OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE
STATE OF MAINE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003

November 2004 A-77-05-00002

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: November 17, 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, 2003 (A-77-05-00002)

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, 2003. 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. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet 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 SSA was charged a disproportionate share of indirect costs associated with the State's accounting system. This occurred because DHS allocated costs to its various bureaus, including the Maine DDS, using a provisional indirect cost rate[1] that was based on the number of checks written to vendors. Since a significantly greater number of vendor checks were written for SSA program expenditures, SSA received an inequitable distribution of costs totaling $633,282.

The provisional indirect cost rate was effective retroactively to fiscal years beginning July 2001 and is effective until amended. Accordingly, SSA may have also received an inequitable distribution of indirect costs from July 2001 through June 2002 and July 2003 to date.

The corrective action plan stated that the cognizant Federal agency, HHS, approved the provisional indirect rate. However, it did not identify actions DHS planned to resolve the finding (Attachment A, pages 1 and 2).

We recommend that SSA:

1. Instruct the DDS to refund the unallowable indirect costs of $633,282.

2. Work with DHS and HHS to ensure that indirect costs charged to its programs are based on an equitable allocation methodology.

3. Determine if it received an inequitable distribution of indirect costs from July 2001 through June 2002, and July 2003 to the current date, and collect any unallowable costs from the DDS.

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 3).

- Vouchers did not have adequate supporting documentation (Attachment B, page 4).

- The Department of Administrative and Financial Services had excess reserves reported in the cost allocation plan that was submitted to HHS (Attachment B, page 5 and 6).

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[1] Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," defines a Provisional rate as a temporary indirect cost rate applicable to a specified period, which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.

- Controls were inadequate to prevent or detect errors on Federal reports (Attachment B, pages 7 and 8).

- Quarterly financial reports were inaccurate, were not reconciled to the State's accounting system, and procedures were not in place to ensure that program expenditures were accurately reported (Attachment B, pages 9 through 12).

- DHS did not comply with the Cash Management Improvement Act or have proper cash controls (Attachment B, pages 13 through 16).

- Cash management procedures were inadequate to disburse Federal funds (Attachment B, pages 17 and 18).

- Procedures were not in place to ensure that contractors receiving awards of $100,000 or more were not suspended or debarred (Attachment B, page 19).

- DHS temporarily charged the Federal Program for the State's share of program expenses (Attachment B, page 20).

- Internal controls were not in place to ensure Automated Data Processing risk analysis and systems security reviews are conducted (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

MMIS operations procedures. Unforeseen circumstances have resulted in the implementation date of MeCMS slipping to January 2004, then April, then August and now they are targeting completion in December 2004. These delays have resulted in the corrective actions being documented in the MeCMS operations procedures not being viable. DoTS BMS staff is on schedule to again perform the audit in late summer of 2004, but the task has still not been added to the production schedule due to the inevitability that MeCMS must be operational in 2004.

(03-91) Division of Financial Services

Social Security-Disability Insurance
CFDA#: 96.001
Federal Award Number: N/A

Questioned Costs: $633,282

Finding: Inequitable distribution of indirect costs

The Social Security Grant Cluster was charged a disproportionate share of the State's overhead associated with the State's accounting system.

As of July 1, 2003, the Department of Human Services obtained provisional federal approval for indirect cost rates calculated through the Department's Indirect Cost Allocation Plan. The indirect cost rate that was calculated for use by the Social Security Grant Cluster increased from 7.7 percent to 25 percent. This rate increase is effective retroactively to fiscal years beginning July 1, 2001 and continues until amended.

The Bureau of Accounts and Control allocated indirect costs to the State agencies based on total checks written (vendor and payroll checks) and electronic transfer units processed for each agency. The Department of Human Services reallocated these costs, through their own Indirect Cost Allocation plan, to the various Bureaus within the Department. The allocation was based solely on checks written to vendors, excluding payroll checks and electronic transfer units from the allocation basis.

The effect of the Department's method of allocation is that the Social Security grant cluster, which issues a significantly greater number of vendor checks in comparison to payroll checks and electronic transfers, is charged a disproportionate share of the State's indirect costs. We question $633,282, the excess costs estimated to have been allocated to the program. We obtained the estimated questioned costs by factoring in the check and electronic transfer units, which resulted in an indirect rate of 8.6 percent instead of 25 percent. There would be a similar effect for State fiscal year 2002.

The Office of Management and Budget Circular A-87 states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Department of Human Services

Recommendation:

We recommend that the Department of Human Services develop a more equitable distribution method for the overhead costs associated with the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

On July 1, 2003, Indirect Cost rates were approved by The Department of Health & Human Services. A provisional indirect rate of 25% was approved for Social Security Disability Determination. In July 2004, DHS issued a request for proposal to design, develop and implement an Administrative Cost Allocation Plan, including an Indirect Cost Rate Proposal.

State of Maine
Department of Human Services

(03-05) Division of Financial Services

Finding: Administration of federal funds inadequate **(Prior Year Finding)**

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

The Department has not used the State accounting system to establish a separate account for each program; "reporting organizations" are established for individual programs but combine into a single "account 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 adjust 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.

Furthermore, the amount of expenditures recorded in the State's accounting system does not reflect amounts reported as program expenditures in financial reports and in the Schedule of Expenditures of Federal Awards (SEFA). The accounting records do not truly reflect the sources and uses of funds. The Department does not transfer qualifying expenditures recorded elsewhere in the accounting system to the programs' accounts but transfers the federal reimbursements received, referred to as "earned revenue," to Other Special Revenue Fund accounts and uses them to "self-fund" other Department programs. The "earned revenue" amounts transferred are sometimes estimates based on budgeted amounts that may not agree with actual qualifying expenditures. This "self funding" approach makes tracing the sources and uses of funds difficult, and if proper documentation is not maintained, impossible. Because multiple people are involved and processes are not documented, no one individual fully understands how the accounts are being used. The resulting confusion has, among other things, caused the same charges to be claimed more than once for federal reimbursement. The Office of Management and Budget Common Rule requires that amounts be traceable to the entity's accounting system. An example of programs that utilized the "earned revenue" approach is the Title IV-E Foster Care and Adoption Assistance programs. In fiscal year 2003, the Department reported qualifying Title IV-E shared costs of a net $11 million for the Title IV-E Adoption Assistance and Foster Care programs, of which a majority was paid for with State funds. Once received, the federal reimbursement constituted State funds. The Department, rather than move the qualifying expenditures to the program's account where the qualifying costs were reported as spent to the federal government, the Department transferred the federal reimbursement funds out of the Federal Fund and into the Other Special Revenue Fund.

Because actual activity is not always posted, the accounting record of transaction activity and account balances is not complete nor entirely reliable. The Department does not consistently review and document its reconciliations of its accounts.

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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, its institutional memory has been adversely affected. It can no longer explain why certain procedures are followed and do 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. 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 federal 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.

The Department, in conjunction with the Bureau of Accounts and Control, has been taking actions to alleviate the problems detailed above. The Department created the Division of Program Accounting and Cash Management Operations, along with creating five new positions to work to correct the problems of the Department.

Recommendation:

We recommend that the Department of Human Services implement procedures that will:

- 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

Department of Human Services

- Comply with Cash Management Improvement Act criteria
- Request federal program cash only for that program
- Ensure that program personnel charge only allowable expenditures for eligible program participants

We further recommend that the Department make certain and document that there is legislative authority to "self fund" programs through "earned revenue." We also recommend that the Department discuss the accounting implication of this "self funding" with the Bureau of Accounts and Control.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

I agree with this finding and DHS started to implement these recommendations in FY 04. This Division has been implementing the grant sub-system within the MFASIS accounting system. The grant subsystem helps us to identify specific program activity.

The Division has recently completed compilation of processes/procedures manuals and we are continuing to revise and to update these manuals as needed.

The Division has begun conducting regular reconciliations on a limited number of accounts and will be continuing to implement reconciliations until all accounts are reviewed.

The Division has and continues to meet with the State Treasurer CMIA Coordinator to insure that CMIA is being met in all DHS cash activities.

Communications have improved between financial staff and the bureaus. All parties meet at least once a month to discuss all financial issues.

It has been mandated at all levels of DHS that program accounting must be adhered to.

(03-06) Division of Financial Services

Finding: TANF grant overdrawn **(Prior Year Finding)**

The Department of Human Services drew $9,642,875 more in cash than it reported as expending for the Temporary Assistance for Needy Families (TANF) program, from the inception of the program in 1997 through June 30, 2003. The Department was unable to demonstrate which federal or non-federal programs benefited from the funds.

It appears that in recent years most of the funds were used to pay for a disproportionate share of costs of the Bureau of Family Independence, which are distributed to multiple federal programs

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(03-07) Division of Financial Services

Finding: Journal vouchers not adequately supported **(Prior Year Finding)**

Department of Human Services personnel prepared journal vouchers that do not have adequate supporting documentation. Eleven of 40 vouchers that were tested did not have information to support the derivations of the amounts of the journals. The net value of the journals was negative $15.3 million, with an absolute value of $65.6 million.

In fiscal year 2003, the amount of journal vouchers processed in the two Medicaid program appropriation accounts exceeded $48 million dollars, with an absolute value of $598 million.

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* states that, to be allowable under federal awards, costs must be adequately documented.

Recommendation:

We recommend that adequate support for journal vouchers be maintained.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

This was corrected in November 2003. All journal vouchers have supporting documentation to support the entries.

(03-08) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Finding: Inadequate system of internal controls over accounting for child support **(Prior Year Finding)**

The Department of Human Services has not reconciled amounts reflected in its internal information system, which is used to prepare federal reports of program activity, to State accounting records for the Child Support Enforcement Program. Problems were noted in three areas: accounts used to record the receipt and disbursement of child support collections, negative cash balances in program administrative accounts, and the federal and State shares of amounts collected on behalf of various parties.

Department of Administrative and Financial Services

(03-11) Bureau of Information Services

CFDA#: Various
Federal Award Number: Various

Questioned Costs: $613,212

Finding: Excess working capital reserve balance

The Department of Administrative and Financial Services has "excess reserves" reported in the cost allocation plan that was submitted to the U. S. Department of Health and Human Services (HHS) for fiscal year 2003.

The State uses Internal Service Funds to record the cost of services that are provided to other departments and agencies of the State. These costs are charged to the user departments through a rate billing process. The Department submits an annual cost allocation plan to HHS. This plan, which summarizes financial activity for the internal service funds, includes a required computation and reconciliation of retained earnings. Reserve balances are calculated and limited as prescribed by Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

For fiscal year ending June 30, 2003, the Department's Cost Allocation Plan presents an excess reserve balance of $3,607,128. Attachment C of Circular A-87, Section G(2), limits reserves to provide up to 60 days cash for normal operating purposes. The calculated reserve for the Bureau of Information Services is greater than the reserve limitation.

Circular A-87 Attachment C, Section G(4), provides that when revenues exceed costs, adjustments will be made through one of the following methods: (a) a cash refund to the federal government for the federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (federal share and non-federal share) exceeds $500,000.

The Department's Cost Allocation Plan submitted for the period ending June 30, 2003, did not provide for an adjustment to address the excess reserve balance. Of the $3,607,128 excess reserve balance, we calculated that the amount of excess attributable to federal charges was $613,212.

Recommendation:

We recommend that the Department choose an allowed method to reduce the existing balance, and comply with Office of Management and Budget Circular A-87 in the future.

Department of Administrative and Financial Services

Auditee Response/Corrective Action Plan:

Contact: Carol Elsemore, Division of Financial and Personnel Services, 624-7383

The Department agrees that the Federal Central Services Cost Plan for June 30, 2003 presents an excess retained earnings balance of $3,607,128 for the Bureau of Information Services. We also agree that a portion of the excess retained earnings is attributable to federal funds.

We do, however, question if Questioned Costs are appropriate for the following reasons:

- *While OMB Circular A-87 does say that adjustments of billed central services will be made in one of the above listed methods, A-87 also says that, while a working capital reserve of 60 days cash expenses is considered reasonable, a working capital reserve exceeding 60 days may be approved in exceptional cases. The $3,607,128 excess retained earnings is based upon a 60 day working capital reserve.*
- *The US Department of Health and Human Services, Division of Cost Allocation has until August 2004 to review the June 30, 2003 Central Services Cost Plan. We are awaiting their disposition of the excess retained earnings. The June 30, 2002 Central Services Cost Plan reported $2,742,219 in excess retained earnings and US DHHS did not require return of the federal share of the excess. US DHHS has never requested return of the Bureau of Information Services' excess retained earnings, which is reported to them annually.*

State of Maine Public Law 2003 Chapter 673 Section ZZZ instructs the State Controller to return $500,000 of the Bureau of Information Services' excess retained earnings to the General Fund. Along with the transfer to the General Fund, all State and Federal funds will receive a proportionate share of the excess retained earnings. This transfer will occur in Fiscal Year 2005 and we estimate the total transfer to be about $1.1 million with about $265,000 of federal funds to be returned.

Corrective Action Plan

1. *Corrective Action Planned:*
   a. *Per Public Law 2003 Chapter 673 Section ZZZ, return excess retained earnings of estimated $1.1 million during State Fiscal Year 2005.*
   b. *Wait for the federal review of this Cost Plan in August 2004 and negotiate with the US DHHS the disposition of the Bureau of Information Services' excess retained earnings.*
2. *Anticipated completion date is September 30, 2004.*

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Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services has been working diligently to improve the output offered by the ACES system. While the data in the ACES system is correct, the Bureau of Family Independence continues to define/assess our needs regarding reports and documentation output from the system.

(03-37) Division of Financial Services

Administrative and Matching Grants for the Food Stamp Program **Questioned Costs:** None
CFDA#: 10.561
Federal Award Number: 2003IS2514

Finding: Inadequate controls over reporting financial and program data **(Prior Year Finding)**

The Department of Human Services does not have adequate controls in place to prevent or detect errors in reporting Food Stamp expenditures on the Financial Status Report (SF-269). The Department reported $523,250 in incorrectly calculated expenditures, $109,319 in over reported expenditures, and did not report allowable expenditures of $737,907. We do not question costs, as the net result is an understatement of expenditures of $105,338.

The majority of these errors were caused by employee turnover and the inconsistent application of procedures used by the Department in the preparation of the financial reports. In many instances, the Department was unable to provide supporting documentation for questioned expenditures.

Recommendation:

To reasonably ensure accurate financial reporting, we recommend that the Department establish written procedures to be followed when preparing the SF-269 and maintain supporting documentation for audit purposes.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services agrees that the quarterly Food Stamp 269 reports were reported inconsistently. A consistent account structure was not adhered to when preparing the

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report and adequate backup was not maintained to support the expenditures reported. The Division of Accounting and Cash Management has worked on documenting that report structure, and updating/correcting the Excel spreadsheet used to compile the financial data for submission. In subsequent reports filed, expenditures reported are supported by MFASIS activity, and proper backup is maintained. It is expected that the backup Excel spreadsheet will be corrected in Fiscal Year 2005. The Department of Health and Human Services recently worked to document procedures done by all financial personnel. Because of turnover, however, some tasks have not yet been documented. As the Division of Accounting and Cash Management becomes fully-staffed in Fiscal Year 2005, documentation regarding the Food Stamps 269 report will be updated.

(03-38) Bureau of Health

Immunization Program
CFDA#: 93.268
Federal Award Number: H23/CCH122558-01-5

Questioned Costs: $56,000

Finding: Improper transfer of federal funds

The Department of Human Services transferred $56,000 from the Immunization Program federal account to its non-federal account to prevent the unspent funds from reducing the amount of the subsequent grant award.

Although the explanation written on the December 31, 2002, journal entry indicated that the transfer was "to adjust part of EPSDT charges that should have been allocated to the direct assistance vaccines for the 6/30/02 quarter," personnel at the Department indicated that the journal was done to reduce the amount of the unobligated balance in the federal account at the end of the grant period. Any unobligated balance at the end of a grant period reduces the amount of the subsequent grant award. Neither program nor accounting personnel realized that the transfer was not appropriate.

Both the federal and non-federal accounts are within the Federal Expenditures Fund. The non-federal account is used by the program to record donations of non-federal funds that are used to purchase additional vaccines for the program. The account did not incur any charges for which a transfer would have been appropriate and the Department could not provide any supporting documentation for the transfer.

Recommendation:

We recommend that the Department process journal entries for only appropriate grant purposes and retain supporting documentation for the actions taken.

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(03-42) Bureau of Family Independence

Temporary Assistance for Needy Families
CFDA#: 93.558
Federal Award Number: G-0301 METANF

Questioned Costs: None

Finding: Inaccurate data reporting on ACF-199 and ACF-209 quarterly performance reports

On multiple occasions, the Department of Human Services has submitted inaccurate data in the Temporary Assistance for Needy Families performance reports. The errors appear to be associated with compilation of data from the newly implemented Automated Client Eligibility System. Title 45 CFR 262.1 indicates that the federal government can impose a penalty of four percent of the adjusted State Family Assistance Grant for each quarter a state fails to submit an accurate, complete or timely report.

Recommendation:

We recommend that the Department continue efforts to identify and correct the errors that are causing inaccurate data to be included in the program's quarterly performance reports.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

The Bureau continues to work with its federal partners to produce accurate TANF and SSP-MOE Quarterly Data Reports.

(03-43) Division of Financial Services

Temporary Assistance of Needy Families
CFDA#: 93.558
Federal Award Number: G-0201 METANF, G-0301 METANF

Questioned Costs: None

Finding: Inadequate control procedures to ensure accurate reporting of program expenditures **(Prior Year Finding)**

The Department of Human Services submits quarterly federal expenditure reports (ACF-196) for the Temporary Assistance for Needy Families (TANF) block grant to the federal grantor agency. The reports as originally submitted by the Department included significant errors,

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inconsistencies, and unsupported adjustments. These errors resulted from the Department's lack of control procedures to ensure proper reporting of program expenditures. As a result, the Department of Administrative and Financial Services' Bureau of Accounts and Control amended the ACF-196 reports for federal fiscal years 2000 through 2003. The amended reports along with the ACF-196 report for quarter ending March 31, 2004 were submitted to the Department of Health and Human Services in May 2004. Problems identified in the originally submitted ACF-196 reports are detailed below.

1. The reporting method used by the program accountant to compile the ACF-196 expenditures led to inconsistencies in the reported expenditure amounts for each quarter. Expenditures were counted twice in some quarters, or not reported at all. While these errors prevent meaningful ongoing analysis, the cumulative report at the end of the fiscal year was reasonably correct
2. The original reported amounts for the quarter ending June 30, 2003 were based on estimates, while all amounts reported in columns (A) through (D) are required to be actual expenditures or obligations. A revised report was submitted by the Department on October 3, 2003, based on actual expenditures.
3. Expenditures for Child Care and Other Supportive Services were reported as assistance payments. Assistance payments, per 45 CFR 260.31(a)(3), should include supportive services such as transportation and childcare provided to families who are not employed. Our tests showed that some supportive services were recorded as assistance payments although they were paid on behalf of TANF clients who were employed.
4. The program accountant incorrectly reported child support collections instead of the applicable disbursement of those collections as federal TANF expenditures and State Maintenance of Effort (MOE). In addition, child support disbursements to TANF clients known as GAP payments were also incorrectly reported as federal TANF expenditures. GAP payments to TANF clients are unallowable as federal TANF expenditures but can be reported as state MOE. Total child support collections and GAP payments reported incorrectly as federal TANF expenditures was $9,253,569. After adjusting for the reporting errors, the State did not meet the MOE requirements for federal fiscal years 2001, 2002, and 2003. The shortfalls were $35,000, $2.9 million, and $1 million respectively. These errors have been corrected on the amended ACF-196 reports submitted by the State's Bureau of Accounts and Control; therefore, these costs are not questioned.
5. The Department transferred, through four journal entries, expenditures totaling $1,015,000 from the program's ASPIRE account to the Basic Assistance account. These transfers were done to free up allotment in the ASPIRE account to allow for additional ASPIRE expenditures. The expenditures were, however, correctly reported on the ACF-196 report. Although these transfers did not violate any federal grant restrictions, they circumvented the State's budgetary controls: that is, the Department did not obtain approval from the Bureau of the Budget. Title 5 M.R.S.A. §1662 states:

   > The Department of Administrative and Financial Services, through the Bureau of Budget, has the duty and authority...to examine and recommend for approval any changes in the work program and quarterly allotments of any department or agency of the state government during the fiscal year.
6. The Department prepared a journal voucher that appeared to transfer $2 million in expenditures from various non-TANF State accounts into the TANF federal account. These

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apparent expenditures were reported in the ACF-196 report for the quarter ending September 30, 2003. The support provided for the transfers showed that the amounts were based on encumbrances and not actual expenditures. The entire $2 million was not actually spent as of the end of the quarter. Additionally, contracts associated with the $2 million journal were reviewed and found not to be allowable under the TANF State Plan. These amounts were not included in the amended ACF-196 reports submitted by the Bureau of Accounts and Control; therefore, these costs are not questioned.

7. The Department included material adjustments to amounts reported as expended. Supporting documentation could not be provided for the adjustments, and they did not agree with the State's accounting records. These unsupported adjustments were not included in the amended ACF-196 reports submitted by the Bureau of Accounts and Control.
8. The Department reported amounts expended by the Social Services Block Grant (SSBG) and the Child Care Development Fund (CCDF) as amounts transferred to these programs, but did not actually transfer the reported amounts. In federal fiscal year 2002, CCDF transfers were understated on the ACF-196 report by $2,382,171. In federal fiscal year 2003, CCDF transfers were overstated on the ACF-196 report by $1,041,290 and SSBG was overstated on the ACF-196 report by $1,875,000. As noted previously, the ACF-196 Financial Reports have been revised by the Bureau of Accounts and Control subsequent to our audit period.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires recipient organizations of federal funds to have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports. Additionally, Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* states that, to be allowable under federal awards, costs must be adequately documented.

Recommendation:

We recommend that :

1. Cumulatively reported expenditures be correctly completed.
2. The Department report only actual and allowable expenditures on the ACF-196 Financial Report and that they be reported in the appropriate category.
3. Any transferred funds between Basic Assistance and ASPIRE be accomplished in accordance with State statute.
4. Supporting documentation for all journal vouchers and adjustments captured in the ACF-196 be maintained.
5. The Department reconcile all reported amounts to the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869 and Rose Masure, 287-2826

1. *The Department of Human Services agrees that the quarterly TANF 196 reports were reported inconsistently. It is our opinion, however, that the errors were not caused*

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because the reports were prepared in a cumulative fashion, but because a consistent account structure was not adhered to when preparing the TANF MOE report, which represents the backup for the 196 report. The Division of Accounting and Cash Management has worked on documenting that report structure. It is our opinion, however, that cumulative reporting, with adequate support documentation, is a strong check for previous errors. When doing a cumulative report query and subtotaling by quarter, variances can be investigated and corrected.

2. *The Department of Human Services agrees that the quarter ending 06/30/2003 report was incorrectly reported using estimated figures. The program accountant was out on medical leave for several weeks, and proper cross-training did not exist in the Division for a co-worker to file the report in her absence. The Division of Accounting & Cash Management Operations is in the process of creating "bureau teams" of accounting individuals with sufficient cross-training to allow co-workers to cover for each other in emergencies.*

3. *The staff of the Division of Technical Systems is in the process of developing a report that will report expenditures in the appropriate categories.*

4. *The Department of Human Services agrees with this finding. Similarly to section 1 above, it is our belief that adherence to a consistent account structure will alleviate these problems. Once completed, the corrected TANF MOE documentation will be periodically updated.*

5. *The Department of Human Services does not agree with this finding. Both the TANF and ASPIRE Programs, while accounted for under separate Approp orgs, are the same program, funded by the same Federal Award, CFDA # 93.558. As a result, charges from one can be transferred to the other as required. It was not the intention of the program managers to create allotment in one account from the other, though the program accountant incorrectly described the journal as such. Instead, it was the intention of program personnel to properly distinguish ASPIRE expenditures from TANF. ASPIRE expenses, unlike those tracked in the TANF approp org, are intended to reflect aid to persons actively pursuing employment or labor training to assist in the employment process. In the Fiscal Year 2006-2007 budget, the Division of Accounting and Cash Management is researching either combining the two accounts or increasing appropriation in the ASPIRE account, to avoid future misunderstandings regarding TANF/ASPIRE activity.*

6. *The Department of Human Services agrees that only actual expenses can be reported on the quarterly TANF 196 report. Beginning with the December 2003 quarterly report, MFASIS supporting documentation is used to report allowable expenditures and is maintained with the report.*

Department of Human Services

Additionally, the Department should reconcile federal cash drawn to actual reported expenditures.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Health and Human Services instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc. The Division of Account and Cash Management Operations is currently working with the Office of the State Controller to create a consistent account reconciliation procedure for all federal accounts. Because of the various accounts and uses for the funds, the task will be time-consuming. A draft of the TANF reconciliation has been prepared for the quarter ending March 31, 2004, but is still a work in progress.

(03-45) Division of Financial Services

Temporary Assistance to Needy Families, Foster Care, Medicaid
CFDA#: 93.558, 93.658. 93.778
Federal Award Number: Various

Questioned Costs: None

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 Agreement, which establishes provisions for individual programs to draw federal funds, and 31 CFR 205.17(e), which requires a State to maintain records supporting implementation of the Agreement. Also, the Department's accounting procedures do not comply with 45 CFR 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 three programs for which compliance with the Agreement was material to the program.

Temporary Assistance to Needy Families (TANF) CFDA #93.558
Basic Assistance
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 five TANF Basic Assistance draws that we reviewed, one was deposited five days early, one was deposited two days late, and one was for disbursements in August 2001 for which a draw had never been made. In April 2003, the Department began using an Electronic Benefit Transfer system for benefit payments.

Department of Human Services

Two draws subsequent to the conversion to this system were reviewed and found to be in compliance with the Agreement.

Aspire
Methods used to determine the amount of funds needed for payments associated with Aspire activities are inadequate to ensure compliance with the Agreement. The Department does receive a report that indicates the amount of cash necessary for upcoming ASPIRE payments. Two draws were reviewed and it was found that the Department drew funds based on several sources of information: B909 impact reports, MACWIS payment reports, and unsupported estimates of expenditures. It is unclear that the amounts drawn were necessary to cover only allowable payments to clients.

Indirect Allocated
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 indirect cost rate to the appropriate direct costs for the prior quarter. The Department is not in compliance with this method: the Department drew cash for allocated costs bi-weekly or as cash needs required. The two draws we reviewed lacked supporting documentation. Additionally, the Department did not draw funds for indirect costs by applying an approved indirect cost rate to the appropriate direct costs of the prior quarter.

Direct Allocated
The Agreement specifies bi-weekly draw downs for Direct Administrative Costs. The State must draw down personal services bi-weekly for deposit on the average day of clearance of the State payroll (one day). A review of the deposit dates for funds drawn revealed that the Department drew funds sporadically, not always bi-weekly. Of two cash receipt transactions we reviewed, one was processed to correct an error from December 2000 and one was a negative amount being utilized to transfer funds to another account.

<u>*Foster Care CFDA #93.658*</u>
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. We reviewed one draw which covered several foster care weekly payrolls. The difference between the average clearance date for each of the payrolls and the date of the draw ranged from 15 days late to 12 days early.

The Agreement specifies prorated draws for Direct Administrative Costs. The Department does not draw down the $1/6^{th}$ or $1/7^{th}$ of the quarterly grant award for administrative costs, but processes a quarterly journal voucher to transfer administrative cash to the supporting accounts for the allowable amount of allocated costs for the Foster Care Program.

Deficiencies in the design of the accounting structure were noted. Due to the commingling of Foster Care, Adoption Assistance, and Independent Living Program funds with Title IV-E shared funds, excessive cash may be drawn down from the Foster Care Program to provide for the immediate cash needs of the other programs.

Department of Human Services

Medicaid CFDA #93.778

Payments to Providers

The agreement specifies an average clearance method for payments to providers. The State has established an average clearance pattern of four days. We reviewed the draw procedures for one Medicaid cycle and found the draw was performed in compliance with prescribed procedures. However, as noted in finding #03-81, for the fiscal year as a whole, the Medicaid Program had an excessive negative cash balance.

Administrative Costs

The Agreement specifies the bi-weekly draw down method for administrative costs. The Department prorated draws for administrative costs based on the quarterly grant awards for administrative costs.

We note that subsequent to fiscal year 2003, the following actions will be taken to improve cash management and accounting functions of the Department.

- The Director of the Financial Services Division will review the new Cash Management Improvement Act Agreement that is effective July 1, 2003, as well as audit concerns, with responsible staff members.

- The Department is putting a new financial management staff in place to improve the accounting functions of the department. Until the staff is in place and properly trained, staff from the Department of Administrative and Financial Services, Bureau of Accounts and Control, are monitoring cash draw activity. New procedures were put into place, effective October 1, 2003, to improve control over cash draws in the interim.

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

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc.

Division employees have also met with Tim Rodriguez, State of Maine CMIA Coordinator, for training and guidance. As a result, timing of certain draws for expenditures, personnel costs, administration allocations, etc. have been adjusted.

The Division of Account and Cash Management Operations is currently working with the Office of the State Controller to create a consistent account reconciliation procedure for all federal accounts. Because of the various accounts and uses for the funds, the task will be time-consuming. A draft of the TANF reconciliation has been prepared for the quarter ending March 31, 2004, but is still a work in progress.

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

(1) *The prior years TANF reports were completed in June 2004, now revised ACF 696 reports can be prepared incorporating the correct transfer amounts.*

(2) *The Child Care Development Block Grant is being created in the MFASIS federal grant module and will be completed by September 2004.*

(3) *The Federal grant sub system will be used to maintain state and federal accounts for a specific grant/program.*

(4) *Reporting of the TANF Program now requires that the Managing Staff Accountant furnish a copy of the TANF report showing actual monies reported.*

(5) *The annual Federal Status Report does report any federal funds that have been liquidated for the fiscal year, although these reported amounts have not been encumbered.*

(6) *The policy of calculating an imputed state match amount has been revised. Starting in FY 05, actual State match expenditures will be reported on the ACF-696 report.*

(7) *The policy of reporting required earmark expenditures has been revised. Starting in FY 05, actual earmark expenditures will be reported on the ACF-696 report.*

(03-55) Division of Financial Services

1. Child Care Development Block Grant — **Questioned Costs:** None
2. Child Care Mandatory and Matching
   Funds of the Child Care and Development Fund

CFDA#: 93.575, 93.596
Federal Award Number: 0201 ME CCD
0301 ME CCD

Finding: Inadequate cash management procedures

The Department of Human Services did not have adequate cash management procedures in place for disbursement of federal funds. For those months tested, the average number of days that cash was on hand ranged from 2 days to a negative 16.5 days. For the six different periods of time that were tested, the cash balance ranged from $1,051,988 to negative $2,605,943.

Department of Human Services

In addition, for the month of January 2003, each business day showed a negative cash balance. The cash balances ranged from negative $699,674 to negative $2,605,943. The average number of days that cash was on hand in January 2003 was negative 16.47.

For those days with a negative cash balance, the Department was using federal receipts from other programs to fund the payment of Child Care Development Fund vouchers. Carrying a negative balance does not reflect proper cash management practices and could jeopardize the State's cash position.

Per discussion with Department personnel, the Department changed its method for drawing federal funds in January 2003. For the months tested after January 2003, the average number of days with negative cash on hand, ranged from negative 1.42 days to negative .96 days.

Recommendation:

We recommend that the agency improve cash management procedures.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

Individuals within the department have met with the State Treasurer CMIA Coordinator to ensure that all CMIA procedures are followed. In addition, all financial services personnel have participated in at least one CMIA workshop.

A draw is requested only when there are corresponding expenditures to document the justification. As of July 2004, the staff are regularly reviewing and reconciling all cash draws and cash balances.

Department of Human Services

(03-69) Community Services Center

Social Services Block Grant
CFDA#: 93.667
Federal Award Number: G0201MESOSR, G0301MESOSR

Questioned Costs: None

Finding: Inadequate suspension and debarment procedures

The Department of Human Services does not have procedures in place to ensure that contractors receiving awards of $100,000 or more are not suspended or debarred. The Department did not obtain the required certification for suspension and debarment for one of the ten contracts that we reviewed.

Title 45 CFR 76.200 prohibits non-federal organizations from contracting with parties that are suspended or debarred. Contractors receiving awards of $100,000 or more must certify that the organization and its principals are not suspended or debarred.

Recommendation:

We recommend that the Department require all contractors who are awarded $100,000 or more to certify that the organization and its principals are not suspended or debarred.

Auditee Response/Corrective Action Plan:

Contact: Jeannette Talbot, 287-5037

All Service Agreements funded with SSBG funds contain the Department's standard Rider D. When the Agreement is signed by the Service Provider, Rider D, item 6 serves as the certification for suspension and debarment.
I believe the contract sited in this finding was an Agreement with the University of Southern Maine for training and technical assistance to the Community Services Center. Currently, the standard state agreement template for University of Maine training and technical assistance agreements does not contain suspension and debarment language.

The Community Services Center will obtain authorization from the state Division of Purchases to include the Department's standard Rider D in all future training and technical assistance agreements.

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

This was corrected in November 2003. All journal vouchers have supporting documentation to support the entries.

(03-88) Division of Financial Services

Medical Assistance
CFDA#: 93.778
Federal Award Number: 50305ME2028

Questioned Costs: None

Finding: Federal funds used for State purposes **(Prior Year Finding)**

The Department of Human Services temporarily transferred State expenditures to the Federal Expenditures Fund so that Medicaid cycle payments could be paid on a timely basis.

To allow the State share of Medicaid bills to be paid, the Department artificially created General Fund allotment by temporarily transferring $13.7 million in previously recorded General Fund expenditures to the Federal Expenditure Fund.

The entries 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. Prior to the end of the fiscal year, the entries were reversed to properly allocate expenditures within the program's accounts.

Recommendation:

We recommend that transfers between Medicaid accounts without financial orders be discontinued.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley

This practice was terminated during FY 2004. Transfers between Medicaid accounts are processed by financial orders.

Department of Human Services

(03-90) Division of Technology Services

Medical Assistance Program
CFDA#: 93.778
Federal Award Number: 50305ME5028

Questioned Costs: None

Finding: No internal control system established for ADP risk analyses and system security reviews (**Prior Year Finding**)

The Department of Human Services did complete an Automated Data Processing (ADP) risk analysis this year but there are no controls in place to ensure that this procedure will be repeated as required. According to 45 CFR 95.621, State Medicaid agencies must establish and maintain a program for conducting periodic risk analyses and system security reviews for each computerized information system involved in the administration of HHS programs. To reasonably ensure compliance with federal laws and regulation, non-federal entities receiving federal awards must establish and maintain a system of internal control.

The Maine Medicaid Management Information System has been in use for over twenty years; however, the first risk analysis was not completed until this fiscal year. No system of internal controls has been established to ensure compliance with the risk analysis and system review requirements. This internal control will be even more important when the current claims processing system is replaced with a new system at the end of fiscal year 2004.

Recommendation:

We recommend the Bureau of Medical Services establish a system of internal controls to ensure that the required ADP risk analyses and system security reviews of the claims processing systems involved in the administration of the Medical Assistance Program are conducted as required.

Auditee Response/Corrective Action Plan:

Contact: Rene LeBlanc, 287-1746

BMS currently has a contractor developing a replacement system for MMIS called Maine Claims Management System (MeCMS). MeCMS will completely change the way BMS conducts its claims processing. The contractor responsible for oversight of the MeCMS project is documenting the manual business processes associated with MeCMS, and this item is one of the processes they have been asked to develop.

MeCMS was originally scheduled to be implemented in October of 2003, so these processes were expected to be implemented prior to this audit. Therefore, the processes were not added to the

Department of Human Services

MMIS operations procedures. Unforeseen circumstances have resulted in the implementation date of MeCMS slipping to January 2004, then April, then August and now they are targeting completion in December 2004. These delays have resulted in the corrective actions being documented in the MeCMS operations procedures not being viable. DoTS BMS staff is on schedule to again perform the audit in late summer of 2004, but the task has still not been added to the production schedule due to the inevitability that MeCMS must be operational in 2004.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Executive Operations (OEO). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.