
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PENNSYLVANIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

November 2006

A-77-07-00004

**MANAGEMENT
ADVISORY REPORT**



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: November 22, 2006

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Commonwealth of Pennsylvania for the Fiscal Year Ended June 30, 2005 (A-77-07-00004)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Pennsylvania for the Fiscal Year ended June 30, 2005. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Ernst and Young, LLP and the Pennsylvania Auditor General jointly performed the audit. The Department of Health and Human Services (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst and Young and the Pennsylvania Auditor General, and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

For single audit purposes, the Office of Management and Budget (OMB) 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 Pennsylvania Bureau of Disability Determination (BDD) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The BDD is reimbursed for 100 percent of allowable costs. The Department of Labor and Industry is the Pennsylvania BDD's parent agency.

The single audit reported that BDD did not maintain documentation required by the OMB Circular A-87¹ for personnel costs. Specifically, signed semiannual updates to job descriptions and other certification documents were not obtained to support that BDD employees worked solely on SSA's programs during the audit period (Attachment A, pages 1 and 2). We previously reported this weakness to SSA and recommended that SSA determine whether BDD's current procedures for documenting employee work activities are sufficient to ensure the accuracy of personnel costs charged to its programs.² In response to our recommendation, SSA concluded that BDD's current procedures satisfy the requirements of OMB Circular A-87 since it certifies personnel-related information quarterly on the SSA-4514, Time Report of Personnel Services. Therefore, we will not make a recommendation.

The single audit also disclosed the following findings that may impact the BDD's 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.

- The Commonwealth did not comply with the Cash Management Improvement Act regulations and procedures for clearance pattern requirements and interest calculations (Attachment B, pages 1 through 10).
- Adequate documentation was not maintained to support that new service providers were checked for debarment or suspension status on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs (Attachment B, pages 11 and 12).

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



Patrick P. O'Carroll, Jr.

Attachments

¹ OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

² Single Audit of the Commonwealth of Pennsylvania for the Fiscal Year Ended June 30, 2004 (A-77-06-00008).

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Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 – 42:

CFDA #96.001 – Social Security – Disability Insurance

Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #04-35)

Condition: During the state fiscal year ended June 30, 2005, the Bureau of Disability Determination (BDD) incurred personnel expenses of \$30,574,000 in salaries and wages and \$11,243,000 in fringe benefits, or \$41,817,000 in total for the SS-DI program. BDD employees charging personnel costs to SS-DI work solely on SS-DI-related activities, and their salaries and benefits are charged 100 percent to SS-DI and, therefore, do not maintain timesheets as supporting documentation. Certain central service employees (i.e. Information Technology, Bureau of Financial Management, etc.) also charge time to the SS-DI program, but these employees maintain certified timesheets to support their time since they do not work solely on this program.

Based on our audit inquiries, sampling of transactions, and review of job descriptions supporting the BDD employees charged 100 percent, we found the documented grant activities of BDD personnel to be allowable under SS-DI. However, although we determined BDD's activities to be allowable, we noted that BDD was not maintaining updated documentation required by a provision in OMB Circular A-87 for personnel costs. Specifically, BDD was not obtaining signed semi-annual updates to its job descriptions (or any other semi-annual certification documents) on file to re-certify, that the respective employees worked solely on the SS-DI program during the audit period.

Criteria: OMB Circular A-87, Attachment B, Section 8(h), pertaining to the support for salaries and wages states, in part:

- (3) *Where employees are expected to work solely on a single Federal award or cost 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.*

Cause: BDD personnel have indicated that they disagree with this finding and maintain that current procedures, including quarterly time reporting as part of the SSA-4514 Report, are sufficient to satisfy the requirements under OMB Circular A-87. However, the auditors contend that semi-annual certifications signed by the employee or a supervisor with first-hand knowledge of the employee's work would still be required, and the SSA-4514 Report signature process does not clearly demonstrate the applicable supervisory officials' first-hand knowledge of all employee work performed, as required by A-87. Therefore, BDD personnel are awaiting a decision from the federal awarding agency with regard to this issue before they make any changes to their current procedures.

Effect: Although our audit determined SS-DI personnel costs to be allowable for the program, BDD's signed job descriptions or other certification documents are not timely updated on a semi-annual basis for 100 percent-charged employees. Therefore, BDD is not in compliance with a significant documentation requirement in OMB Circular A-87.

Recommendation: BDD management should strengthen internal controls to ensure that all personnel costs charged to the SS-DI program for employees doing SS-DI-related work are more timely documented in accordance with the semi-annual certification provision in OMB Circular A-87.

Agency Response: BDD is still in disagreement with this finding maintaining that there are no major changes in its employees' responsibilities from year to year thus annual recertification represents a reasonable timeframe. Additionally, the SSA-4514 Report, Time Report of Personnel Services, is submitted to SSA on a quarterly basis accounting for and reporting employees' time. However, this matter has been referred by the Regional Office to the SSA Central Office for a response which is anticipated to be forthcoming September 1, 2006.

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Finding 05 – 42: (continued)

Auditors' Conclusion: Based on the agency response, the finding and recommendation remain as previously stated. We will review any resolution or corrective action in the subsequent audit.

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Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 -- 46:

CFDA #Various -- All Major Programs Covered by CMIA

Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a \$560,548 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #04-37)

Condition: The Commonwealth of Pennsylvania has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement, the Commonwealth has developed policies and procedures contained in Comptroller Operations Directive #540.1 and has developed the CMIA Drawdown System (CDS) which calculates and provides recommended drawdown amounts using the Average Daily Clearance (ADC) method.

As provided by the Treasury-State Agreement, all checks associated with all voucher transmittals (VTs) for CMIA-covered programs were utilized for the period of February 1, 1999 through May 31, 1999 to determine the ADC check clearance pattern implemented on April 13, 2000. The clearance time of each check in the study was dollar-weighted to produce the dollar-weighted average day of clearance from the time the VT was posted to ICS (the Commonwealth's general ledger at the time) until the checks associated with the VT cleared the state bank account. We tested the propriety of the Commonwealth's check clearance patterns during the prior Single Audit for SFYE June 30, 2000, and disclosed the following deficiencies with the Commonwealth's check clearance studies which remain unresolved for the SFYE June 30, 2005:

- The Commonwealth did not reconcile expenditure totals from the check clearance study (BFM Report 833) to the ICS general ledger in 1999 to ensure the accuracy and completeness of data used in the ADC study.

Further, as noted in previous Single Audits, each VT can only be captured in the study under one appropriation, regardless of how many appropriations are present on the VT. Since some appropriations are used for more than one program, but are assigned to only one program for the ADC study, some programs could have significantly less or significantly more expenditures in the study than were actually incurred.

- The ICS posting dates per the February 1, 1999 through May 31, 1999 clearance study did not always agree to the actual ICS general ledger posting dates.

As a result, the prior-year material weakness regarding incorrect posting dates for the study caused material noncompliance with CMIA during SFYE June 30, 2005 since the Commonwealth is still using ADC patterns established from the February 1, 1999 through May 31, 1999 clearance study.

- A disproportionate amount of payroll cost was included in the clearance study for CFDA #20.205, Highway Planning and Construction (HPC). We believe this occurred due to the fact that appropriations other than HPC related appropriations were included on the payroll VTs included in the HPC study.

Further, starting on July 1, 2002, the Commonwealth began decommissioning ICS with a phased implementation of an Enterprise Resource Planning (ERP) software known as SAP that impacted all Commonwealth business functions, including the payment process. However, the Commonwealth has yet to perform a check clearance study to ensure the accuracy of the delay of draw for federal programs now using SAP. As of July 1, 2003, Federal grants comprising most of the dollar value of programs covered under the Commonwealth's Treasury Agreement were processing payments on the SAP system including all grants funded by HHS. However, Commonwealth personnel indicated a check clearance study would not be performed for any program until all of the Commonwealth's payment process is converted to SAP, which did not occur until after January 2004.

We also noted that the draw delay utilized on the CDS system in the SFYE June 30, 2005 was incorrect for CFDA #84.367 -- Improving Teacher Quality State Grants. The CMIA State-Treasury Agreement for this program called for a draw delay of 16 days after each SAP expenditure posting date, consisting of 15 days automatically calculated by CDS, plus one extra day delay to draw down the cash. However, the draw delay actually input into CDS was 14 days (13 days

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Finding 05 – 46: (continued)

calculated by CDS, plus one day to draw) for this program, or two days too early. Although the actual interest impact does not appear significant and could not be accurately determined in our audit, the incorrect draw delay in CDS is a violation of CMIA for this major program.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2004 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2005, was misstated by a minimum of \$560,548 as follows:

- Within the Food Stamps Admin program, we noted that L&I returned \$1,789,548 of funds to DPW that were related to a Memorandum of Understanding between the agencies for the period July 1, 2002 to June 30, 2003. DPW subsequently posted the return of the funds to SAP via document #SU103561786 on June 15, 2004. The funds were subsequently returned to the federal government on September 24, 2004. Since these funds related to the MOU that ended on June 30, 2003, the Commonwealth would owe interest on these funds from at least July 1, 2003 to September 24, 2004, or 452 days. However, we noted that the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand. Therefore, the Commonwealth's interest liability was understated by \$17,538 for the period 7/1/03 to 6/30/04 and \$9,614 for the period 7/1/04 to 9/24/04, or \$27,152 in total.
- Our testing of interest generating transactions supporting the annual interest report disclosed that the Commonwealth erroneously paid a net of \$4,790 of interest to the federal government as follows:

CFDA #	Program Name	Overpayment (Underpayment)
93.558	TANF	\$ 514
93.563	CSE	(27)
93.596	CCDF	(156)
93.658	Foster Care	354
93.778	MA	4,105
		<u>\$4,790</u>

The above interest was related to draw number 98874519, for which funds were properly drawn on January 2, 2004 and received on January 5, 2004 in accordance with the ADC pattern. However, the funds were erroneously recorded on CDS as being received on January 2, 2004, which subsequently resulted in the Commonwealth inadvertently paying three days worth of interest for this draw. Therefore, the Commonwealth's controls over calculating the proper interest liability appear to be defective.

- Within the Medical Assistance program, DPW's MAMIS and PROMISe systems processed a file of medical claims on a weekly basis. Included within these claims are expenditures made by school districts for school based medical services. For all school based medical expenditures DPW submits a check to PDE, who administers the school based medical program. PDE then in turn reimburses the school districts for the medical services provided. Once DPW pays the money to PDE, the funds are subsequently drawn from the federal government. However, our review of the account used by PDE to reimburse the school districts disclosed that PDE is not reimbursing the school districts in a timely manner as this account had a balance of \$55,902,318 at June 30, 2004, with a carry-forward balance from the prior fiscal year of \$53,931,461. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any interest on the balance maintained within this account, even though it represents federal funds drawn down in excess of amounts paid to school districts. As a result, assuming the average balance in the account was \$54,916,890 during the June 30, 2004 fiscal year, the state's interest liability was understated by an estimated \$538,186. We also found that the excess cash in this account had grown to \$79.6 million as of June 30, 2005, so additional CMIA interest is owed for SFYE June 30, 2005 to be remitted during SFYE June 30, 2006.

In addition, the following weaknesses, the interest effect of which we could not determine, were noted in prior years and remain unresolved pertaining to the CMIA interest calculation:

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Finding 05 – 46: (continued)

- Excess cash on hand can result due to the rejection of payment invoices by the PA Department of Treasury if timely adjustments are not made and interest due to the federal government for such transactions is not recorded by CDS. While the Commonwealth has improved its system by modifying CDS to record adjustments immediately and not subject them to a draw delay, not posting adjustments to the Commonwealth accounting system on a timely basis will result in unrecognized interest liabilities.
- Funds posted to Federal Revenue Collected in Advance (RCIA) accounts are not included in the CMIA interest calculation because CDS does not recognize these federal revenues in excess of federal expenditures on SAP as interest generating transactions. Therefore, an interest liability is not assessed by CDS, and the Commonwealth interest liability appears to be understated as a result. Although our review of revenues drawn and posted to major program accounts on SAP did not disclose any current year revenue collected in advance, our review of federal revenue collected in advance accounts at year-end in the Departments of Corrections and Public Welfare disclosed undocumented excess federal funds collected in advance for both covered and non-covered programs. While interest is not due for federal cash on hand in non-covered programs, this appears to be a violation of federal cash management regulations. In addition, with regard to revenue collected in advance at DPW, the year-end balance of this account (which is net of Medicare Services not considered federal financial assistance) has rapidly grown over the past four years as follows:

<u>As of</u>	<u>Balance</u>
June 30, 2002	\$ 48,377,192
June 30, 2003	\$153,274,939
June 30, 2004	\$183,644,890
June 30, 2005	\$606,423,402

A further breakout of total balances by DPW federal program at June 30, 2004 and at June 30, 2003 is as follows:

<u>Program</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Change</u>
SSBG	\$ 1,699,706	\$ 1,838,764	\$ (139,058)
MA	319,130,003	107,026,071	212,103,932
TANF	187,096,746	0	187,096,746
Food Stamps	56,975,784	57,305,861	(330,077)
LIHEAP	164,510	2,842,994	(2,678,484)
CSE	11,185,298	4,577,968	6,607,330
CCDF	11,737,611	0	11,737,611
Cash Grants (MA, TANF, Food Stamps)	14,766,653	9,953,463	4,813,190
Other	3,667,091	99,769	3,567,322
Total	<u>\$606,423,402</u>	<u>\$183,644,890</u>	<u>\$422,778,512</u>

All the above programs, except the "other" category, are covered programs under the Treasury-State Agreement and, thereby, appear to owe interest to the U.S. Treasury. Based on the average year-end balances listed above at the current CMIA interest rate, the estimated amount of interest owed to the U.S. Treasury could potentially range from over \$2.4 million for SFYE June 30, 2004 to nearly \$6 million for SFYE June 30, 2005. However, since DPW does not perform any analysis of the transactions posted into and out of its collected-in-advance account for CMIA interest impact, DPW cannot adequately support the source of this excess revenue on the SAP system and the interest owed on this excess revenue at year-end cannot be determined in our audit.

We also noted that, with the creation of a new revenue code in the RCIA classification (1841 Code) on RAS, the WIC program showed \$2 million in excess cash in this RCIA account at June 30, 2005. In our follow up discussions, WIC officials in DOH indicated that this \$2 million actually represented a working capital cash advance provided by USDA for the WIC program back at the start of CMIA in the 1990s to cover cash shortfalls in WIC's

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Finding 05 – 46: (continued)

payment process and ensure that the program's cash position remained interest-neutral in accordance with CMIA. However, DOH officials could not provide any documentation to support their explanation for this excess cash in the RCIA account at June 30, 2005 since they stated the documentation was no longer on file at DOH.

Criteria: 31 CFR 205.20 provides the following regarding clearance patterns:

States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

- a. A clearance pattern must be auditable.*
- b. A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. A clearance pattern must include seasonal or other periodic variations in clearance activity.*

Also, 31 CFR 205.22 (a) on the accuracy of clearance patterns states:

If a State has knowledge, at any time, that a clearance pattern no longer reflects a Federal assistance program's actual clearance activity, or if a Federal assistance program undergoes operational changes that may affect clearance activity, the State must notify us, develop a new clearance pattern, and certify that the new pattern corresponds to the Federal assistance program's clearance activity.

31 CFR 205.14(a)(2), pertaining to federal interest liabilities, states:

- (2) If a State pays out its own funds for Federal assistance program purposes without obligational authority, the Federal Program Agency will incur an interest liability if obligational authority subsequently is established. However, if the lack of obligational authority subsequently is established. However, if the lack of obligational authority is the result of the failure of the State to comply with a Federal Program Agency requirement established by statute, regulation, or agreement, interest liability may be denied. A Federal interest liability will accrue from the day a State pays out its own funds for Federal assistance program purposes to the day Federal funds are credited to a State bank account.*

31 CFR 205.15 states the following pertaining to state interest liabilities:

- (a) General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*
- (b) Refunds. (1) A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.*

31 CFR 205.29(d) states the following regarding compliance and oversight:

- (d) If a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in §205.11, §205.12, or a Treasury-State agreement, we may deny the State payment or credit for the resulting Federal interest liability, notwithstanding any other provision of this part.*

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Finding 05 – 46: (continued)

Further, 31 CFR 205.26(a) related to the Annual Report states:

- (a) *A State must submit to us an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends. We will provide copies of Annual Reports to Federal agencies. We will prescribe the format of the Annual Report, and may prescribe the format of the Annual Report, and may prescribe that the Annual Report be submitted by electronic means.*

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.1.6 states:

With several programs subject to the Act, the primary Commonwealth agency administering a program will subgrant portions of the program to secondary state agencies. As costs in support of the program are incurred, the secondary agency charges the primary agency, which in turn draws down Federal funds.

In all such cases, the secondary agency shall charge the primary agency no earlier than the day transactions post to the accounts of the secondary agency. The procedures governing the request for funds from the primary agency, and the payment of such requests, shall be in accordance with the agreement between the primary and secondary agencies.

Cause: Regarding the accuracy and completeness of the data used in the ADC study, BFM personnel stated that the current system in place to calculate the ADC can only sort expenditures by appropriation. Therefore, each voucher transmittal can only be included in the study under one appropriation, regardless of how many appropriations are included on the voucher. Since some appropriations are used for more than one program, in these instances, the appropriation must be assigned to one program for ADC purposes.

For the differences noted between the actual ICS post date and the post date per the ADC study in 1999, we found that the date used for the ADC study was the date on which magnetic tapes were forwarded to Treasury for payment, not the date the expenditures were actually posted to ICS. As in prior years, the Commonwealth had no controls in place to make sure the correct ICS post date is included on these magnetic tapes and incorporated into the check clearance study.

With respect to the payroll costs for the HPC program included in the clearance study, BFM stated no changes were made from prior years to change the study to ensure the appropriate amount of payroll was included in the study.

For CFDA #84.367, BFM and LECS Comptroller personnel have not explained why this program had a 16-day delay in the Treasury-State Agreement, but the CDS draw delay was not in accordance with the agreement.

Regarding the posting of adjustments causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, the issue of Treasury rejecting payments is outside the control of BFM and is an inherent limitation within the CDS system because the draw delay is based on general ledger postings and not check issuance. Therefore, when Treasury rejects paying an invoice, excess cash can result under the current system.

For the revenue collected in advance at DPW, PHHS Comptroller officials indicated that the large increase was due to posting errors since they used the wrong SAP accounting reports during closeout. PHHS Comptroller officials subsequently reversed these entries out of the revenue collected in advance after June 30, 2005, and indicated that they will be using the correct accounting reports for closeout during subsequent periods. However, since PHHS officials could not provide the SAP reports to support the postings to the revenue collected in advance account, we cannot determine the extent of the error. For RCIA in the WIC program, during prior years the \$2 million was not recorded in a separate account on the RAS system, so the extra cash was not separately tracked, nor was documentation maintained by DOH to explain or support it.

For other items addressed in the condition relating to weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they either did not agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

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Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 – 46: (continued)

Effect: As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2004 are not accurate. Our testing disclosed a minimum of \$560,548 in understatements in the state interest liability to the federal government. Further testing of DPW's federal revenue collected in advance accounts at year-end disclosed additional potential interest owed the federal government that could not be determined in our audit, but could range from over \$2.4 million for SFYE June 30, 2004 to over \$13.8 million for SFYE June 30, 2005.

In addition, the Commonwealth is receiving federal funds earlier than they should for the HPC program at PADOT. Because of the overall pervasiveness of the check clearance discrepancies involving incorrect posting dates, we cannot determine the overall impact of these weaknesses on major program check clearance patterns.

Also, various transactions that create interest liabilities, such as adjustment transactions, cancelled payments, and revenue collected in advance are not recognized by CDS as interest-generating transactions. Since manual adjustments are not made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

Recommendation: For future audit periods, we recommend BFM personnel implement a system to ensure that the clearance patterns developed and utilized on CDS accurately represent the flow of federal funds as required by 31 CFR 205.20.

In addition, BFM personnel should determine the additional amount of June 30, 2005 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, including RCIA, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that BFM modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS (e.g., RCIA) so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that BFM calculate any additional June 30, 2004 CMIA interest due to the U. S. Treasury as a result of the system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

Agency Response:

Check Clearance Study:

- At the time the check clearance study was performed, the CFDA numbers were not on VTs or checks, therefore we identified the VTs paid from appropriations that were linked to a CFDA number. The Treasury Department could link only one appropriation to one VT because the checks cleared were not identified to an appropriation.

Treasury must assign the entire VT to the first appropriation that matched to our appropriation/CFDA list. This process of assigning a VT to only one appropriation when other appropriations on the same VT are posted to the general ledger removes the link between BFM Report 833 and the general ledger, thus making the reconciliation between the two reports unrealistic.

CMIA regulations require that we perform a check clearance study for only three consecutive months. Our February 1, 1999 to May 31, 1999 study involved four consecutive months, which exceeds CMIA requirements. Based on these facts and the system restrictions noted above, a detailed reconciliation to the general ledger does not appear to be justified.

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Finding 05 – 46: (continued)

A new check clearance study is underway and will identify all VTs and SAP payments for a specific CFDA. This should alleviate the concerns identified in this portion of the finding.

- We have noted the differences between the clearance study posting dates and the actual ICS posting dates. This will not occur under the new check clearance study.
- For payroll in CFDA #20.205, the Commonwealth historically selected appropriations that contained payments to CFDA #20.205. The new check clearance study is underway and will identify all VTs and payments for CFDA #20.205. A separate check clearance pattern is not required for payroll; the check clearance study is based on all expenditures for a program. For this reason, it is appropriate that we continue to include payroll costs in our study.

Delay of Draw

The draw delay of 16 days for CFDA #84.367 was correct as stated in the CMIA Treasury-State Agreement. The change from 14 days was inadvertently excluded when CDS was updated for the 2004-05 fiscal year. Procedures have been put into place to ensure that an error of this type does not recur.

Food Stamp Program

We acknowledge that an interest liability exists, but we disagree with the period noted in the finding. The transaction that generated the return of funds was the result of the MOU reconciliation process, and the transaction was posted to the accounting records as a refund of expenditure on June 15, 2004. CMIA regulations Section 205.15 (b), Refunds, states "A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government." Therefore, the interest liability period began on June 15, 2004. The Commonwealth will adjust the next CMIA Annual Report to pay \$10,383 in interest liability for the period June 15, 2004 through September 24, 2004.

CMIA Overpayment

Subsequent to the issuance of the 2003-04 CMIA interest report, this reporting issue was discovered. An incorrect date had been placed in the header record of a revenue file posting. The erroneously recorded information was corrected through prior year state interest adjustments on the 2004-05 CMIA interest report. This error was an isolated incident and is not expected to recur in the future.

Medical Access Program:

In 1988, Congress enacted the Medicare Catastrophic Coverage Act (PL 100-360). This law provides that federal Medicaid funds must be available to reimburse expenditures for health-related services included in each child's individualized education program (IEP), individualized service plan (ISP), or individualized family service plan (IFSP) for all children who are also Medicaid eligible.

The Pennsylvania Department of Education (PDE) developed the ACCESS Program in response to this legislation. ACCESS is a means for gaining medical assistance (MA) reimbursements for the cost of the health-related services currently being provided to MA eligible students. Billable services include speech therapy, occupational therapy, physical therapy, psychological services, etc. Local education agencies (LEAs) must enroll as medical assistance providers in order to submit their invoices to MA for the billable services they are providing to the eligible students.

Based on the claims submitted for valid MA eligible expenditures incurred by the LEAs, DPW pays PDE on behalf of the LEAs and draws down the funds in accordance with the Treasury State Agreement and MA program guidelines. The funds received from MA are reported as expenditures on the Single Audit and are maintained in LEA specific accounts managed by PDE and may accumulate over several state fiscal years. Each LEA controls its own draw down of reimbursements through the filing of ACCESS Requests with PDE. ACCESS funds must be used by LEAs to enhance or expand special education services and programs for students with disabilities.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 – 46: (continued)

The Commonwealth maintains that the medical access funds were drawn for program purposes in accordance with the Treasury State Agreement. Therefore, the Commonwealth disagrees that CMIA interest is due.

Various Weaknesses:

- * The number of VTs rejected by the State Treasury is minimal and the effect is further reduced by the State Treasury only rejecting incorrect line item entries. In addition, CDS processes Correction Vouchers (CVs) and Expenditure Adjustments (EAs) immediately, thus alleviating this problem.
- * In response to the "Federal Revenue Collected in Advance" (RCIA) related to DPW's major programs, the Commonwealth doesn't transfer any "Federal drawdown" to RCIA. Any revenue that happens to reside in the revenue code entitled "Federal Revenue Collected in Advance" at any point in time, including on June 30, is the result of DPW budgetary considerations and/or fiscal year closing instructions and requirements. If for any reason we have "excess cash," it would be the result of a minus expenditure adjustment or refund of expenditure posting to the Grant Accounting records. Excess funds in these situations would be returned as part of the regular daily drawdown process by offsetting the amount against a drawable amount. Any resulting Commonwealth interest liability is already appropriately included in the interest reports.

For example, DPW is mandated to make payments but does not have sufficient spending authorization in the federal appropriation. The department processes payments against the grant and funds are drawn based on the CDS files. Since there is not sufficient appropriation balance in the federal appropriation, an expenditure adjustment is done outside of the grant accounting system to move the expenditure from the federal appropriation to a ledger 5 appropriation, with approval from the budget office. This corrects the negative available balance in the federal appropriation, however the revenue remains in the appropriation that was drawn based on the original expenditure posted to the grant's federal fund. Fiscal year end closing policy does not allow for more cash in the appropriation than the total commitments and expenditures, therefore cash must be transferred out and placed in RCIA until a supplemental appropriation is granted by the state legislature in the next fiscal year. At that time, the expenditure is moved back to the federal fund and the RCIA balance is reclassified to the grant appropriation as operating revenue. The Comptroller and BFM are available to meet to further discuss the budgetary accounting process.

- * We disagree with this presumption that a violation of federal cash management regulations occurred in the Department of Corrections. The RCIA funds for Corrections result from annual payments from the U.S. Department of Justice for housing alien inmates. The money is requested electronically on a per diem basis. These funds are available for any activities related to the correctional institutions. Since not all of the funds have been utilized in recent years, they have been deposited in RCIA.

The finding indicates that adjustment transactions and revenue collected in advance are not recognized by CDS as interest-generating transactions. This statement is not accurate. All adjustment transactions are passed to CDS and may result in interest generating transactions. In addition, if refund transactions and adjustments cause a balance in federal revenue collected in advance, those same transactions are passed to CDS and result in interest calculations.

- * The WIC program showed excess cash in RCIA at June 30, 2005 in accordance with fiscal year end closing procedures. The funds were moved into RCIA in June and moved back out in August. This \$2 million was a working capital advance from 1992 made in agreement with CMIA officials. This issue has been explained to the auditors several times over prior years, and at no time was the treatment of these funds questioned. It appears unreasonable that documentation from 14 years ago is now being requested. It should also be noted that to our knowledge there has never been any requirement to separately track these funds. We feel that these funds are handled in accordance with established precedent and procedures.

Overall, we believe that our current check clearance study has accurately represented the flow of federal funds and exceeded the standards set forth by 31 CFR 205.20. However, with the Commonwealth-wide implementation of the Enterprise Resource Planning software, a new check clearance study is now underway. This new study will again exceed the three-month requirement of CMIA regulations, as it will involve four consecutive months. The results of the new study will be amended to our Treasury-State Agreement upon completion.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 – 46: (continued)

Auditors' Conclusion: Based on our review of the Office of the Budget's response, we believe OB should place a priority on performing a new check clearance study since the last one was performed in 1999.

Regarding the Food Stamp Program excess cash issue, the funds noted in the condition were on hand at L&I as June 30, 2003 as a result of interagency transfer of federal funds from DPW during SFYE June 30, 2003. Since LECS Comptroller Office did not perform a reconciliation of federal funds transferred from DPW until near the end of SFYE June 30, 2004 a refund of expenditure document was not posted to the state accounting system until June 15, 2004. The fact that L&I or DPW was not aware of the excess cash until June 2004 does not relieve the Commonwealth of the responsibility to pay interest for the full period that L&I maintained the excess cash.

Regarding the excess Medicaid cash on hand at PDE, no new relevant information was provided in the agency response and we do not agree that no CMIA interest is due. The federal funds were drawn in advance of the payments made to LEAs; therefore, we believe CMIA interest should be paid until the federal funds are disbursed to the LEA. The Commonwealth should resolve this issue with U.S. Treasury.

Regarding rejected VTs, since BFM did not track and provided no support on the number and dollar amount of the VTs rejected by the State Treasury Department relating to CMIA covered programs, the unreported interest liability related to this issue cannot be determined, but on a statewide basis may be significant.

We disagree with the response on the Federal Revenue Collected in Advance (RCIA) balances recorded on the state's accounting system. Although the agency response may be correct in that federal drawdowns are not directly posted to RCIA, the amounts in these accounts represent federal revenues in excess of federal expenditures on the accounting system, which, according to the Treasury-State Agreement, should be the source of all CMIA interest calculations. Although the agency response provides detailed reasons for the adjustments and/or excess federal funds recorded on the SAP accounting system (i.e., inadequate spending authority, budgetary or FY closing considerations, quarterly federal payments), they do not adequately explain why noncompliance with CMIA does not exist or why CMIA interest is not due the fed for these RCIA balances.

Further, the Commonwealth's Manual of Accounting M310.3, Part Twelve, Accounting for Revenues and Receipts, Section III, 6. d. states: "Federal Revenue Collected in Advance is credited with the amount of federal revenue received in the current fiscal year that is applicable to the succeeding fiscal year (deferred revenue)." Since this is the only written guidance related to federal RCIA, there is little assurance that postings in this account are not federal revenue collected in advance of payments, and management has not taken any corrective action on its use of the RCIA account to resolve our prior year findings or to provide that assurance. If budgetary or other postings are occurring each year on the accounting system, but are not being properly reversed out, management should either correct its accounting system or follow our recommendations to comply with CMIA.

BFM has not developed any written procedures regarding RCIA, nor has BFM updated the Commonwealth's Manual of Accounting since 1996 even as the Commonwealth implemented its new enterprise-wide accounting system, SAP. As recommended in our prior Single Audits we recommend that BFM develop and implement policies and procedures to properly address the CMIA interest impact of federal RCIA on the state's accounting system.

Also, with regard to the RCIA balances noted at the Department of Corrections while revenue transmittal documents were provided stating the \$2.85 million posted to RCIA code 841 were payments for housing alien inmates no contract was provided to support the payments. Further, no documents were provided to support \$2.77 million posted to RCIA code 840 by Department of Corrections.

Regarding the \$2 million posted to RCIA by the Department of Health the prior year response indicated the RICA was for The Adult Blood Lead Epidemiology and Surveillance program, The Drug and Alcohol Services Information System, and Vital Statistics funds for fixed price contracts with the federal government. Prior to SFYE June 30, 2004 the RCIA balance at the Department of Health was always less than \$2 million and was not reviewed by us. Therefore, the \$2 million working capital advance was never explained to us in prior years. Regardless, the Commonwealth should maintain documentation to support any capital advances from as long as the advance is held.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 – 46: (continued)

Based on the agency response, our finding and recommendation, with the above clarifications, remains as previously stated.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2005

Finding 05 – 25:

CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #04-21)

Condition: As a result of federal resolution of multiple prior audit findings on debarment and suspension requirements, OVR was required to manually check the List of Parties Excluded from Federal Procurement and Nonprocurement Programs for new vendors enrolled in RSBS after August 1, 2000. OVR was also required to document the date when new vendors were checked for debarment/suspension in a field named "Debar Review" on the "Supplier Master Display" screen in OVR's computerized vendor system. During a prior audit period on June 19, 2003, OVR enhanced its system by adding a new data field named "Date Record Added" to indicate the date each new vendor is initially added to the vendor file.

We tested a sample of 21 vendors receiving RSBS payments in SFYE June 30, 2005, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 7 of these 21 vendors, the respective vendor file indicated a "Date Record Added" between August 1, 2000 and June 19, 2003, indicating a review for debarment/suspension appeared necessary. However, for all seven vendors, there was no indication in the "Debar Review" field that the vendor was reviewed for debarment or suspension in accordance with federal resolution of the prior audit finding.

Criteria: USDE Regulation 34 CFR 85.300, regarding participants' responsibilities for debarment and suspension, states in part:

Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?

Doing Business With Other Persons

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- a. Checking the Excluded Parties List System;*
- b. Collecting a certification from that person if allowed by this rule; or*
- c. Adding a clause or condition to the covered transaction with that person.*

34 CFR 80.36(a) states:

When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Commonwealth Management Directive 215.9, Section 7.a.(2)(B), dated 4-16-99, states:

If the agency makes a written determination of responsibility, the determination shall contain a statement that the contractor was determined to be responsible pursuant to this directive. This statement shall be included in the agency's contract file.

Cause: A letter written by USDE personnel in August 2000 regarding resolution of a similar prior year finding stated that USDE accepted OVR's corrective action, which was to manually verify that all new vendors added on or after August 1, 2000 were not on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs before these vendors were entered into OVR's computerized vendor file.

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Finding 05 – 25: (continued)

With respect to the seven vendors in question, OVR represented that these were not new vendors (i.e. added on or after August 1, 2000) and, therefore, they were not checked for debarment/suspension. In response to the prior year finding, effective June 19, 2003 OVR added an unchanging field called "Date Record Added" to the "Supplier Master Display" screen to indicate the date each new vendor is initially added to the vendor file. The date used as the "Date Record Added" for vendors existing prior to June 19, 2003 was the date from the "Add/Change Date" field. However, as noted in the prior year audit finding, the "Add/Change Date" field is automatically updated any time a change is made to the vendor file (i.e., address, phone number, contact person, etc.), so this date does not necessarily represent the date the vendor was initially added to the system. Therefore, for vendors existing prior to June 19, 2003 with "Date Record Added" dates between August 1, 2000 and June 19, 2003, and no date in the "Debar Review" field, there is no way to determine if the vendor was an existing vendor as of August 1, 2000 and not required by USDE to be checked for debarment/suspension, or if the vendor was new between August 1, 2000 and June 19, 2003, and required to be checked for debarment/suspension.

Furthermore, OVR could not provide any additional documentation to support that these seven vendors existed prior to August 2000 since their system only maintains historical data for three years. Therefore, OVR could not support their representation that these were not new vendors and should not have been reviewed for debarment or suspension.

Effect: Since L&I personnel did not adequately document their verification that new service providers were not on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs, a control weakness exists and there is limited assurance that RSBS funds were not paid to service providers who have been debarred or suspended from participating in federal programs.

Recommendation: We recommend that OVR maintain adequate documentation to support when new service providers were added to OVR's computerized vendor file and/or documentation to support that new service providers were checked for debarment or suspension prior to allowing these providers to participate in the RSBS program.

Agency Response: OVR is still in disagreement with this finding. As indicated in the prior years' corrective action plans to the findings cited, the Debarment Review field was added to the vendor file in March 2002 with the Date Record Added field being implemented in June 2003. Prior to the addition of the latter field, verification could not definitely be made as to when a vendor was originally added to the file. The vendors cited in this year's finding were more than likely added prior to these implemented dates.

It is our intent to present this information within the next month to the Rehabilitation Services Administration (RSA) of the United States Department of Education for further clarification and review. It is our hope that they will issue a resolution regarding this process.

Auditors' Conclusion: Since the seven vendors in question all received RSBS funding during the current audit period, the seven vendors were part of our audit scope and should have been checked by OVR for debarment or suspension. However, OVR could not provide documentation to indicate that the seven vendors were ever checked for debarment or suspension. Further, since OVR utilizes some vendors for multiple years, checking vendors for debarment or suspension only when they are added to OVR's vendor list may not be adequate to address RSBS vendors who could become debarred or suspended at a later date. Therefore, we recommend that OVR implement procedures to check all vendors for debarment or suspension periodically. This finding and recommendation remains as previously stated. We will review any federal resolution and/or corrective action, as applicable, in our subsequent audit.

The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.

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 Resource Management (ORM). 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 Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM 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.