
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PENNSYLVANIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

March 2006

A-77-06-00008

**MANAGEMENT
ADVISORY REPORT**



Mission

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

Authority

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

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

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

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

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: March 7, 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, 2004 (A-77-06-00008)

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, 2004. 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. The BDD stated that current procedures, including the quarterly SSA-4514 Time Report of Personnel Services, satisfy all documentation requirements under OMB Circular A-87. Therefore, no corrective action was planned (Attachment A, pages 1 and 2).

We recommend 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.

The single audit also disclosed the following findings that may impact Disability Determination Services' 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.

- 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 1 and 2).
- The Commonwealth did not comply with the Cash Management Improvement Act regulations and procedures for clearance pattern requirements and interest calculations (Attachment B, pages 3 through 10).

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*.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 35:

CFDA #96.001 – Social Security – Disability Insurance

Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs

Condition: During the state fiscal year ended June 30, 2004, the Bureau of Disability Determination (BDD) incurred personnel expenditures of \$28,142,000 in salaries and \$10,311,000 in fringe benefits, or \$38,453,000 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 indicated that they maintain job descriptions, updated yearly rather than semi-annually, detailing the respective employees' job duties for the employees charging 100 percent of their personnel costs to the SS-DI program. BDD personnel noted there are typically no major changes to its employees' SS-DI responsibilities from year to year, so an annual re-certification is a reasonable timeframe. In addition, BDD personnel noted that they submit the SSA-4514 Report, *Time Report of Personnel Services*, to SSA on a quarterly basis to account for and report employee time. BDD personnel believed these procedures were sufficient and they were not aware of the OMB Circular A-87 requirement to obtain updated certifications on a semi-annual basis. However, since the job descriptions are not updated on a semi-annual basis and the SSA-4514 Report does not provide a certification of the work performed by each employee, these procedures are not timely or sufficient to satisfy the requirement in OMB Circular A-87.

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 disagrees with this finding and maintains that current procedures, including quarterly time reporting, are sufficient to satisfy all requirements under OMB Circular A-87.

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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 35: (continued)

OMB Circular A-87, Attachment B, Section 8(h) 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.”

Circular A-87 does not describe what form the periodic certifications must take to meet this requirement. BDD maintains that the preparation and submission of the SSA-4514 meets and exceeds the requirement set forth in Circular A-87, Attachment B, Section 8(h).

The SSA-4514 is the quarterly Time Report of Personnel Services for Disability Determination Services. This report is used to reflect the total hours worked by all personnel engaged in the SSA-DI program by quarter. Supporting documentation for this report includes a breakdown by employee of On Duty Time, Overtime, Time Not on Payroll, Paid Leave and Unpaid Leave. Paper leave slips are also maintained to support the leave requests, and these leave slips are approved by appropriate supervisory personnel. All time reported on the SSA-4514 is reviewed by the appropriate Branch administration and final SSA-4514's are signed by the Director of BDD.

The auditors assert that the SSA-4514 Report “does not provide a certification of the work performed by each employee.” This is not required by Circular A-87. Circular A-87 requires only that the charges for the employees' salaries and wages be supported by a certification that the employees worked solely on the SSA-DI program for the period covered by the certification. The instructions for the SSA-4514 quarterly report state that On Duty Hours “...should reflect hours worked during the report period by all personnel engaged in the SSA disability program.” The SSA-4514 instructions further state that “...The entries should represent only personnel who worked full-time on SSA disability program work.” Therefore, preparation and submission of the SSA-4514 certifies that the employees whose time is represented on the SSA-4514, in this case all BDD personnel, worked solely for the SSA-DI program during that quarter.

Additionally, SSA OIG conducted an audit of BDD including evaluating internal controls over the accounting and reporting of the administrative costs claimed for the period October 1, 2001 through September 30, 2003. Extensive evaluation was conducted relative to support of salaries and wages as set forth in Circular A-87. The draft findings of May 20, 2005 note no deficiencies relative to the certification required in Circular A-87. BDD maintains that no deficiency was noted because all requirements of Circular A-87 are satisfied under the procedures currently in place. For the auditors to add additional documentation not required by SSA would be duplicative and burdensome to the Bureau, and ultimately is not necessary to meet the provisions of Circular A-87.

Auditors' Conclusion: While we acknowledge management's contention that its submission of the 4514 Report to SSA meets the requirement in OMB A-87 quoted above, we do not agree that it clearly resolves the finding. Semi-annual certifications signed by the employee or a supervisor with first-hand knowledge of the employee's work are required, and the 4514 signature process does not clearly demonstrate the applicable supervisory officials' first-hand knowledge of all employee work performed, as required by A-87. The fact that the SSA OIG did not report this specific issue in its recent program audit of BDD does not, by itself, resolve the potential noncompliance with A-87, which we are required to report in our Single Audit. Furthermore, since the OIG audit report is only in draft form and has not been issued yet, BDD did not allow us to review the report, so we could not confirm its contents as part of our Single Audit.

We believe the federal awarding agency needs to conclude on BDD's compliance with the above A-87 provision during the audit finding resolution process. Our finding and recommendation, therefore, remain as stated above.

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.

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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 21:

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 #03-17)

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 the 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 18 vendors receiving RSBS payments in SFYE June 30, 2004, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 9 of these 18 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 9 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 85.510, regarding participants' responsibilities for debarment and suspension, states in part:

(b) *Certification by participants in lower tier covered transactions.*

- (1) *Each participant shall require participants in lower tier covered transactions to include the certification in Appendix B to this part for it and its principals in any proposal submitted in connection with such lower tier covered transactions.*
- (2) *A participant may rely upon the certification of a prospective participant in a lower tier covered transaction that it and its principals are not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction by any Federal agency, unless it knows that the certification is erroneous . . . In addition, a participant may, but is not required to, check the Nonprocurement List for its principals and for participants . . .*

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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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 21: (continued)

With respect to the nine 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 nine 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 reviewed the nine vendors cited as not having debarment reviews documented and found they had been added to the OVR vendor file between September 2000 and August 2001. The Debarment Review field, which documents a debarment review has been done, was added to our vendor file in March 2002. The Date Record Added field, which documents the date a vendor was added to the OVR vendor file, was added to our vendor file on June 19, 2003. We have concluded that you would be unable to document that any of these vendors needed a debarment review since they were added to the vendor file prior to both of these dates. Our conclusion is based on the fact that an accurate determination on whether or not a vendor needed a debarment review could not be made until after both the Date Record Added and Debarment Review fields were in place. Since all of the nine vendors have dates added prior to March 2002 we feel they should be eliminated from the review and that only vendors added to the OVR vendor file after June 19, 2003 should be considered. Since the effective dates for both of these date checks were in effect prior to the beginning of this audit period we are asking that the auditors consider dropping this finding.

Auditors' Conclusion: Since the nine vendors in question all received RSBS funding during the current audit period, the nine 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 nine vendors were checked for debarment or suspension. Federal resolution of the prior-year finding was based on corrective action to be taken by OVR in August of 2000, not in June of 2003. Therefore, this finding and recommendation remain as previously stated. OVR should pursue resolution of this finding with the federal government. We will review any corrective action 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.

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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 37:

CFDA #Various – All Major Programs Covered by CMIA

Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a \$624,042 Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #03-29 and #03-30)

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, 2004:

- 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, 2004 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.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2003 which was submitted to the U.S. Treasury during our audit period SFYE June 30, 2004, was misstated by a minimum of \$624,042 as follows:

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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 37: (continued)

- 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 \$53,931,461 at June 30, 2003, with a carry-forward balance from the prior fiscal year of \$40,620,331. 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 \$47,275,896 during the June 30, 2003 fiscal year, the state’s interest liability was understated by an estimated \$624,042. We also found that the excess cash in this account had grown to \$55.9 million as of June 30, 2004, so additional CMIA interest is owed for SFYE June 30, 2004 to be remitted during SFYE June 30, 2005.

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:

- 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 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 Department of Corrections, Department of Health, State Police, Department of Conservation and Natural Resources and the Executive Offices disclosed unexplained excess federal funds collected in advance for 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 three years as follows:

As of	Balance
June 30, 2002	\$ 48,377,192
June 30, 2003	\$153,274,939
June 30, 2004	\$183,644,890

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

Program	June 30, 2004	June 30, 2003	Change
SSBG	\$ 1,838,764	\$ 2,139,057	\$ (300,293)
MA	107,026,071	93,800,000	13,226,071
Food Stamps	57,305,861	47,107,205	10,198,656
LIHEAP	2,842,994	0	2,842,994
CSE	4,577,968	2,900,000	1,677,968
Cash Grants (MA, TANF, Food Stamps)	9,953,463	6,522,000	3,431,463
Other	99,769	806,677	(706,908)
Total	<u>\$183,644,890</u>	<u>\$153,274,939</u>	<u>\$30,369,951</u>

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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 37: (continued)

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 \$1.3 million for SFYE June 30, 2003 to over \$2 million for SFYE June 30, 2004. 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 explain or 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.

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 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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Federal Award Findings and Questioned Costs - June 30, 2004

Finding 04 – 37: (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 that the Annual Report be submitted by electronic means.

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.1.4 states:

With several programs subject to the Act, the primary Commonwealth agency administering a program will subgrant portions of the program to secondary Commonwealth 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.

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 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.

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, 2003 are not accurate. Our testing disclosed a minimum of \$624,042 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 \$1.3 million for SFYE June 30, 2003 to over \$2 million for SFYE June 30, 2004.

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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 accurately represent the flow of federal funds as required by 31 CFR 205.20.

In addition, BFM personnel should determine the additional amount of interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs 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 so that all transactions that generate interest are accurately included in the interest calculation.

Further, we recommend that BFM calculate any additional June 30, 2003 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 FMS.

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.

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 No. 20.205, the Commonwealth historically selected appropriations that contained payments to CFDA No. 20.205. The new check clearance study is underway and will identify all VTs and payments for CFDA No.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.

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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 (IFP), 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.

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.
- The final section of the finding is related to "Federal Revenue Collected in Advance" (RCIA). In response to the RCIA related to DPW's major programs, the Commonwealth does not transfer any "Federal drawdown" to RCIA. Any revenue which 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.

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- As for non-major program RCIA, the finding states "...our review of federal revenue collected in advance accounts at year-end...disclosed unexplained excess federal funds collected in advance for non-covered programs." No inquiry was made to either the appropriate comptroller offices or BFM in regard to these "unexplained excess federal funds." Consequently, we disagree with this presumption that a violation of federal cash management regulations occurred and offer the following explanation:

The RCIA funds for the Department of Corrections result from annual payments from the US 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 funds for the Department of Health have three sources resulting from contracts with the federal government:

- The Adult Blood Lead Epidemiology and Surveillance (ABLES) program consists of fee for service contracts with the federal government. Payments are received quarterly, so consequently there is lag time between the posting of expenditures and the receipt of funds. This is not excess cash.
- The Drug and Alcohol Services Information System (DASIS) funds are received from the Substance Abuse and Mental Health Services Administration (SAMHSA) to maintain the system. Payments are received quarterly, and unexpended funds remain available for expenditures associated with the program after the termination of the contract (currently December 15, 2007) until fully expended. Since the funds are for the purchase of data and not for reimbursement of operating expenses, there is no one-to-one relationship between the funds received and expenditures posted to SAP. This is not excess cash.
- The Vital Statistics funds are for fixed price contracts with the federal government to provide vital statistical data. Since the funds are for the purchase of data and not for reimbursement of operating expenses, there is no one-to-one relationship between the funds received and expenditures posted to SAP. This is not excess cash.

The RCIA funds for the State Police are a result of programs with insufficient spending authority. Funds were obtained as reimbursements from PENNDOT based on state expenditures.

The funds for the Department of Conservation and Natural Resources (DCNR) are disaster assistance funds that had no spending authority. Information is given to PEMA, which reimburses DCNR for state expenditures. DCNR is currently submitting requests for executive authorizations to the Office of the Budget.

The funds in RCIA for the Executive Offices consist mainly of Jobs and Growth Tax Relief revenue (approximately \$378 million), which is advance funding for use in general government operations. The remaining funds are a result of federal requirements to draw down all of the funds for a Local Law Enforcement Block Grant within 90 days of the award, a posting error that has since been corrected, and federal requirements regarding the PA Human Relations Commission.

We feel that had an inquiry about these funds been made during the audit, it would have been unnecessary to address this issue in the body of this finding.

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.

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

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exceed the three-month requirement of CMIA regulations, as it will involve the four consecutive months of February 1, 2005 through May 31, 2005. The results of the new study are expected to be amended to our Treasury-State Agreement beginning in January of 2006.

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 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.

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

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.