

# Key Points Of Report

## Texas Department of Human Services 1994 Statewide Financial and Compliance Audit

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March 1995

### Overall Conclusion

The Department is in compliance with most federal regulations related to the \$5.2 billion of federal funds expended in fiscal year 1994. However, we noted a material control weakness and one instance of material noncompliance.

In addition, federal revenue, expenditures, and other accounts significant to the statewide financial statements are materially accurate and properly reported.

### Key Findings

- The Department did not provide sufficient oversight of contractors who distributed commodities valued at approximately \$65 million for the Food Distribution Program. As a result of this material control weakness, the operating environment will not readily prevent or detect errors, irregularities, and material noncompliance with federal laws and regulations.
- The Department did not document that it informed all Aid to Families with Dependent Children (AFDC) (CFDA 93.560) clients of their right to JOBS program services and responsibility to participate in the program. Thirty-three percent of AFDC case files tested did not contain this documentation, resulting in material noncompliance. If clients are not properly informed, the JOBS program objectives may not be met.
- Although the Department made notable improvements in reducing delinquent subrecipient audit reports, 11 of 356 subrecipient audit reports were not received. The delinquent reports resulted in questioned costs of \$3,947,317.
- The Department has not implemented federal audit recommendations regarding refunding uncashed checks for the Aid to Families with Dependent Children (CFDA 93.560) and Medicaid (CFDA 93.778) programs. This has resulted in questioned costs for the AFDC program of more than \$824,000, noncompliance with federal regulations, and interest assessments against the State. Information was not available to quantify questioned cost for the Medicaid program.

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## Other Related Reports

The State Auditor's Office has verified that \$377.06 in adjustments have been made as required by the U.S. Department of Health and Human Services' letter of resolution. These adjustments resulted from the November 1993 report on the State Legalization Impact Assistance Grant (CFDA 93.565) issued by the Department's Office of Inspector General. The report related to the Department of Human Services and other state agencies.

## Internal Control Issues

Internal Control Issue 1:

### **Improve Oversight Of Commercial Distributors**

The Department does not provide sufficient oversight of commercial distributors in the *Food Distribution* program (CFDA 10.550). The lack of oversight has resulted in inaccurate and untimely reports and inaccurate inventory records for the *Food Distribution* program. Because of this material weakness, the operating environment will not readily prevent or detect errors, irregularities, and material noncompliance with federal laws and regulations.

The Department is responsible for receiving, allocating, and distributing commodities valued at approximately \$65 million to eligible recipient agencies. In fiscal year 1994, the Department began contracting with commercial distributors to carry out these duties. This new system has complicated the reporting process. While the commercial distributors maintain the inventory records, the Department prepares the federal reports (FNS-155s).

Examples of inadequate oversight include:

- Not requiring commercial distributors to provide written documentation to support totals on monthly activity reports or to submit timely receiving documentation necessary for updating the automated system. This lack of documentation forces program management to override the automated system and manually produce the reports. This increases the likelihood of mathematical and data entry errors.
- Not enforcing the deadlines by which commercial distributors must submit required monthly activity reports that are used to prepare the federal reports. This has caused the Department to miss federal deadlines.
- Not utilizing annual physical inventory reports prepared by Department field audit staff to adjust the inventory data base. Actual inventory counts should be used to support the accuracy of the reports. Because adjustments are not being made for actual inventory counts, the inventory data base does not contain reliable information.
- Allocating only two contract managers to monitor seven commercial distributors. Field audit staff could assist in contract monitoring.

Federal regulations (7 CFR, Sections 250.16 and 250.17) require the Department to:

- Maintain accurate and complete records with respect to the receipt, distribution/use, and inventory of donated foods.
- Complete and submit monthly reports covering the receipt and distribution of donated foods no later than 30 calendar days following the reporting period.

Recommendation: We recommend that the Department improve oversight over commercial distributors by:

- 1) Continuing efforts to strengthen contract requirements with commercial distributors and adding administrative sanctions for those in violation.
- 2) Utilizing physical inventory counts to adjust the Department's inventory records and continuing to pursue coordination with field audit staff on monitoring and auditing of the commercial distributors.
- 3) Requiring commercial distributors to provide complete and accurate reports within applicable deadlines.

Management's Response:

- 1) *We are currently working on the next Request for Proposals (RFP) to secure new contracts for commercial distributors. Options are being developed for administrative and financial sanctions to provide meaningful penalties for the failure to meet contract requirements. The RFP is scheduled to be published in July 1995.*
- 2) *We are immediately implementing the practice of adjusting inventory records utilizing physical inventory counts from our auditors. We are finalizing arrangements for our field auditors to obtain copies of monthly monitoring reports prior to conducting an annual audit of the distributors. The distributor audit will include an examination of their allocation and reporting systems. These plans will be completed by June 1995.*
- 3) *We sent a letter to each distributor reinforcing the requirement for timely and accurate reports. Beginning in February 1995 our monitoring staff will follow up on this requirement using a revised monitoring document that greatly expands the level of detail examined during monthly reviews.*

Internal Control Issue 2:

### **Reconcile Federal Reports To The Accounting Records**

Until September 1994, the Department did not regularly reconcile quarterly federal reports to the accounting records for 22 federal programs with total fiscal year 1994 expenditures of \$4.8 billion. In addition, the Department did not have procedures to ensure all adjustments were posted to the accounting records in a timely manner.

Regular reconciliations and timely posting of adjustments are necessary to ensure that information in federal reports and the financial statements is accurate and complete. Without such procedures, there is an increased risk that information in federal reports or financial statements could be inaccurate and/or incomplete.

Recommendation: We recommend that the Department reconcile federal reports to the accounting records for the five previous years and continue to prepare current year reconciliations on a regular basis. We also recommend that the Department develop procedures to ensure all adjustments are posted in a timely manner.

Management's Response:

*Current Operation:*

- 1) *We are currently working on reconciling the most recent Quarterly reports and keeping them current as they are completed.*
- 2) *We will next begin working on the previous five years. There are approximately 580 individual program reconciliations for that time period, of which approximately 521 are partially complete. We need to determine what is left and compile each quarter to make it complete.*

*Actions to be Taken:*

- 1) *When the quarters are complete, we will need to track through them to see what adjustments still need to be made.*
- 2) *As we complete the reconciliations for the current quarter, we will be developing procedures to correct any new reconciling items within the next quarter.*

Internal Control Issue 3:

### **Document Procedures For The Survey And Certification Quarterly Expenditures Report**

The *Survey and Certification Program* (CFDA 93.777) at the Texas Department of Human Services does not have formal procedures for preparing and reviewing the Federal Quarterly Expenditures Report. The absence of procedures increases the risk of errors. Transposition errors in the June 30, 1994, Quarterly Expenditures Report resulted in federal expenditures being underreported by \$44,291.

Recommendation: We recommend that the Department document the procedures for preparing and reviewing the Quarterly Expenditures Report. The report review process should include tracing all reported amounts to the supporting documentation. The review also should verify that the federal and state matching rates were correctly applied to each cost center. The \$44,291 error on the June 30, 1994, Quarterly Expenditures Report should be corrected on a future report.

Management's Response: *Formal procedures for the preparation and review of the Quarterly Expenditures Report will be prepared in February, 1995 as recommended. The \$44,921 transposition error on the June 30, 1994 report was corrected on the December 31, 1994 report.*

## Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds, especially for the Department's most significant federal programs administered by the U. S. Department of Health and Human Services and the U. S. Department of Agriculture.

We reviewed programs totaling 98 percent of the Department's \$5.2 billion in federal pass-throughs and expenditures. The Department is in compliance with most federal regulations for the programs reviewed. The following comments address occurrences of noncompliance in the federal programs we reviewed.

Federal Compliance Issue 1:

### **Document Information Given To AFDC Clients**

(Prior Audit Issue)

For the third consecutive year, the Department did not document that it informed all *Aid to Families with Dependent Children* (AFDC) program clients of their rights to services and their responsibility to participate in the *Job Opportunities and Basic Skills Training* (JOBS) program (CFDA 93.561). Thirty-three percent of the AFDC case files tested (15 of 45) did not contain a copy of required Form 2580 documenting that the Department informed the client of the JOBS program services and their rights and responsibilities regarding the JOBS program. This represents material noncompliance with federal regulations.

Federal regulations require clients to participate in the JOBS program in order to receive payments from the AFDC program unless they are determined to be exempt from participation. The objective of the JOBS program is to offer employment and training opportunities to enable clients to become self-sufficient. If clients are not informed of these opportunities, this objective may not be met.

*Title 45 of the Code of Federal Regulations (CFR), Section 250.40*, requires the Department to inform all AFDC clients in writing at the time of application or redetermination about the JOBS program.

Although procedures are in place which address the written notification requirement in the *Income Assistance Handbook* used by eligibility staff, they do not expressly state that a written notification of rights and responsibilities is required for all AFDC applicants.

In addition, the *Self-Support Services Handbook*, used by employment services staff, states: "During the certification process for AFDC, eligibility staff inform clients of their rights and responsibilities. Staff review Form 2580 with the client, obtain the client's signature and date on the form, and file a copy of the form in the case file." This handbook is not used by eligibility staff, but might imply to the Department's employment worker that eligibility staff has provided the written notification to all AFDC clients.

Recommendation: We recommend that the Department document in case files that all AFDC clients have been informed of their rights to and responsibilities for JOBS services. Additionally, we recommend that the Department clarify the procedures in the *Income Assistance Handbook* so it is clear that all AFDC applicants should be informed of their rights and responsibilities concerning the JOBS program. This clarification

should be consistent with the procedures used by the employment staff located in the *Self-Support Services Handbook*.

*Management's Response:* CSS agrees that the Department should document in case files that all eligible AFDC clients have been informed of their rights to and responsibilities for JOBS services.

A workgroup of State Office staff from Client Self-Support Services (CSS) sections for Eligibility Services, Employment Services, Educational Services and Program Automation began meetings in January 1995 to clarify policy and procedures. Initiatives will include clarification in handbook material and BJST training, and a Quick Quality Tip broadcast to Eligibility staff.

Federal Compliance Issue 2:

**Comply With All Subrecipient Monitoring Requirements**

(Prior Audit Issue Included)

**Continue Efforts to Obtain Delinquent Subrecipient Audit Reports**

(Prior Audit Issue)

The Department did not receive 11 out of 356 required subrecipient audit reports. The delinquent reports result in questioned costs of \$3,947,317 for the following federal programs:

Program	CFDA Number	Questioned Cost	1993 Total Program Pass-throughs and	Percentage of Program
Food Distribution	10.55	\$49,587	\$74,830,062	less than 1
School Breakfast	10.553	65,918	2,603,037	3
National School Lunch	10.555	8,002	5,034,181	less than 1
Child & Adult Care Food	10.558	932,143	93,651,621	1
Summer Food Service Program for Children	10.559	1,926,499	12,638,993	15
Temporary Emergency Food Assistance - Commodities	10.568	965,168	3,421,439	28
<b>TOTAL</b>		<b>\$3,947,317</b>	<b>\$192,179,333</b>	<b>2</b>

The receipt and review of these audit reports ensures proper spending of federal funds by subrecipients. The Department has a policy to notify and eventually sanction subrecipients who have not submitted audit reports within the required timeframe.

*Office of Management and Budget (OMB) Circular A-128* requires subrecipients to submit audit reports no later than 13 months after their fiscal year end. Federal regulations require the reports to be reviewed for adequacy and obtain corrective action within six months of receipt of the reports.

The Department has made notable improvements in reducing delinquent subrecipient audit reports. In fiscal year 1993, there were 166 delinquent audit reports which resulted in questioned costs of \$28,059,001.

Recommendation: We recommend that the Department continue its efforts to obtain the required audit reports from subrecipients.

*Management's Response:* The Department has made significant progress in the last two years in its efforts to obtain the required audit reports from subrecipients. These efforts will be continued in the next reporting period in an effort to bring all subrecipients into compliance with single audit reporting requirements. In the case of the eleven contractors cited as "overdue", all contractors are being handled in accordance with the sanction process for the collection of "overdue" single audits. These contracts will be terminated if the required audits are not submitted.

### **Develop Procedures to Adjust Financial Statements for Subrecipient Questioned Costs**

The Department is not complying with all subrecipient monitoring requirements. There are no procedures in place to determine whether subrecipient questioned costs require an adjustment to the Department's financial statements. The Department's subrecipients had approximately \$503,730 in unresolved questioned costs at the end of fiscal year 1994. The lack of procedures could hinder the preparation of accurate financial statements.

*Office of Management and Budget (OMB) Circular A-128* requires the recipient to assess the materiality of questioned costs resulting from subrecipient audit reports. Questioned costs assessed as material will result in an adjustment to the recipient's financial statements.

Recommendation: We recommend the Department comply with all subrecipient monitoring requirements. An assessment of subrecipient questioned costs should be performed to determine whether an adjustment to the financial statements is needed.

*Management's Response:* The Department will develop and implement procedures to ensure that all questioned costs are assessed to determine whether an adjustment to the financial statements is needed.

### **Ensure Accurate Subrecipient Tracking Information**

The Department's subrecipient monitoring tracking system contains inaccurate data in the field "Audit Due Date." The system automatically designates the frequency of the audit (annual or bi-annual) based upon the dollar amount of the federal assistance. This is not in compliance with federal requirements.

State and local governments are required to submit an annual audit when they receive \$25,000 or more of federal assistance. Not-for-profit entities receiving \$25,000 or more can submit a bi-annual A-133 audit if their financial audit is done every two years.



However, if the laws or regulations require an annual audit, then an annual audit must be performed.

Not having accurate data in the tracking system could result in audit reports not being received. Delinquent audit reports prevent the Department from monitoring their subrecipients and result in questioned costs.

Recommendation: We recommend the Department correct their subrecipient tracking system to ensure all data fields contain accurate information to ensure timely receipt and review of audits.

Management's Response: *The data field "Audit Due Date" in the Single Audit Management System will be reprogrammed by February 1, 1995 to designate all State and Local government contractors as having annual due dates when they receive \$25,000 or more of federal assistance. Not-for-profit contractors receiving between \$25,000 and \$100,000 will be programmed to have annual due dates unless they demonstrate that they qualify to submit a bi-annual A-133 audit.*

Federal Compliance Issue 3:

### **Implement Federal Audit Recommendations Regarding AFDC And Medicaid Uncashed Checks**

The Department has not implemented Federal audit recommendations regarding uncashed checks for the *Aid to Families with Dependent Children (AFDC)* (CFDA 93.560) and *Medicaid* (CFDA 93.778) programs which are more than 180-days old. This has resulted in questioned costs for the AFDC program of more than \$824,000, noncompliance with federal regulations, and interest assessments against the State. Information was not available to quantify questioned cost for the *Medicaid* program.

In January 1992, the Department of Health and Human Services (HHS) Office of Inspector General reported that the Department was not identifying and reporting uncashed checks for AFDC administrative costs or *Medicaid* program and administrative costs. The Department was, however, reporting uncashed checks for AFDC program costs.

The Department agreed with HHS to implement procedures to estimate the uncashed checks each quarter until a detailed check tracking system under development became fully operational. The reported estimates would be adjusted annually to actual amounts. The Department also agreed to calculate and repay interest earned on unreported and uncashed checks which were issued in 1989 and subsequent fiscal years. Interest assessments will continue until corrective action is taken.

The Department has not reported any estimates of uncashed checks for AFDC administrative costs and *Medicaid* program and administrative costs. Also, in fiscal year 1994, the Department discontinued reporting uncashed checks for AFDC program costs because of unreliable information provided by the check tracking system.

Federal regulations addressing both AFDC (45 CFR 201.67) and *Medicaid* (42 CFR 433.40) state that, if a check remains uncashed beyond a period of 180 days from the

date it was issued, the check will no longer be regarded as an amount expended, and the funds must be returned to the Federal Government. At the end of each calendar quarter, the state agency must identify those checks which remain uncashed beyond the 180-day period and report the federal portion on quarterly federal expenditure reports as a credit.

Recommendation: We recommend the Department implement federal audit recommendations regarding uncashed checks which are more than 180-days old. Uncashed check estimates should be reported quarterly for both AFDC and *Medicaid* program and administrative costs until the check tracking system provides reliable information to report the actual amount of uncashed checks. The Department should determine actual amounts and adjust the reported estimates as soon as possible to stop interest assessments against the State.

Management's Response: *At the time of the Department of Health and Human Services (HHS) audit, this agency was in the process of developing a warrant tracking system to allow timely reporting of uncashed warrants. In compliance with recommendations in the HHS audit report, a refund of estimated interest accrued through Federal Fiscal Year 1993 was calculated and adjusted in Federal cost reports for the quarter ended March 31, 1994. Beginning in Fiscal Year 1994, file information used in the Warrant Tracking System became corrupted, rendering reports generated by the system unusable. At the time, it was anticipated that the file problems would be corrected within a short time allowing adjustment based on actual figures. Correction of these problems has taken longer than expected, but at present it appears that reliable information is available to allow adjustment to the March, 1995 quarterly reports. In addition to adjusting for December, and March, 1995 uncashed warrants, we will also include an adjustment for the amount of questioned costs noted in the audit finding.*

*In regard to the \$824,000 in questioned costs, we wish to point out that this amount represents the Federal share of uncashed 180 day old warrants that must be refunded to the Federal Government as required by Federal regulations. Should such warrants be cashed at a later time, the amount again becomes chargeable to the Federal Government. The interest assessments spoken to in the audit finding represent a refund of interest earned by the State on these funds.*

Federal Compliance Issue 4:

**Ensure the Accuracy of Cost Allocation Data**

(Prior Audit Issue)

Incorrect and incomplete data resulted in misallocations of indirect costs to federal programs. Indirect costs are costs common to all federal programs which cannot be directly associated with a particular federal program. Examples of indirect costs are expenditures incurred by accounting, personnel, or information systems departments. The federal share of indirect costs charged to federal programs was approximately \$400 million for fiscal year 1994. We noted misallocations of indirect costs related to information systems and the Audit Division.

**Inaccurate Data for Allocating Information Systems Costs**

Errors occurred in allocating various information systems costs due to weaknesses in controls over data processing which were identified by the Internal Audit department.

The Department detected the errors and determined the amount of costs overclaimed and underclaimed for fiscal years 1990 through 1993 which resulted in the following net questioned costs:

<b>Program</b>	<b>CFDA#</b>	<b>Net Questions Costs Under (Over) Claim</b>
Summer Food Service Program for Children	10.559	(7,440)
State Administrative Expenses for Child Nutrition	10.560	(163,618)
State Administrative Matching Grants for Food Stamp Program	10.561	3,471,280
Work Incentive Demonstration Program and Administration	93.029	(19,032)
Family Support Payments to States	93.560	159,132
Job Opportunities and Basic Skills Training	93.561	(508,659)
Refugee and Entrant Assistance - State Administered Programs	93.566	(244,637)
Low-Income Home Energy Assistance	93.568 <sup>1</sup>	54,341
Child Care for Families At-Risk of Welfare Dependency	93.574	(5,335)
Payments to State for Child Care Assistance	93.575	(58,999)
Child Welfare Services - State Grants	93.645 <sup>2</sup>	257
Foster Care - Title IV - E	93.658 <sup>2</sup>	(93,215)
Adoption Assistance	93.659 <sup>2</sup>	(4,191)
Social Services Block Grant	93.667	(2,550,412) <sup>3</sup>
Medical Assistance Program	93.778	(2,804,505)

- 1 Program transferred to Texas Department of Housing and Community Affairs effective 9/1/92.
- 2 Program transferred to Texas Department of Protective and Regulatory Services effective 9/1/93.
- 3 The net effect of the overclaim is zero because this is a block grant, and other eligible costs can be submitted to fully recoup the funds.

**Recommendation:** We recommend that the Department ensure the accuracy of cost allocation data used to allocate information system costs by implementing Internal Audit's recommendations as presented in their report # 0094-001. The recommendations include improvements in the areas of computer program changes, data processing, documentation, and communication. In addition, adjustments should be made to federal reports to reflect the effect of the above questioned costs.

***Management's Response:*** The Internal Audit recommendations as outlined in Report #0094-001 have been implemented. Adjustments to the affected federal programs were made on appropriate quarterly expenditure reports for the quarter ended March 30, 1994.

**Lack of Supporting Documentation**  
(Prior Audit Issue)

In fiscal year 1993, the Audit Division did not have documentation to explain the difference between detailed time reports and a quarterly summary report of audit hours resulting in a misallocation of approximately \$8,147 to federal programs. It was not possible to determine the effect on individual federal programs since there is no documentation to explain the difference. The misallocation represented one percent of related expenditures for the quarter tested. The Audit Division is planning to automate its monthly time reporting process.

Recommendation: We recommend that the Audit Division complete implementation of the new time reporting process and ensure that data provided to the Cost Allocation Section is supported by adequate documentation.

Management's Response: *The Audit Department has implemented internal control procedures to ensure that data entry into the time reporting system is accurate. We anticipate completion of the time reporting automation system by the end of March 1995.*

## **Audit Scope**

The primary focus of our audit was the Department's financial and administrative controls over \$5.2 billion of federal funds expended during fiscal year 1994. We gained an understanding of the internal control structure, including the general control environment, and tested controls related to federal programs, cash disbursements, and Food Stamp inventories. Specific procedures were used to test compliance with the major federal program requirements.

Financial accounts significant to the statewide financial statements were also tested. These accounts included Other Assets, \$583 million; Accounts Payable, \$552 million; Funds Held for Others, \$587 million; Federal Revenue, \$2.5 billion; and Expenditures-General Fund, \$3.8 billion.