
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PENNSYLVANIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

September 2007 A-77-07-00012

**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: September 24, 2007 **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, 2006 (A-77-07-00012)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Pennsylvania (Commonwealth) for the fiscal year (FY) ended June 30, 2006. 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 and the Pennsylvania Auditor General jointly performed the audit. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst & 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 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 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) within 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; and tracking and monitoring work activity.

The single audit reported that the:

1. Commonwealth is not in compliance with the Cash Management Improvement Act (CMIA) regulations and procedures for clearance pattern requirements and interest calculations. The corrective action plan indicated that a new check clearance study is underway to improve the timely draws of Federal funds (Attachment A, pages 1-10).
2. OVR did not retain documentation to support an SSA reimbursement of \$64,177 for vocational rehabilitation services. The corrective action plan indicated that file retention procedures are being reviewed to determine what can be done to strengthen them (Attachment A, pages 11-13).

We recommend that SSA:

1. Confirm that funds drawn by the Commonwealth of Pennsylvania for disability program expenditures are in compliance with the CMIA agreement.
2. Validate whether the \$64,177 reimbursement to OVR was appropriate.
3. Ensure that OVR established a sufficient process for maintaining documentation to support SSA reimbursements for vocational rehabilitation services.

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

- 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).
- Internal controls over Personnel Costs were inadequate to ensure that employees time was correctly charged to the proper program and the semi-annual certifications were not included for all personnel (Attachment B, page 4).

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Please send copies of the final Audit Clearance Document to Ken Bennett and Rona Lawson. If you have questions, contact Ken Bennett at (816) 936-5593.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

Attachments

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74:

CFDA #10.555 – National School Lunch Program for Children
CFDA #10.561 – State Administrative Matching Grants for Food Stamps Program
CFDA #17.260 – WIA Dislocated Workers
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 #96.001 – Social Security – Disability Insurance

Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$1.76 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #05-46)

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, 2006:

- 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.

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (continued)

- 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, 2006 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 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.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2005 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2006, was misstated by a minimum of \$1.76 million as follows:

- We noted that revenue transmittal #98929005 selected for testing within the Improving Teacher Quality State Grants program, CFDA #84.367, during SFYE June 30, 2005 was a drawdown of federal funds in the amount of \$17,408,945 that was received on February 16, 2005 instead of February 18, 2005 because the draw delay within CDS was 14 days instead of 16 days as required by the CMIA State-Treasury Agreement. As a result, the Commonwealth would owe interest on these funds for 2 days. However, we noted that the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand; therefore, the Commonwealth's interest liability was understated by \$2,176. Also, an undetermined amount of interest is owed for all other draws of federal funds received two days early due to use of the wrong draw delay on CDS within Improving Teacher Quality State Grants program for the entire SFYE June 30, 2005.
- We noted that expenditure adjustment #EA7800809421 selected for testing within the CCDF program, CFDA #93.596, during SFYE June 30, 2005 transferred \$19 million of federal expenditures to a state appropriation. This transaction resulted in \$19 million of federal funds being on hand for 6 days, from March 9, 2005, the date the EA posted on the SAP system, until the funds were returned to HHS on March 15, 2005. Since the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand, the Commonwealth's interest liability was understated by \$7,125.
- We noted that invoice #ZI2201325435 selected for testing during SFYE June 30, 2005 posted \$485,673 of payments to a subgrantee on SAP. As a result, federal funds of \$435,818 were received under the CCDF program, CFDA #93.596, on January 5, 2005, and \$50,855 were received under the SSBG program, CFDA #93.667, on January 6, 2005; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until February 4, 2005 and February 7, 2005, respectively. Since the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand, 30 days for the CCDF program and 32 days for the SSBG program the Commonwealth's interest liability was understated by \$817 and \$102, respectively.
- 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 \$97,590,660 at June 30, 2005, with a carry-forward balance from the prior fiscal year of \$55,902,318. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (continued)

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 \$76.75 million during the June 30, 2005 fiscal year, the state's interest liability was understated by an estimated \$1.75 million for the Medical Assistance program, CFDA #93.778. We also found that the excess cash in this account was \$96.66 million as of June 30, 2006, so additional CMIA interest is owed for SFYE June 30, 2006 to be remitted during SFYE June 30, 2007.

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 (RCIA) accounts are not included in the CMIA interest calculation because CDS does not recognize these federal revenues in excess of federal expenditures on SAP as interest generating transactions. Therefore, an interest liability is not assessed by CDS, and the Commonwealth interest liability appears to be understated as a result. Although our review of revenues drawn and posted to major program accounts on SAP did not disclose any current year revenue collected in advance, our review of federal revenue collected in advance accounts at year-end in the Public Welfare disclosed undocumented excess federal funds collected in advance for both covered and non-covered programs. While interest is not due for federal cash on hand in non-covered programs, this appears to be a violation of federal cash management regulations. In addition, with regard to revenue collected in advance at DPW, the year-end balance of this account (which is net of Medicare Services not considered federal financial assistance) has rapidly grown over the prior three years, and then decreased to zero as follows:

As of	Balance
June 30, 2003	\$153,274,939
June 30, 2004	\$183,644,890
June 30, 2005	\$606,423,402
June 30, 2006	\$0

A further breakout of total balances by DPW federal program at June 30, 2005 is as follows:

Program	June 30, 2005
MA	\$319,130,003
TANF	187,096,746
Food Stamps	56,975,784
CCDF	11,737,611
CSE	11,185,298
SSBG	1,699,706
LIHEAP	164,510
Cash Grants (MA, TANF, Food Stamps)	14,766,653
Other	<u>3,667,091</u>
Total	<u>\$606,423,402</u>

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (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. 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. Based on the 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 almost \$4.2 million to over \$13.8 million for SFYE June 30, 2005. For SFYE June 30, 2006 interest owed to the U.S. Treasury under the Medical Assistance program, CFDA #93.778, and Temporary Assistance for Needy Families, CFDA #93.558, could be approximately \$2 million and \$1.2 million, respectively, related to \$319,130,003 and \$187,096,746 from RCIA. Further, since DPW does not perform any analysis of the transactions posted into and out of its collected-in-advance account for CMIA interest impact, DPW cannot adequately support the source of this excess revenue on the SAP system and the interest owed on this excess revenue at year-end cannot be fully 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 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.*

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (continued)

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

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

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

For CFDA #84.367, BFM personnel indicated the current-year change from 14 days to 16 days was inadvertently excluded when CDS was updated.

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. 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.

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (continued)

For the revenue collected in advance at DPW, PHHS Comptroller officials indicated that the large increase in SFYE 6/30/05 was due to posting errors since they used the wrong SAP accounting reports during closeout. PHHS Comptroller officials subsequently reversed these entries out of the revenue collected in advance after June 30, 2005, and indicated that they will be using the correct accounting reports for closeout during subsequent periods. However, since PHHS officials could not provide the SAP reports to support the postings to the revenue collected in advance account, we cannot determine the extent of the error.

For 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, 2005 are not accurate. Our testing disclosed a minimum of \$1.76 million 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 \$13.8 million for SFYE June 30, 2005 to over \$3.8 million for SFYE June 30, 2006.

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: We recommend that BFM pursue appropriate settlement with the federal government regarding the \$1.76 million in additional interest owed the feds.

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, 2006 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, including RCIA, and report and remit this additional interest liability to the U.S. Treasury.

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

Further, we recommend that BFM calculate any additional June 30, 2005 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.

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (continued)

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.

Delay of Draw

- The Commonwealth agrees that the draw delay of 14 days was incorrect in CDS for CFDA #84.367. The discrepancy was corrected immediately upon notification of the error, and procedures have been put into place to ensure that an error of this type does not recur. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$2,176 to the US Treasury.
- The timing of the expenditure adjustment transaction #EA7800809421 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 March 9, 2005 and showed on the CDS draw screens on March 10, 2005 for acceptance. When the comptroller's office reviewed the draw screens on March 10, 2005 there were dollar amounts rejected that resulted in the total LOC being a negative. On Friday, March 11, 2005, there were sufficient expenditures showing to accept the negative \$19 million transaction and process a request in CDS. On Monday, March 14, 2005, the SMARTLINK request was processed, requesting the funds for Tuesday, March 15, 2005. 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 million was returned as soon as the system in place would allow. The \$7,125 amount stated as interest being owed on \$19 million may be correct based on days between activities; however, consideration should be given to the parameters of the systems in use to process these transactions.
- Regarding invoice number listed in the finding as "2201225435," the original invoice that was processed was rejected by Treasury for an incorrect address. Funds for the original payment request were drawn on the stated dates (January 5th and 6th). The comptroller's office reprocessed the payment request after notification from Treasury.

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 74: (continued)

Medical Access Program:

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

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

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

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.

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 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 have zero balances. Consequently, we do not believe there is an interest related issue to report as an audit 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 exceed the three-month requirement of CMIA regulations, as it will involve one year of data and will utilize statistical sampling. The results of the new study will be amended to our Treasury-State Agreement upon completion.

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

COMMONWEALTH OF PENNSYLVANIA

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Finding 06 – 74: (continued)

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.

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

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Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-70 (continued)		Corrective action conducted by SPBP is the preparation to roll out an annual recertification during the third quarter of 2007. Implementation has been pending due to changes in the recertification document that were requested by consumers, advocates, and the PA Health Law Project. SPBP has also been waiting for a decision that will increase the income ceiling for financial eligibility for HIV/AIDA applicants.
06-71	PEMA PPR	Internal Control Weaknesses in PEMA's System of Cash Management and Federal Reporting (Prior Year Finding #05-19) No additional information provided. See Agency Response in the body of the finding.
06-72	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 #05-45) The DPW believes that corrective action must be achieved through a cooperative joint initiative between the Bureau of Financial Operations, Audit Resolution Section staff, and the Bureau of Audits staff, in an effort to develop a plan to resolve this issue. The plan's goal would be to identify or develop an automated process utilizing SAP data in order to perform effective and timely SEFA reconciliations. Upon achieving this goal and followed by sufficient training, the Audit Resolution Section staff would prepare a SEFA reconciliation instruction publication for agency-wide implementation.
06-73	OB/BOA	Noncompliance and Internal Control Weaknesses Exist in Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #05-43 and #05-44) No additional information provided. See Agency Response in the body of the finding.
06-74	OB/BFM	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$1.76 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #05-46) No additional information provided. See Agency Response in the body of the finding.

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 36:

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 \$64,177 in Unsupported Program Income

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 million in program income from SSA during state fiscal year ended June 30, 2006, 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, 2006 testwork disclosed that for one out of three clients that we sampled, OVR did not retain and provide the VR Provider Claim form for our review. Also, OVR did not retain and provide the OVR-208 Forms which supported the expenses claimed by OVR on behalf of the client for which OVR was reimbursed by SSA, the wage documentation from L&I's Bureau of Unemployment Compensation which establishes that the client is gainfully employed, or the Notice of Determination which shows SSA approval of the claim.

The amount in program income for RSBS that was reimbursed by SSA for the one sample item in question was \$64,177 out of a total of \$171,608 for the three claims sampled (Document No. RE94016715 posted to the SAP System on 8/19/05).

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 stated they could not locate the documentation noted above to support the particular VR Provider Claim Form. Further, OVR personnel could not explain why the documents related to the SSA claim were not retained.

Effect: Since there was no documentation to substantiate the proper determination the SSA claim for \$64,177 in program income recorded for RSBS, this income is not properly supported in violation of federal regulations. Since supporting documentation was provided for the additional two sample items selected, this is not considered to be a material internal control weakness. Because of this lack of documented support for the sample item in question, OVR provides little assurance that the SSA income received by L&I in the RSBS program for this item is 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 \$64,177 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.

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Finding 06 – 36: (continued)

Agency Response: We were unable to locate one case file the auditors had requested. Our plan of correction will be to review our case file retention procedures to determine what can be done to strengthen them and in addition we have decided to keep copies of the Social Security file information in Central Office for up to three years.

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

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Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-33 (continued)		<p>Description of Monitoring: Management will maintain current versions of the FAUPL definitions to guarantee an accurate alignment with data collection systems.</p> <p>Management staff will ensure that data is collected and received in a timely manner to allow for a complete review and analysis.</p> <p>Management staff will review each of the specific steps along with the timeline identified to ensure completion.</p> <p>Management staff will review the implementation of the verification process to ensure that all CAR sub-indicators are verified, including documentation.</p> <p>Title of Official Responsible for Corrective Action: Research Associate, Data Analysis, Assessment and Contracts</p> <p>Anticipated Completion Date for Corrective Action: January 2008</p>
06-34	L&I	<p>A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #05-25)</p> <p>The Department's Corrective Action Plan is contained within the finding response.</p>
06-35	L&I	<p>Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs</p> <p>The Department's Corrective Action Plan is contained within the finding response.</p>
06-36	L&I	<p>Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$64,177 in Unsupported Program Income</p> <p>The Department's Corrective Action Plan is contained within the finding response.</p>
06-37	PDE LECS	<p>Internal Control Weaknesses in the OMB Circular A-133 Subrecipient Audit Monitoring System</p> <p>Specific Steps to be Taken and Timetable: The Pennsylvania Department of Education will comply with the Audit Recommendation by July 31, 2007. Also, beginning with the next round of 21st Century contracts (expected to be awarded Summer of 2007), a thorough review will be completed to ensure that the correct GL number is assigned to all subrecipients. PDE staff will be in contact with LECS Federal Accounting Division staff by August 1, 2007, to discuss the future assignment of GL numbers.</p> <p>Description of Monitoring: Upon completion of peer review and grant award process, Administrative Assistant will review each subrecipient and determine the correct GL number as determined in consultation with LECS Federal Accounting Division staff.</p> <p>Title of Official Responsible for Corrective Action: Administrative Assistant, Division Chief</p> <p>Anticipated Completion Date for Corrective Action: Fall of 2007</p>

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 34:

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 #05-25)

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

We tested a sample of 19 vendors receiving RSBS payments in SFYE June 30, 2006, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 8 of these 19 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 eight 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 one out of 19 vendors had a date in the “Debar Review” field, indicating that OVR reviewed the vendor for debarment or suspension. Ten out of 19 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, 2006, 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

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Finding 06 – 34: (continued)

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.

With respect to the eight 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 eight 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. Ten out of 19 vendors tested during SFYE June 30, 2006 were existing vendors as of August 1, 2000 who were still in use by OVR during SFYE June 30, 2006 and have not been checked for debarment or suspension in six 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, 2006 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: This is a repeat of last years finding, but OVR's position remains unchanged from last year. OVR still does not agree that this finding should be issued. The auditors continue to feel they do not have the prerogative to decide not to issue this finding. Though this may be the technically correct position to take, it nevertheless seems to fail the test of reasonability when you review the facts. As we stated in our previous response to this finding, we cannot be expected to document that a debarment review has been conducted for any vendor added to our vendor file prior to June 19, 2003. This date is when, in accordance with our plan of correction for the audit period ending June 30, 2002, the Date Record Added field was added to our vendor file. Prior to the addition of the Date Record Added field, you could not verify with any degree of certainty when a vendor was added to our vendor file. In this year's finding they indicated 8 of the 19 vendors they tested had a Date Record Added between August 1, 2000 and June 19, 2003, which means these 8 vendors could all have been, and probably were, added to our vendor file before August 1, 2000. All eight

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Finding 06 – 34: (continued)

of these vendors failed the debarment test while it appears the 11 vendors entered into our system on or after June 19, 2003 all passed the debarment test. We have always felt the purpose of an audit was to correct deficiencies, but once those deficiencies were corrected that the auditee would be given credit for making the correction and would not have their feet held to the fire for matters that had obviously occurred before the deficiencies were corrected. It appears we are in a catch 22 situation. Until such time as we can obtain written clarification from RSA (USDE) stating they accept our corrective action plan, which asks that all vendors added to our system before June 19, 2003 be exempted from the Debarment review process, we will be unable to resolve this finding. We have been in contact with RSA (USDE) and have discussed this matter with them. They have asked us to provide them with an email regarding this situation, which we are currently in the process of doing, and they will provide us with their guidance and opinion on this matter. When this is sent we plan to copy BFM and the auditors with whom we are working on this matter. At the same time we will also be request RSA's technical assistance on the other matter brought to our attention in this matter, which is how we can best set up a process to do ongoing reviews of existing vendors.

Auditors' Conclusion: Only one vendor out of 19 vendors tested actually had written evidence of being checked for debarment and suspension. OVR uses many vendors for multiple years, and OVR's current procedures do not appear to be adequate to ensure that OVR's vendors are not debarred or suspended. USDE's finding resolution dated August 1, 2000 appears to be outdated because providers could have become debarred or suspended since the time of the previous resolution. Since over half of our sample items pertained to vendors that were "grandfathered" under USDE's prior resolution, there is little assurance that these vendors have not become debarred or suspended since 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. Therefore, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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Federal Award Findings and Questioned Costs - June 30, 2006

Finding 06 – 35:

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

Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs

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, 2006, 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 2 employees, whose salaries were charged 100% to the RSBS program, with salaries totaling \$1,608 out of a sample of 13 employees with salaries totaling \$5,349, OVR did not include the employees in the signed semi-annual certifications on file to recertify that the respective employees worked solely on the RSBS program during the audit period. During the state fiscal year ended June 30, 2006, OVR charged personnel expenditures of \$30,683,671 in salaries and \$11,223,709 in fringe benefits, or \$41,907,380 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: OVR indicated that the employees in question should have been included in the signed semi-annual certifications but were inadvertently not included due to lack of review and oversight by OVR personnel. An internal control weakness exists in OVR's procedures to identify and ensure that the semi-annual certifications include all applicable employees being charged to the RSBS program.

Effect: Although our audit determined OVR personnel costs to be allowable, OVR's semi-annual certification documents did not include all of the 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 all employees who are charged 100 percent to the RSBS program are properly included in the signed semi-annual certifications in accordance with the provision in OMB Circular A-87.

Agency Response: Two employees who were 100% Federally funded were inadvertently left off of OVR's Semi Annual Certification lists. OVR is in the process of reviewing all 100% Federally funded positions to determine that they should be 100% Federally funded and for all those that should be that they appear on OVR's Semi Annual certifications.

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.

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.