR
10A 813DSERLR
10A 8133SERTD
10A 812DSERTD
10A 8133SERCC
10A 812DSERCC

(02-49) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Costs**: $735,765

Federal Award Number: Various

Finding: Inadequate controls and procedures to ensure accurate financial reporting

Bureau-wide training costs totaling $754,871 were charged to the Child Support Enforcement program while none of those costs were allowable expenditures of the program. We question the federal portion (66%) of the expenditures, or $498,215.

Other training costs totaling $212,081 were reported twice. One of the reported amounts was increased to $321,334 under the assumption that the 34% State share was paid by the vendor in a cost-sharing agreement. The amount reported was $533,415, the sum of both amounts. We examined 15 invoices, and found a total of $126,215 in program-related charges. Department personnel were unable to provide documentation to support charging any of the costs of seven of the invoices to the program. The vendor paid 27.25% of the costs, so the allowable total is

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$173,491. The unallowable portion is $359,924, the difference between $533,415 and $173,491. We question $237,550, the 66% federal share. Total unallowable costs, therefore, are $1,114,795. Total questioned costs are $735,765.

Finally, in our expenditure test of 40 items, one invoice of $74,467 showed no evidence of having been approved for payment.

Recommendation:

We recommend that Department of Human Services personnel develop controls to ensure that only Child Support Enforcement program related training costs are charged to the program and that no costs are reported more than once. We recommend that adjustments be made in reporting and accounting. We also recommend that the Department maintain documentation to support training and all costs charged to the program, and that all expenditures be properly approved for payment.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services concurs that BFI Bureau-wide training costs, (report org 4004) totaling $757,871, were charged to the Child Support Enforcement Program in error.

The Department of Human Services concurs with the finding concerning double counting of DHSTI child support expenditure figures. DHS does not concur with the auditor's assumption that the $212,081 was "grossed up". The true DHSTI expenditure, that was also included on Schedule 7, did include the vendor paid portion. The double posting occurred due to the Department's payment being included on the schedule 5,and also the Schedule 7. The figures on schedule 5 did not include the vendor's share.

DHS has corrected the SFY 2002 schedules and corresponding federal reports to reflect the proper charges. Revision to Child Support Enforcement Program reports will be reflected on the 3-31-03 report period.

The Department of Human Services has also corrected the above cost allocation schedule templates for SFY 2003. Revision to Child Support Enforcement Program reports will be reflected for the 3/31/03 reporting period.

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The Department of Human Services has implemented internal controls within the Division of Financial Services to prevent the recurrence of this type of activity. Any payment (check) that normally is sent directly from the State Treasurer's office to the vendor, but is instead requested to be "flagged" to go to the employee initiating said payment, must be first justified in writing to the Finance Director or the Deputy Finance Director, and receive written prior approval.

The Department of Human Services is in compliance with state procedures regarding the lapsing of encumbered funds.
State General Funds related to this incident have been returned to the unappropriated fund balance of that fund.

(02-66) Office of Management and Budget
Division of Financial Services

Social Services Block Grant
CFDA#: 93.667 **Questioned Costs**: None

Federal Award Number: G0101MESOSR
G0201MESOSR

Finding: Inaccurate federal financial reporting

The Department of Human Services did not have internal controls in place to ensure accurate federal financial reporting. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires grantees to maintain internal control over federal programs to provide reasonable assurance that they are managing federal programs in compliance with agreements.

The SF269A Financial Status Report that was filed for the federal fiscal year 2001 by the Department of Human Services reported grant expenditures of $9.4 million for one Social Services Block Grant award, with a negative $1.5 million unobligated balance. The unobligated balance should have been reported as approximately $3 million. The Department erroneously reported prior grant expenditures of $1.5 million under this award and underreported total federal funds authorized by $3 million.

The SF269A Financial Status Report that was filed for the federal fiscal year 2002 by the Department of Human Services reported grant expenditures of $6.8 million for another Social Services Block Grant award, with an unobligated balance of $3.7 million. The unobligated balance should have been reported as approximately $4 million. The Department erroneously reported disbursements related to other grant expenditures of approximately $250,000 resulting in the understatement of the unobligated balance at September 30, 2002.

Department of Human Services

Recommendation:

We recommend that the Department of Human Services establish controls to ensure accurate SF269A reporting.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw

Each report has been corrected to reflect the correct amount of unobligated balance. The FSR report 269 for the period of 10/01/00-09/30/02 now shows a balance of 0. The FSR report for the period of 10/01/01-09/30/03 has been corrected and now reflects a balance of $3,941,351.

A spreadsheet has been developed and will be maintained that will reflect each year's grants, the amount spent and the unobligated balance.

(02-67) Bureau of Family Independence

Medical Assistance Program
CFDA#: 93.778

Questioned Costs: None

Federal Award Number: 50205ME5028
50205ME5048

Finding: Procedures do not ensure compliance with Medicaid Eligibility Quality Control rules and procedures (Prior Year Finding)

Since federal fiscal year 1996, the State's Quality Assurance Unit has not provided the Centers for Medicare and Medicaid Services (CMS) with the required error calculation reports. In the absence of these reports, CMS cannot be assured that the State of Maine's error rate is below the required threshold of three percent. Although the Department has attempted to calculate payment error rates, it did not use the statistical formula contained in the State Medicaid Manual.

Title 42 CFR 431.865 requires that each State have a payment error rate no greater than three percent for each annual assessment period, or be subject to a disallowance of Federal Financial Participation. The payment error rate is the ratio of erroneous payments for medical assistance to total expenditures for medical assistance.

Also, the Department developed a basic Medicaid Eligibility Quality Control (MEQC) sampling plan, but does not appear to have submitted it for approval. Title 42 CFR 431.814 requires an agency to submit a MEQC sampling plan to CMS for approval. The unapproved MEQC Positive

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October implementation of BMS' new claims management system MeCMS. The MACWIS system changes will eliminate the possibility of double billing.

The future MaineCare claims management system will perform a review of claims submitted by code, limits file and provider and will prevent this type of inappropriate payment. This system is expected to be operational in October 2003. Since BMS staff are working "double duty" on the new MeCMS system to complete it, it's not possible to address this type of review in the current MMIS claims system. Also, BCFS is currently correcting their billing process to address the errors.

(02-71) Division of Financial Services

Medical Assistance Program (Medicaid)
CFDA#: 93.778 **Questioned Costs**: None

Federal Award Number: 50205ME5028

Finding: Federal funds used for State purposes

The Department of Human Services transferred State expenditures to the Federal Expenditures Fund to create allotment.

State funds were not available to process the payments to Medicaid providers on March 18, 2002. To allow the State share of Medicaid bills to be paid, the Department artificially created General Fund allotment by temporarily transferring $3,440,000 in previously recorded General Fund expenditures to the Federal Expenditure Fund. This was accomplished with a journal voucher entry on March 21, 2002 that was not reversed until March 25, 2002.

The entry temporarily overcharged federal funds and triggered a draw of federal cash. The Department then used the federal cash to make the cycle payments. In effect, the Department temporarily used federal funds for the State's share of program expenses. It should be noted that prior to the end of the fiscal year, the entry was reversed to properly allocate expenditures within the program's accounts.

Title 31 CFR 205.12(a) states:

> *A State will incur an interest liability to the federal government if federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day federal funds are credited to a State account to the day the State pays out federal funds for program purposes.*

Although Medicaid is an interest-neutral program, the federal cash draw used for State purposes could result in the State owing interest to the federal government under the Cash Management Improvement Act (CMIA).

Department of Human Services

Recommendation:

We recommend that the Department of Human Services work with the Bureau of Budget and the Legislature to ensure that adequate resources are made available to fund program expenditures. We also recommend that the Department refrain from preparing journal entries that create State allotment by overcharging federal Medicaid accounts. We further recommend that the Department communicate any deviation from the program's established pattern of federal cash draws to the State's designated CMIA coordinator, so that any interest liability can be determined and reported to the Federal government.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The current budget process does not allow enough flexibility to handle the very unpredictable MaineCare (Medicaid) program costs in a timely manner. The Department is sometimes faced with holding MaineCare obligations at the end of a quarter due to a lack of allotment, and the process to transfer funds legislatively or through the work program process is not responsive enough at the end of a budget period. Given the high dollar figures and thousands of service providers involved, the pressure on the Division of Financial Services to process MaineCare payments on time is enormous. This leads to difficulties in constantly meeting Generally Accepted Accounting Principles. Without some flexibility, or possible a financial reserve for MaineCare, the Department may have no alternative but not pay some state obligations in the very timely manner now experienced by service providers . One approach would be to grant the Commissioner or State Budget Officer the authority to transfer funds between closely related programs, such as: MaineCare's Medical Care – Payments to Providers and Nursing Facilities Accounts; Child Welfare's Foster Care and Child Welfare Accounts, or TANF's Benefit and ASPIRE Accounts.

In regards to the second recommendation, the Department did not draw down federal cash to cover the transfer of costs from the General Fund Account to the Federal Expenditure Fund because of estimated revenue in the Account, thus the cash pool was debited.

Finally, the Department will notify the State's designated CMIA Coordinator of deviations in drawdowns, should any occur.

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Auditee Response/Corrective Action Plan:

Contact Person; John D. Mower

The Department of Human Services' Division of Financial Services is often late in its federal fiscal reporting due to a lack of staff, coupled with ever growing federal programs. The PSC 272A Federal Cash Transaction Report must be completed by the due date or the federal Division of Payment Management will cease disbursing cash to the State for the Department's grant awards. Therefore, to get it in on time, this forces DHS to estimate the disbursed amount for the PSC-272 report to get it in on time. Since this is a cumulative report, adjustments are made on the next quarter's report. The State has hired an accounting firm that will look at the staffing issues and recommend the appropriate levels to ensure that timely reporting can be accomplished.

(02-74) Division of Financial Services

Medical Assistance Program
CFDA#: 93.778 **Questioned Costs:** None

Federal Award Number: 50205ME 2028

Finding: No financial reconciliation; lack of controls to ensure accurate federal financial reporting

The Department of Human Services does not perform a reconciliation between the State's accounting system and the Medical Assistance Program quarterly financial report that is submitted to the Centers for Medicare and Medicaid Services. We identified a variance between the two of $13.4 million for fiscal year 2002. Incorrect reports could result in questioned costs, in allowable expenditures being omitted, or in a material misstatement of the Schedule of Expenditures of Federal Awards.

The quarterly financial reports are submitted without undergoing any formal review and are routinely submitted after the due date. The Medicaid Account Manager prepares the report and also initiates journal vouchers or approves other journal vouchers for millions of dollars. There is no written chart of accounts for the Medicaid program and additionally, the Medicaid appropriation account contains non-Medicaid expenditures. Every new Medicaid waiver approved by the federal oversight agency adds to the complexity of the reporting, thereby increasing the risk of errors or omissions. These issues combine to complicate the reporting process unnecessarily. Federal funding for unbudgeted expenditures is only available after submission of an accurate report. As of the second week of May 2003, the Department had just submitted its December 2002 report, due January 31, 2003, requesting a federal cash reimbursement of approximately $20 million. This lack of federal cash results in the Department

Department of Human Services

using the financial resources of other grants or other funds for the purposes of the Medical Assistance Program.

We note that subsequent to the period under audit, the cash balance in the Medicaid account was negative $105,000,000 (at March 31, 2003). Federal funds were drawn from the next quarter's grant award on April 1, 2003 to eliminate the cash shortage. The negative balance has an effect not only on the program, by using future cash for current services, but has an effect on the State's overall cash position.

Recommendation:

We recommend that the Department initiate a system to ensure that federal financial reporting is reviewed, reported accurately and filed timely. We further recommend that the Department consider the use of a separate appropriation account for each federal program administered by the Department to make it easier to identify and monitor federal expenditures.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Pettengill

The Department of Human Services (DHS) concurs with the Department of Audit's finding that no reconciliation is done between the quarterly Federal financial reports and the State's accounting system. The Department also concurs with the Department of Audit's assessment that the Federal reports for the Medicaid Program are growing more complex as new Medicaid and non-Medicaid programs are established at both the State and Federal levels. New reporting requirements and additional funding sources increase the time necessary to prepare the report; as modifications to data collection methods, methods of analyses, and expenditure calculations must evolve and grow.

The increase in the amount of time necessary to prepare Federal Reports and the fact that DHS' Division of Financial Services is understaffed combine to make the reconciliations between certified Federal expenditure reports and the State's accounting system nearly impossible. Existing staff currently is unable to submit quarterly reports in a timely fashion without performing such a reconciliation, and with monitoring the current number of accounts that make up the Medicaid program. Adding conducting a reconciliation of Federal reports with the State's accounting system, as well as having to monitor the daily financial activity of an increased number of accounts will more than likely negatively impact the ability of the existing Financial Services Division staff to submit Federal reports in a timely fashion.

This entire issue is being shared with the Department of Administrative and Financial Services and the PricewaterhouseCoopers staff reviewing the critical financial and staffing issues raised by the Audit Department in this and other findings this year.

Department of Human Services

(02-75) Division of Financial Services

Various
CFDA#: Various **Questioned Costs:** $691,657

Federal Award Number: Various

Finding: Controls are inadequate to ensure accurate financial reporting (Prior Year Finding)

The Department of Human Services does not have adequate controls to ensure accurate financial reporting and compliance with prescribed methods to allocate costs. We noted the following regarding the Department's methods to allocate administrative costs through the federally approved cost allocation plan:

1. The Department included certain expenditures as both direct program costs and as costs to be allocated through its departmental cost allocation schedules. As a result, it overcharged the federal government and overstated expenditures of the Social Services Block Grant (CFDA # 93.667) by $691,657 in fiscal year 2002. We question $691,657.

   Duplicate charges were also found to be present in the Child Support Enforcement and the Food Stamp programs. Costs for the duplicate charges identified in the Child Support Enforcement Program are being questioned in (02-49). The duplicate costs identified for the Food Stamp program were pointed out to the Department in time for a correction to be made in the final SF-269 report for federal fiscal year 2002.

2. Rates used to allocate cost pools within a primary allocation schedule were not in accordance with prescribed methods.

   We tested the rates used for five of the twelve cost pools identified on the schedule used to allocate regional administrative costs to various program areas. The results of our testing indicated that none of the rates for the five cost pools had been updated in fiscal year 2002. The error did not appear to be material to any program.

3. The cost allocation plan is inadequately documented at the Department of Human Services.

   The primary allocation schedules used for allocating administrative costs were implemented in 1985. Additional schedules were added through the years, but no significant revisions have been made to reflect the current operating environment of the Department. During our testing, we were not able to get complete documentation of how costs are accumulated and reported. This is due to inadequate documentation within the cost allocation plan and a general lack of understanding of the plan by Department employees.

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Recommendation:

We recommend that the Department:

1. develop controls to ensure that costs are not reported both as allocated and as direct costs,
2. follow prescribed methods to update allocation factors,
3. update the cost allocation plan to reflect the current operating environment of the Department of Human Services, include a listing of the allocated programs by CFDA number, and
4. document its processes so staff will have guidance to follow.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

1. *A large staff turnover rate, mostly due to retirements within the Division in recent years, and a lack of written procedures have contributed to inaccurate reporting. Specifically, certain costs have been picked up as a direct cost and also as an allocated cost due to new personnel being unfamiliar with the sources for the cost allocation schedules. A procedures manual is being developed and is an on-going process. The Department of Audit, through its thorough auditing of federal programs, has identified this double counting and the Department has corrected it. More internal controls are needed, but without additional personnel this could be difficult. The current Administration has hired an accounting firm to evaluate the Department's fiscal operation and the issue of adequate personnel will be addressed. The State as a whole is also increasing its resources for internal controls.*

2. *The response to recommendation #1 is applicable to this recommendation. Turnover in personnel also has affected the Cost Allocation Plan, a lack of written procedures and new employees' unfamiliarity with the sources of allocation factors.*

3. *The Department has contracted with an outside contractor, who is thoroughly revising the Cost Allocation Plan (CAP). The CAP revision is expected to be complete by June 30, 2004.The contracted personnel will be working with agency personnel in order that they can become familiar with the new plan. The Title IV-E section of the plan has been revised and factors have been updated. An amendment has been sent to the Division of Cost Allocation at the federal Department of Health and Human Services and we are awaiting word on its approval.*

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.