
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PENNSYLVANIA
FOR THE FISCAL YEAR
ENDED JUNE 30, 2007**

March 2009 A-77-09-00007

**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: March 19, 2009

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, 2007 (A-77-09-00007)

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, 2007. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Ernst & Young, LLP, performed the audit. We have not received the results of the desk review conducted by the Department of Health and Human Services (HHS). We will notify you when we receive the results if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst & Young, LLP, 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 Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The Pennsylvania DDS is reimbursed for 100 percent of allowable costs. The Department of Labor and Industry (L&I) is the Pennsylvania DDS' parent agency.

The Office of Vocational Rehabilitation (OVR) in L&I provides vocational rehabilitation services to Social Security beneficiaries. SSA reimburses OVR for direct costs of items purchased for these individuals and for indirect costs related to providing administrative, placement, and counseling services as well as for tracking and monitoring work activity.

The single audit reported:

1. OVR could not provide documentation to support \$22,268 reimbursed by SSA for vocational rehabilitation services (Attachment A, Pages 1 and 2). The corrective action plan indicates that the missing documentation resulted from filing errors, and a new filing procedure will be put in place (Attachment A, Page 15).
2. Payments for unused leave when employees either retired or terminated employment were improperly charged to the SSA program, resulting in a questioned cost amount of \$1,546,376 (Attachment A, Pages 3 through 6). The corrective action plan indicates the Commonwealth of Pennsylvania is aware of this situation and is addressing it (Attachment A, Page 16).
3. The Commonwealth of Pennsylvania is not in compliance with the *Cash Management Improvement Act* (CMIA) regulations and procedures for clearance pattern requirements and interest calculations. As a result, the interest liability on the CMIA Annual Report as submitted to the Department of the Treasury was misstated by at least \$7,487,910 (Attachment A, Pages 7 through 14). The corrective action plan indicates a new check clearance study has been completed (Attachment A, Page 16). The Office of the Inspector General is conducting an audit of administrative costs claimed by the Pennsylvania DDS (A-15-09-19021) that covers the same time period as this single audit. The administrative cost audit will review DDS cash draws and make recommendations as appropriate. Accordingly, we are not making a recommendation related to this finding.

We recommend that SSA:

1. Determine whether the \$22,268 reimbursement to OVR was appropriate and, if not, request a refund of the unallowable costs.
2. Remind OVR to maintain documentation to support SSA reimbursements for vocational rehabilitation services.
3. Determine whether the \$1,546,376 in unused leave payments charged to SSA was appropriate and, if not, request a refund of the unallowable costs.

The single audit also disclosed the following findings that may impact the DDS' operations although they are 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 1-3).
- Weaknesses in internal controls over personnel resulted when the semi-annual certifications for employees working 100 percent on the Rehabilitation Services-Vocational Rehabilitation Grants to States program were not included for all personnel (Attachment B, Page 4).

Please send copies of the final Audit Clearance Document to Ken Bennett. If you have questions contact Ken Bennett at (816) 221-0315 extension 1558.



Patrick P. O'Carroll, Jr.

Attachment

Finding 07 – 38:

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

Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$22,268 in Unsupported Program Income (A Similar Condition Was Noted in Prior Year Finding #06-36)

Condition: As part of rehabilitating Social Security beneficiaries, OVR is permitted to request reimbursement from SSA for the costs incurred while serving eligible vocational rehabilitation clients in the RSBS program. These SSA reimbursements are considered program income to the RSBS program and deducted from expenditures reported on the SEFA. OVR received approximately \$6.4 million in program income from SSA during state fiscal year ended June 30, 2007, based on the claims submitted.

In order to request SSA payment, OVR prepares and submits a Vocational Rehabilitation (VR) Provider Claim form to SSA for each eligible client. Our SFYE June 30, 2007 testwork disclosed that for the second year in a row, for two out of five clients that we sampled, OVR could not provide complete documentation supporting the VR Provider Claim forms for our review. For one client, OVR could not provide us a copy of the VR Provider Claim form which was submitted to SSA. Furthermore, OVR did not retain and provide the OVR-208 Forms which supported expenses in the amount of \$5,622 claimed by OVR on behalf of the client for which OVR was reimbursed by SSA.

Our testwork also disclosed that for a second client out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which supported an additional \$16,646 of direct costs claimed for the client in question.

The amount in unsupported program income for RSBS that was reimbursed by SSA for the two sample items in question was \$22,268 out of a total of \$323,601 for the five claims sampled (Document No. RE94028447 posted to the SAP System on October 26, 2006).

Criteria: 34 CFR 80.20 provides the following standard for financial management:

- (b)(3) *Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.*

34 CFR 80.42 regarding record retention states:

- (b) *Length of retention period. (1) ...records must be retained for three years...*

- (c)(3) *Records for income transactions after grant or subgrant support. In some cases grantees must report income after the period of grant support. Where there is such a requirement, the retention period for the records pertaining to the earning of the income starts from the end of the grantee's fiscal year in which the income is earned.*

Cause: OVR Central Office personnel stated that their procedure has been to return the claim documentation to the originating OVR district office after the claim has been processed. OVR personnel stated that the district offices have various methods for filing the claim information which leads to claim documentation not being easily located when necessary. OVR personnel stated that they intend to implement procedures to retain copies of the claim documentation at the OVR Central Office to ensure that the documentation is retained and available for audit purposes.

Effect: Since there was no documentation to substantiate the proper determination of the SSA claims for \$22,268 in program income recorded for RSBS, this income is not properly supported in violation of federal regulations. Because of this lack of documented support for the sample items in question, OVR provides little assurance that the SSA income received by L&I in the RSBS program for these items are correct or legally earned in the current year. In addition, without adequate procedures for properly documenting the VR Claim Forms submitted to SSA, there is little assurance that future claims will be adequately supported. Finally, the SEFA may also be misstated as a result.

Recommendation: OVR should pursue appropriate settlement of the \$22,268 in unsupported program income with SSA and ensure it has adequate documentation on file to support all program income received from SSA in the current fiscal year under audit. Also, OVR should implement procedures to ensure that all VR Provider Claim forms and supporting documents which substantiate the proper determination of the claim for reimbursement are retained for the time period required by the Federal government.

Agency Response: The first client audit issue states that OVR did not retain and provide the OVR-208 forms or documentation to support \$5,622 in expenses claimed by OVR on behalf of the client for which OVR was reimbursed by SSA. Attached you will find processed fiscal documentation from the case budget authorizing the questioned \$5,622 in expenses. Pages numbered 4 thru 8 from OVR's Main Frame show the units and amounts billed and paid on behalf of the client including the questioned amount. The Main Frame automatically creates invoices from the 45 screen information. Invoices are then sent for payment.

The Condition for the second client states that supporting documentation is not available for \$16,646 in expenses. There is a period where the client was with another agency. At that time, the client was being serviced by the Department of Public Welfare, since 1999 and prior. It is my understanding that DPW uses some other form and does not track expenses the same way OVR does, therefore no OVR 208's would be available for that time period.

We contend that OVR does have substantial documentation supporting all claims made to SSA for both clients as evidenced by the two attachments. We do admit that there are clerical errors being made in the District Offices as far as copying and filing practices, but going forward Central Office will also maintain separate SSA files. Also, as evidenced by the attached "SSA Notice of Determination" SSA does review, accept or reject all submitted claims and are they fully satisfied before any monies are paid out by SSA.

We respectfully request the auditors recommendation that OVR should pursue a settlement of the \$22,268 in unsupported program income with SSA be removed from the Single Audit Preliminary Finding #07-38.

Auditors' Conclusion: Regarding the first client in question, OVR provided two Case Budget forms totaling \$5,622 with its Agency Response. Although the Case Budget forms authorize the vendor to provide services to the OVR client in question, OVR did not provide any documentation to show that the services were actually rendered, for example, OVR-208 Forms or vendor invoices which include signatures of the vendor and OVR counselor certifying that the invoiced services were performed on behalf of the OVR client. Therefore, no documentation was provided to show that the \$5,622 was incurred on behalf of this client, so the \$5,622 costs claimed for reimbursement from SSA are still considered to be unsupported. Further, OVR did not provide the VR Provider Claim Form as stated in the finding Condition.

Regarding the second client in question, OVR stated that no OVR-208 Forms or vendor invoices were available to support direct costs claimed in the amount of \$16,646 because the client was receiving services from DPW when the \$16,646 was expended. Since no documentation was provided to show that the \$16,646 expenditures were incurred on behalf of this client, the \$16,646 direct costs claimed for reimbursement from SSA are still considered to be unsupported.

Therefore, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Finding 07 – 74:

CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.561 – State Administrative Matching Grants for the Food Stamps Program
CFDA #12.401 – National Guard Military Operations and Maintenance Projects
CFDA #17.207, 17.801, and 17.804 – Employment Service Cluster
CFDA #17.225 – Unemployment Insurance
CFDA #17.245 – Trade Adjustment Assistance
CFDA #17.260 – WIA Dislocated Workers
CFDA #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.048 – Vocational Education – Basic Grants to States
CFDA #84.126 – Rehabilitation Services – Vocational Rehab Grants to States
CFDA #84.287 – Twenty-First Century Community Learning Centers
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.575 – Child Care and Development Block Grant
CFDA #93.658 – Foster Care – Title IV-E
CFDA #93.667 – Social Services Block Grant
CFDA #93.778 – Medical Assistance
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
CFDA #93.994 – Maternal and Child Health Services Block Grant to the States
CFDA #96.001 – Social Security Disability Insurance
CFDA #Various – Various Non-Major Programs

Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs

Condition: Our review of the statewide SAP accounting system disclosed that payments for unused leave when employees terminated employment or retired were improperly charged to numerous federal programs during SFYE June 30, 2007, and are unallowable charges in violation of either OMB Circular A-87 or federal block grant regulations, as applicable. These unused leave payments (annual and sick) were charged directly to federal programs at the time of payment, but OMB A-87 requires that they be allocated as a general administrative expense (i.e., an indirect cost) to all activities of each agency or governmental unit, so these direct charges are not allowable. In addition, for block grants not subject to OMB A-87, federal regulations allow employee leave to be charged to the program only if employees actually worked on the program at the time when such leave was earned. However, there was no analysis or documentation provided by management to support when the unused leave was actually earned by employees for leave payouts charged to block grants, so these direct charges are also unallowable. In accordance with OMB Circular A-133 (see criteria below), we identified the federal programs/clusters and block grants with related amounts of unused leave (annual and sick) over \$10,000 charged during SFYE June 30, 2007, and they are as follows:

CFDA #	Program Name	Amount
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$80,358
10.560	State Administrative Expenses for Child Nutrition	\$10,223
12.401	National Guard Military Operations and Maintenance Projects	\$151,354
16.575	Crime Victim Assistance	\$54,585
Various	Employment Service Cluster (CFDA #17.207, 17.801 and 17.804)	\$464,292
17.225	Unemployment Insurance	\$977,798

CFDA #	Program Name	Amount
17.245	Trade Adjustment Assistance	\$45,594
17.260	WIA Dislocated Workers	\$30,283
20.218	National Motor Carrier Safety	\$102,618
20.600	State and Community Highway Safety	\$71,761
30.002	Employment Discrimination - State and Local Agency Contracts	\$12,732
45.310	Grants to States	\$16,186
64.111	Veterans Education Assistance	\$72,693
84.010	Title I Grants to Local Educational Agencies	\$72,078
Various	Special Education Cluster (CFDA #84.027 and 84.173)	\$115,429
84.048	Vocational Education - Basic Grants to States	\$43,953
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	\$1,551,705
84.181	Special Education Grants for Infants & Families with Disabilities	\$46,376
84.186	Safe and Drug-Free Schools and Communities - State Grants	\$18,406
84.287	Twenty-First Century Community Learning Centers	\$16,092
84.298	State Grants for Innovative Programs	\$120,325
84.369	Grants for State Assessments and Related Activities	\$17,279
93.268	Immunization Grants	\$32,298
93.568	Low-Income Home Energy Assistance	\$17,277
93.575	Child Care and Development Block Grant	\$10,861
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$195,283
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grant	\$57,944
93.988	Coop Agreements for State-Based Diabetes Control Programs	\$35,723
93.991	Preventive Health and Health Services Block Grant	\$25,317
93.994	Maternal and Child Health Services Block Grant to the States	\$34,401
96.001	Social Security - Disability Insurance	\$1,546,376

Total Leave Payouts Over \$10,000 Per Program/Cluster: \$6,047,601

We also noted that similar leave payouts of \$9,412,337 were also allocated and charged to various state and federal welfare programs through DPW's department-wide cost allocation plan (or CAP). We estimated that 46.63 percent of these leave payouts, or \$4,388,973, was allocated directly to federal programs through DPW's CAP. Since these represent direct rather than indirect charges through DPW's cost allocation system, they are also considered unallowable. The breakout of the \$4,388,973 by federal program was estimated by the auditors as follows:

CFDA #	Program Name	Amount
93.778	Medical Assistance	\$2,018,927
10.561	State Administrative Matching Grants for the Food Stamps Program	\$1,141,133
93.558	Temporary Assistance for Needy Families	\$614,456
93.563	Child Support Enforcement	\$219,449
93.658	Foster Care Title IV-E	\$43,890
93.667	Social Services Block Grant	\$351,118

Total Leave Payouts From DPW Cost Allocation Plan: \$4,388,973

Total unallowable costs for leave payouts inappropriately charged to the above federal programs were, therefore, \$10,436,574 for the year under audit.

Lastly, we noted that an additional \$780,560 in unused annual and sick leave payouts were posted directly as state match for various federal programs included in the Commonwealth's SEFA. Additional unallowable federal costs may have been charged to those federal programs since corresponding state match dollars must be allowable to claim federal participation. Although the actual unallowable federal amounts over \$10,000 for each program could not be clearly determined as part of our audit, we noted that the \$780,560 in state match was charged to the following federal programs:

- 12.401 - National Guard Military Operations and Maintenance Projects
- 14.239 - HOME Investment Partnerships Program
- 16.523 - Juvenile Accountability Incentive Block Grants
- 16.579 - Edward Byrne Memorial Formula Grant Program
- 17.005 - Compensation and Working Conditions
- 20.218 - National Motor Carrier Safety
- 84.048 - Vocational Education – Basic Grants to States
- 84.126 - Rehabilitation Services – Vocational Rehab Grants to States
- 93.775 - State Medicaid Fraud Control Units
- 93.778 - Medical Assistance Program
- 99.999 - Miscellaneous

Criteria: OMB Circular A-87; Attachment B; Part 8.d. related to employee fringe benefits, states in part:

- (3) *When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.*

45 CFR 96.30 under Subpart C – Financial Management for HHS Block Grants, states in part:

Section 96.30 Fiscal and administrative requirements.

- (a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.*

OMB Circular A-133, in Section _____.510 states in part:

The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

- (3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program.*
Known questioned costs are those specifically identified by the auditor. . .
- (4) *Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program. . .*

Cause: According to BFM, the charges to federal programs for leave payouts have historically been small in prior years and, therefore, were not closely scrutinized by management. As a result, there has been no specific policy in Commonwealth Management Directives or other issuances to provide guidance to agencies on the charging of these costs to federal programs. Commonwealth management running the above programs were not aware of the OMB A-87 and federal block grant requirements mentioned above, and the methodologies for charging these costs to federal programs were not in compliance.

Effect: At least \$10,436,574 in unused annual and sick leave payments charged to the above federal programs are questioned as unallowable. There may also be additional questioned costs in other federal programs noted above due to unallowable matching dollars charged. Furthermore, unallowable unused leave charges will continue to occur in the future if the methodologies for charging these costs to federal programs are not corrected.

Recommendation: We recommend that Commonwealth management pursue appropriate settlement with the Federal Government regarding the \$10,436,574 in questioned costs. Management should also work with Federal audit resolution officials to ascertain any additional questioned costs resulting from unallowable state match charges to federal programs. Finally, we recommend that management change their methodology for charging unused leave payouts as a direct expense to federal programs, and ensure that these costs are allocated or charged in accordance with applicable federal regulations.

Agency Response: We are aware of this situation and are taking action to address it.

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

Finding 07 – 75:

CFDA #10.555 – National School Lunch Program
CFDA #10.561 – State Administrative Matching Grants for Food Stamp Program
CFDA #20.205 – Highway Planning and Construction
CFDA #23.003 – Appalachian Development Highway System
CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds
CFDA #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.575 – Child Care and Development Block Grant
CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
CFDA #93.658 – Foster Care – Title IV-E
CFDA #93.659 – Adoption Assistance
CFDA #93.667 – Social Services Block Grant
CFDA #93.767 – State Children’s Insurance Program
CFDA #93.778 – Medical Assistance Program
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
CFDA #96.001 – Social Security – Disability Insurance

Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$7.5 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #06-74)

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 for most federal programs using the Average Daily Clearance (ADC) method.

For the fourteenth year in a row, and since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994 the following weaknesses remain unresolved:

Check clearance studies to determine the ADC for applicable Federal programs, the last of which was completed during the period of February 1, 1999 through May 31, 1999, included the following deficiencies:

- The Commonwealth did not reconcile expenditure totals from the check clearance study to its general ledger in to ensure the accuracy and completeness of data used in the ADC study.

Further, as noted in Single Audits since SFYE June 30, 1994, each Voucher Transmittal (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 posting dates used clearance studies did not always agree to the actual general ledger posting dates.

As a result, the material weakness regarding incorrect posting dates from the study caused material noncompliance with CMIA during SFYE June 30, 2007 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 studies 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 studies.

Further, starting on July 1, 2002, the Commonwealth began decommissioning its legacy accounting system 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 new check clearance study for SAP to ensure the accuracy of the delay of draw for federal programs, all of which are now using SAP.

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.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2006 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2007, was misstated by a minimum estimate of \$7,487,910 as follows:

- We noted that invoice #KR1901427017 selected for testing during SFYE June 30, 2006 posted \$22,245,436 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on March 6, 2006; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until April 25, 2006. Since the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand for 50 days, the Commonwealth's interest liability was understated by \$127,244.
- Within the Medical Assistance program, DPW's PROMISE system processes 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 \$96,662,550 at June 30, 2006, with a carry-forward balance from the prior fiscal year of \$97,590,660. 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 approximately \$97.13 million during the June 30, 2006 fiscal year, the state's interest liability was understated by an estimated \$4,060,000 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$106.92 million as of June 30, 2007, so additional CMIA interest is owed for SFYE June 30, 2007 to be remitted during SFYE June 30, 2008.
- During our prior year audit we noted that DPW had a Federal Revenue Collected in Advance account balance of \$606,423,402 at June 30, 2005. Our analysis of the two largest program balances disclosed that revenue documents #AM95640988 and #AM96540989 moved \$319,130,003 and \$187,096,746 from RCIA into MA and TANF revenue codes on August 24, 2005. The only explanation documented for these adjustments was: "to roll current year receivables per request of Federal Accounting". Other various transactions during August of 2005 adjusted the RCIA balance to zero as of August 31, 2005 at DPW. The only reason given for the total liquidation of the RCIA

balance at DPW was a policy change that Comptrollers were no longer required to transfer federal revenues in excess of federal expenditures to RCIA. For SFYE June 30, 2006 interest owed to the U.S. Treasury related to the transfers of \$319,130,003 and \$187,096,746 from RCIA under the MA program, CFDA#93.778, and TANF, CFDA#93.558, could be approximately \$2 million and \$1.2 million, respectively. Further, since DPW did not perform any analysis of the transactions posted into and out of its collected-in-advance account for CMIA interest impact for SFYE June 30, 2006, DPW cannot adequately support the source of this excess revenue on the SAP system and the interest owed on this excess revenue cannot be fully determined in our audit.

- We noted that expenditure adjustment #EA7802120036 selected for testing within the LIHEAP program, CFDA #93.568, during SFYE June 30, 2006 transferred \$19.3 million of federal expenditures to a state appropriation. This transaction resulted in \$19.3 million of excess federal funds being on hand for 37 days, from May 30, 2006, the date the EA posted on the SAP system, until the funds were returned to HHS on July 6, 2006. Since the Commonwealth did not pay any interest to the federal government for the period May 30, 2006 to June 30, 2006 that these funds were on hand, the Commonwealth's interest liability was understated by \$68,446. Also, an additional amount of Commonwealth interest liability may be understated on the CMIA Annual Report for SFYE June 30, 2007 for the period of July 1 to July 6, 2006 when these funds were on hand.
- Within the HPC cluster, CFDA#20.205 we noted that the PADOT Comptroller Office understated the state's interest liability by \$32,220 for payments made out of restricted receipts accounts. The CMIA Annual Report for the prior SFYE June 30, 2005 was also understated (by \$14,560) for the same reason.

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.*

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 studies, 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 a 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 posting dates and the posting dates used in prior ADC studies, 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 Commonwealth's accounting system which is used by CDS. As in prior years, the Commonwealth had no controls in place to make sure the correct posting dates are included on these magnetic tapes and incorporated into check clearance studies.

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

Regarding the issue of payments rejected by PA Treasury causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, PA 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 PA Treasury rejects paying an invoice, excess cash can result under the current system. While BFM has continue to state that number of invoices rejected by the State Treasury is minimal no proof of this assertion has ever been provided.

For Federal revenue collected in advance postings BFM management stated that any dollars reflected in these accounts represent federal revenue for which the Commonwealth has already incurred the related expenditures. In previous years there were numerous postings to this account that were the result of budgetary considerations; however, there was no effect on the incurrence of the initial expenditure and drawdown of federal revenue.

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.

The PADOT HCP CFDA#20.205 understatements were the result of a change in procedures to pay contractors from a restricted receipts account.

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, 2006 are not accurate. Our testing disclosed a minimum estimate of \$7,487,910 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 for SFYE June 30, 2006.

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: We recommend that BFM pursue appropriate settlement with the federal government regarding the \$7.5 million in additional interest owed to the U.S. Treasury.

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, 2007 CMIA 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 (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, 2006 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.

- 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 has been completed which identifies 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.

A new check clearance study has been completed which identifies all VTs and SAP payments for a specific CFDA. We believe that this new study will alleviate the concerns identified above.

Other Items

- Regarding invoice number 1901427017, the original invoice that was processed was rejected by Treasury due to concerns with the backup documentation containing potential duplicate line items. Funds for the original payment were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated and should be returned. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$127,244 to the US Treasury.
- Medical Assistance 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.

As in prior years, the Commonwealth again maintains that the medical access funds were drawn for program purposes in accordance with the Treasury State Agreement. Therefore, the Commonwealth continues to disagree that CMIA interest is due.

- RCIA: The comptroller's office records any revenue collected in advance from the Federal government in the appropriate liability account and calculates interest due as appropriate. The RCIA account referenced in this finding is an SAP revenue account. Any dollars reflected in this account represent federal revenue for which we have already incurred the related expenditures. In previous years there were numerous postings to this account that were the result of budgetary considerations; however, there was no effect on the incurrence of the initial expenditure and drawdown of federal revenue. No interest-owed situation ever existed. As of June 30, 2006, both the SAP revenue RCIA account and the SAP liability RCIA account had zero balances. Consequently, we do not believe there is an interest related issue to report as an audit finding.
- LIHEAP: The timing of the expenditure adjustment transaction # EA 7802120036 resulted in a negative Letter-of-Credit (LOC) situation. The system structures of the Pennsylvania Treasury Department and the Federal Government do not support a negative LOC situation. The EA was posted on May 30, 2006 and showed on the CDS draw screens on May 31, 2006 for acceptance. When the Comptroller's office reviewed the draw screen on May 31, 2006 there were dollar amounts rejected that resulted in the total LOC being a negative. On Monday, July 3, 2006, there were sufficient expenditures showing to accept the negative \$19.3 million transaction and process a request in CDS. On Wednesday, July 5, 2006, the SMARTLINK request was processed, requesting the funds for Thursday, July 6, 2006. The transaction was handled correctly in accordance with the parameters of the computer systems in place at both Treasury and the Federal Government. The \$19.3 million was returned as soon as the system in place would allow. The \$68,446 amount stated as interest being owed on \$19.3 million may be correct based on the days between activities; however, consideration should be given to the parameters of the systems in use to process these transactions.
- HPC Cluster: Prior to PADOT going live on SAP, restricted receipt payments from fund 4008900278 were processed similar to a standard payable. The pay date was not specific and would pay once Treasury completed their review. Treasury's review and subsequent payment required approximately ten to fourteen days, which was less than the FHWA draw delay of twenty days. Therefore, no interest was due to the federal government and nothing was reported on the CMIA report. PADOT went live in SAP in July of 2004. With this go-live came a change in how restricted receipt payments from fund 4008900278 were processed. Fund 4008900278 restricted receipt payments are now assigned a pay date which is after the FHWA draw down date. However, CMIA interest continued to be reported or not reported based on outdated fund 4008900278 processing/payment procedures in error for fiscal years 04/05 and 05/06. This reporting oversight has been corrected and for the 06/07 fiscal year appropriate interest due was reported on the CMIA report. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liabilities to the US Treasury for 04/05 and 05/06 of \$14,560 and \$32,220, respectively.

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 has been completed. This new study will again exceed the three-month requirement of CMIA regulations, as it will involve one year of data. The results of the new study will be included in our 2008-09 Treasury-State Agreement.

Auditors' Conclusion: Based on our review of the Office of the Budget's response, we believe OB should place a priority implementing the new check clearance study they state was completed in their response above, since the last one was performed in 1999, or nine years ago.

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 by the state 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.

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 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.

Regarding the \$19.3 million LIHEAP adjustment had the Commonwealth entered the transaction during the heating season or paid claims directly out of the state supplement heating funds a negative LOC would not have occurred. Therefore, we do not believe the agency response is reasonable for this issue.

Based on the agency response, since no new or additional information or documentation was provided, our finding and recommendations, with the above clarifications, remain as previously stated.

COMMONWEALTH OF PENNSYLVANIA

**Corrective Action Plans - Federal Award Findings and Questioned Costs -
June 30, 2007**

Finding	State Agency	Finding Title/Corrective Action
07-37	L&I	Unallowable Payment to a Vendor Results in Questioned Costs of \$146 and Likely Questioned Costs Over \$10,000 No additional information provided. See Agency Response in the body of the finding.
07-38	L&I	Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$22,268 in Unsupported Program Income (Prior Year Finding #06-36) No additional information provided. See Agency Response in the body of the finding.
07-39	L&I	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #06-35) No additional information provided. See Agency Response in the body of the finding.
07-40	PDE	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements (Prior Year Finding #06-38) Specific Steps to be Taken and Timetable: By July 31, 2007, the Pennsylvania Department of Education (PDE), Bureau of Community and Student Services established an account earmarking the state administrative costs (2%) and the state activities costs (3%) to monitor and track these funds separately, in accordance with Federal Regulation, Title 20, Section 7172. Description of Monitoring: By Fall 2007, PDE established procedures to track and account for state administrative costs separately from state activity costs. This action will assure that PDE is in compliance with Federal earmarking requirements of the 21 st Century Community Learning Centers grant program. Title of Official Responsible for Corrective Action: Administrative Assistant Anticipated Completion Date for Corrective Action: Completed, Fall of 2007
07-41	LECS	Noncompliance and Internal Control Weakness in LECS Comptroller Office System of Cash Management (Prior Year Finding #06-40) No additional information provided. See Agency Response in the body of the finding.
07-42	PDE	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$213,734 (Prior Year Finding #06-41) Specific Steps to be Taken and Timetable: All corrective actions required to properly earmark Reading First funds were taken as a result of last year's audit finding. Due to the timing of the 2006/2007 Single Audit review, the corrective action will not be apparent until the subsequent audit review. Description of Monitoring: Each year, when Reading First funds are received, the Program Director, the Fiscal Manager and the Division Chief will ensure that funds are properly earmarked and aligned to the requirements of the legislation.

Finding	State Agency	Finding Title/Corrective Action
07-70	PPR TRANS	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller No additional information provided. See Agency Response in the body of the finding.
07-71	DPW	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #06-72) No additional information provided. See Agency Response in the body of the finding.
07-72	OB/BOA	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #06-73) No additional information provided. See Agency Response in the body of the finding.
07-73	DPW	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements No additional information provided. See Agency Response in the body of the finding.
07-74	OB/BFM	Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs No additional information provided. See Agency Response in the body of the finding.
07-75	OB/BFM	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$7.5 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #06-74) No additional information provided. See Agency Response in the body of the finding.

Finding 07 – 36:

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 #06-34)

Condition: As a result of federal resolution of multiple prior audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, 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 18 vendors receiving RSBS payments in SFYE June 30, 2007, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 5 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. We also noted that for one of the 18 vendors, the “Date Record Added” was September 2006, indicating that this was a new vendor which required a review for debarment/suspension. However, for all six 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.

Our testing also disclosed that only 8 out of 18 vendors had a date in the “Debar Review” field, indicating that OVR reviewed the vendor for debarment or suspension. Four out of 18 vendors tested were grandfathered under USDE’s finding resolution dated August 1, 2000 since they were existing vendors as of that date, and OVR was not required to check existing vendors for debarment or suspension. However, these vendors were still in use by OVR for SFYE June 30, 2007, and there is a risk that grandfathered vendors could have been debarred or suspended subsequent to August 1, 2000 and not detected, since OVR is not required to check existing vendors for debarment or suspension.

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.

Regarding the one vendor which was added in September 2006, OVR personnel could not explain why this vendor was not checked for debarment/suspension. With respect to the other five 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 five 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.

In addition, USDE's finding resolution which did not require existing vendors as of August 1, 2000 to be checked for debarment or suspension seems to be outdated. Four out of 18 vendors tested during SFYE June 30, 2007 were existing vendors as of August 1, 2000 who were still in use by OVR during SFYE June 30, 2007 and have not been checked for debarment or suspension in seven years.

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.

There is also a risk that existing vendors as of August 1, 2000 who were still in use by OVR during SFYE June 30, 2007 could have been debarred or suspended and not detected, since USDE's finding resolution states that OVR is not required to check existing vendors for debarment or suspension.

Recommendation: We recommend that OVR personnel should check the Federal Excluded Parties List System when OVR personnel authorize a payment to a service provider in order to ensure that the service provider is not debarred or suspended. Since OVR uses 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. OVR should also maintain adequate documentation to support when service providers were checked for debarment or suspension.

Agency Response: The condition for this finding states that OVR is required to manually check the list of parties excluded from Federal Procurement and Non Procurement 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.

There is no condition that OVR need to check vendors prior to August 1, 2000. With more than 25,000 vendors, it would be reasonable to expect and continue to find vendors where the debarment indicator is not checked.

Since this finding, OVR's mainframe was converted to a new computer system, Commonwealth Workforce Development System (CWDS) in November 2007. With this system we have a direct hyperlink to the Federal Excluded Parties List System (EPLS), a federal website where OVR enters a provider's tax ID and immediately finds out if there are any contractor responsibility issues with this particular vendor. Included is a field where the date of verification is recorded. It is OVR's standard operating procedure that before any new vendor is approved to provide services to OVR clients, they must first be verified and pass the debarment and suspension check. We are also talking with our IT personnel about a future interface with the federal web site that would automatically check debarment and suspension.

It is the auditors' recommendation that OVR personnel check EPLS every time a service authorization is created and maintain adequate documentation to support when the providers were checked for debarment or suspension. We believe with that type of restriction and the number of vendors involved it would result in delaying necessary services to our clients and also result in duplication of effort by our local offices.

We believe that since the implementation of CWDS and our standard operating procedures the debarment and suspension problem will be resolved.

Auditors' Conclusion: Only 8 out of 18 vendors tested had written evidence of being checked for debarment/suspension. OVR uses many vendors for multiple years, and OVR's procedures do not appear to be adequate to ensure that OVR's vendors are not debarred/suspended. USDE's finding resolution dated August 1, 2000 appears to be outdated because existing vendors could become debarred or suspended since the time of that resolution, and OVR would not be aware of the debarment/suspension. OVR does not have procedures to re-check their debarment status. OVR should implement procedures to check all vendors for debarment or suspension on a regular basis. Regarding OVR's new fiscal system which was implemented in November 2007, subsequent to the end of our current audit period, we will evaluate its effectiveness in checking new vendors for debarment/suspension during the subsequent audit period. However, it appears from the agency response that the new system does not address debarment/suspension for existing vendors. Therefore, the finding and recommendation remain as stated.

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

Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #06-35)

Condition: The majority of employees charging personnel costs to RSBS work solely on Vocational Rehabilitation-related activities, and their salaries and benefits are charged 100 percent to RSBS and, therefore, do not maintain timesheets as supporting documentation. In lieu of timesheets, OVR implemented a federally required semi-annual certification process during the fiscal year ended June 30, 2005 to certify that these OVR employees worked solely on the RSBS program.

Based on our audit inquiries, sampling of transactions, and review of job descriptions supporting the OVR employees charged 100 percent for the fiscal year ended June 30, 2007, we found the documented grant activities of OVR personnel to be allowable under RSBS. Although we determined OVR's activities to be allowable, we noted that for all employees whose salaries were charged 100 percent to the RSBS program during the year ended June 30, 2007, OVR failed to prepare the signed semi-annual certifications to re-certify that employees worked solely on the RSBS program as required. During the state fiscal year ended June 30, 2007, OVR charged personnel expenditures of \$31,043,310 in salaries and \$11,936,404 in fringe benefits, or \$42,979,714 in total (federal portion) to the RSBS program.

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: Based on discussions with OVR personnel, there have been recent staffing changes in OVR which have resulted in a lack of review and oversight related to the federally required semi-annual certifications for OVR employees.

Effect: Although our audit determined OVR personnel costs to be allowable, OVR's semi-annual certification documents were not prepared for 100 percent charged employees. Therefore, OVR is not in compliance with a significant documentation requirement in OMB Circular A-87. In addition, without adequate procedures over the semi-annual certification process, there is limited assurance that OVR will comply with OMB Circular A-87 requirements in the future.

Recommendation: OVR management should strengthen internal controls to review and ensure that employees who are charged 100 percent to the RSBS program are included in the semi-annual certifications in accordance with the provision in OMB Circular A-87.

Agency Response: Regarding the semi-annual certifications, certifications are not available for the second half of the SFY January through June 2007. At that time, multiple OVR personnel retired or moved on to new positions. With the vacancies and change of personnel, the semi-annual certification process was overlooked and did not happen. Since then staff positions are being filled and OVR is aware of the necessity of the semi-annual certification process. One six-month certification was completed in January 2008 and the request for the next six-month period certification will be sent out at the end of June 2008.

Auditors' Conclusion: Although the agency response states that semi-annual certifications were not available for the second half of the SFYE June 30, 2007, semi-annual certifications were actually not available for the entire year ended June 30, 2007 as noted in the finding. We will review any corrective action in the subsequent audit. The finding and recommendation remain as previously stated.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.