DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date . MAR 16 1993

From Bryan B. Mitchell Bryan Mitchell
Principal Deputy Inspector General

Subject Review of Internal Controls Over Independent Living Program Funds Awarded States (A-03-91-00552)

To Laurence J. Love
Acting Assistant Secretary for
Children and Families

The attached report alerts you to our concerns on the internal controls established by the Administration for Children and Families (ACF) over funds awarded under the Independent Living Program (ILP).

The Office of Inspector General performed this review to determine if internal controls adequately safeguard funds awarded under the ILP, and to ensure that States complied with the time frames established by Congress for the expenditure of these funds (hereafter these time frames are referred to as spending cutoff dates).

In our opinion, ACF's internal controls were inadequate to safeguard ILP funds from unauthorized expenditure and to prevent States from violating the spending cutoff dates established by legislation. Although there were several weaknesses noted, the most significant, in our opinion, was the lack of a single control to prevent funding draws or expenditures after the spending cutoff dates. The controls appeared more oriented to the award amount, and permitted all transactions up to that amount, regardless of when the transactions occurred. We have concluded that ACF's inability to prevent State violations of the spending cutoff dates constitutes a significant program weakness in internal controls.

The weaknesses in internal controls were a contributing factor to the States' failure to comply with the spending cutoff dates and Federal reporting requirements. As a result, \$16.7 million of the \$135 million of ILP funds awarded to States in Fiscal Years 1987 through 1989 was either spent or at risk of being spent after the spending cutoff dates. The risk arose because ACF did not in cooperation with officials of the Department's Payment Management System take the following actions:

- Deobligate and prevent State access to \$12.4 million that was reported by States as unliquidated obligations or unobligated funds as of the spending cutoff dates. As of the close of our audit work, States had drawn down $2.2 million of these funds.

- o Enforce Federal reporting requirements in 8 States that failed to submit a single expenditure report for 11 ILP awards totaling $4.3 million. As of February 22, 1991, States had drawn down $1.1 million of these funds.

We are recommending that ACF take action to strengthen its internal controls, and to safeguard the $16.7 million that remained at risk. We also are recommending that ACF advise the Department of this significant program weakness in internal controls, and develop and implement a corrective action plan.

By memorandum dated December 17, 1992, ACF responded to a draft of this report. The ACF generally disagreed with our recommendations.

We would appreciate your views, and the status of any further action taken or contemplated on our recommendations, within 60 days.

If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF INTERNAL CONTROLS OVER INDEPENDENT LIVING PROGRAM FUNDS AWARDED STATES

CIN: A-03-91-00552

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date · MAR 16 1993

From Bryan B. Mitchell Bryan Mitchell
Principal Deputy Inspector General

Subject Review of Internal Controls Over Independent Living Program Funds Awarded States (A-03-91-00552)

To Laurence J. Love
Acting Assistant Secretary for
Children and Families

This audit report presents the results of our **REVIEW OF INTERNAL CONTROLS OVER INDEPENDENT LIVING PROGRAM FUNDS AWARDED STATES.** The primary purpose of our review was to determine if internal controls established by the Administration for Children and Families (ACF) were adequate: (1) to safeguard the $135 million of Independent Living Program (ILP) funds awarded States during our 3-year audit period; and (2) to ensure that States complied with the time frames established by Congress for the expenditure of ILP funds (hereafter these time frames are referred to as spending cutoff dates). States were required to spend Fiscal Years (FY) 1987 and 1988 ILP funds by September 30, 1989, and FY 1989 ILP funds by September 30, 1990, or refund the unspent funds to the Federal Government.

> About $16.7 million of the $135 million in ILP funds awarded for FYs 1987 through 1989 remained at risk. At least $12.4 million should be deobligated and at least $2.2 million of that should be refunded by States. The ACF should review use of the remaining $4.3 million.

Of the $135 million of ILP funds awarded States from FYs 1987 through 1989, States reported expenditures of $119.8 million, unobligated funds of $10.9 million and did not report on awards totaling $4.3 million as of the spending cutoff dates. Our review showed that $16.7 million of the amount awarded was either spent by the States, or at risk of being spent, after the spending cutoff dates. We noted that:

- States reported in their expenditure reports unliquidated obligations of $3.5 million as of the spending cutoff dates. Since the States did not spend the funds prior to the cutoff dates, they forfeited the right to use these funds. States subsequently drew down $1.5 million and had access to the remaining $2 million in the Department's Payment Management System (PMS). (Appendix A).

- Unobligated funds remaining as of the spending cutoff date amounted to $8.9 million. (Appendix B).

- States failed to submit expenditure reports for awards totaling $4.3 million. States drew down $1.1 million and had access to the remaining $3.2 million (Appendix C).

The Office of Inspector General (OIG) concludes that ACF's internal controls over ILP funds represent a significant program weakness, and should be reported to the Department.

In our opinion, ACF's internal controls over ILP funds were inadequate to safeguard ILP funds, and to detect and prevent States' noncompliance with the legislated spending cutoff dates and Federal reporting requirements. Internal controls were not triggered by the spending cutoff dates. Instead, they were geared primarily to the amount of the ILP award, permitting States to draw down and spend up to the award amount regardless of the timing of the transactions. We believe this internal control weakness represents a significant program weakness that should be reported to the Department.

We are recommending that ACF strengthen internal controls over ILP funds. We are also recommending that the ACF, in cooperation with PMS, take action on the $16.7 million of ILP funds that was either spent or at risk of being spent after the spending cutoff dates. The action includes: (1) deobligating $12.4 million that was reported as either unliquidated or unobligated as of the spending cutoff dates, and requiring States to refund the $2.2 million that they had drawn down at the close of our audit work, and any funds drawn down since then; and (2) reviewing all ILP expenditures of the States identified in this report that failed to submit expenditure reports (with the exception of West Virginia where we conducted a separate audit) for awards totaling

$4.3 million, and deobligate and recover, as appropriate, all ILP funds not properly spent prior to the spending cutoff dates.

We are also recommending that ACF advise the Department of this significant program concern in internal controls, and develop and implement an appropriate corrective action plan.

By memorandum dated December 17, 1992, the ACF responded to our draft report. The ACF generally disagreed with our recommendations but neither commented on the specific deficiencies nor offered an alternative means to correct them.

We have summarized ACF's response along with our comments at the end of this report. We have also included ACF's memorandum as Appendix D to this report.

BACKGROUND

The Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272) established the ILP through the addition of section 477 to Title IV-E of the Social Security Act. Funds were authorized to States for service programs and activities to assist eligible children in the Title IV-E Foster Care program to make the transition from foster care to independent living. Public Law 100-647 amended the legislation to provide services under the ILP to an expanded group of eligibles (non-Title IV-E eligible children) in 1989. Public Law 101-239 extended the authorization for the program through FY 1992.

Under the legislation for FYs 1987, 1988, and 1989, each State was annually allocated a share of $45 million based on a standard formula. Public Law 99-272, section 12307(a), as codified at section 477(f)(3) of the Social Security Act, states that:

> ***"...payments made to a State... shall be expended by such State in such fiscal year or in the succeeding fiscal year."***

Because ILP funds for FY 1987 were not awarded until the fourth quarter of the FY, Public Law 100-647, section 8104(b) extended the deadline for expending FY 1987 funds for an additional FY. Consequently, the legislation required that States expend FYs 1987 and 1988 funds by September 30, 1989, and FY 1989 funds by September 30, 1990. If States failed to expend the funds awarded prior to the spending cutoff dates, the right to expend such funds is forfeited.

The Office of Human Development Services (HDS), which merged with the Family Support Administration (FSA) to form ACF, was responsible for the ILP. On February 15, 1991, we reported to HDS on the results of our review of the District of Columbia's ILP program (CIN: A-03-90-00562). In that report, we alerted HDS to a potential problem with its internal controls over ILP funds and informed them that we would report the results of our review of these controls separately. With the merger of HDS and FSA, ACF assumed responsibility for the ILP.

Internal Controls Over ILP Funds

The internal control system under which ILP funds were dispensed and accounted for was fragmented among three Department of Health and Human Services (HHS) components: ACF; the Division of Accounting Operations (DAO) within the Office of the Assistant Secretary for Management and Budget (ASMB); and the Federal Assistance Financing Branch (FAFB), also within ASMB. The FAFB operated the PMS.

The ACF, being the awarding agency, is primarily responsible for controlling the expenditure of ILP funds by States. This is made clear in the PMS manual, section 602 B (5) which notes that:

> ***"...the awarding OPDIV organization that has control over obligation of award amounts must make the necessary corrections when differences occur in award authorization amounts. Likewise, the awarding agencies ... must resolve discrepancies in which reported cash disbursements on individual awards exceed the award authority or in which final cash disbursements reported to PMS differ from the recipient's final expenditures reported to the awarding organization."***

The States are required to report all ILP expenditures to ACF on a quarterly Financial Status Report (SF-269) in accordance with 45 CFR 74.73(a) and ACF Program Instructions issued on February 10, 1987. The 45 CFR 74.73(c) provides that a final report shall be required upon expiration or termination of grant support. Due dates for the SF-269s are specified in 45 CFR 74.73(d):

"When reports are required on a quarterly or semiannual basis, they shall be due 30 days after the reporting period ... Final reports shall be due 90 days after the expiration or termination of grant support."

The FAFB operates the PMS which serves as HHS' centralized single payment system and fiscal intermediary between the recipient of Federal funds and the awarding component. The PMS generates three reports that are used to control ILP expenditures.

- A monthly Statement of Transactions Report (SF-224) which is forwarded to the Department of the Treasury. This form includes such information as the amount of funds advanced to the States.

- A quarterly Federal Cash Transaction Report (PMS-272) which is forwarded to the States. The report shows the amount of funds drawn down by States for Title IV-E programs. States are required to identify the draw down allocated to the ILP, certify that the data recorded is correct, and return it to FAFB. This report is used to maintain accountability for all funds drawn down through PMS.

- A monthly R817 Synchronization Report (R817) which is used to reconcile information obtained from the SF-224, SF-269 and PMS-272 reports. The amounts from the three reports must agree to completely close out a grant on the accounting system.

The DAO serves as the finance office for ACF since ACF does not have an internal finance office. The DAO is responsible for ensuring that funds awarded are obligated on the HHS accounting system for the authorized appropriation. The DAO also performs the grant closing function upon receipt of a final SF-269 from ACF. Closing should occur 180 days after the cutoff date. The information taken from the final report is coded into the HHS accounting system and interfaces with the PMS.

SCOPE OF AUDIT

Our review was performed in accordance with generally accepted government auditing standards. Our primary purpose was to determine if ACF's internal controls were adequate to safeguard ILP funds awarded in FYs 1987 through 1989, and to ensure that States complied with the spending cutoff dates established in legislation.

We evaluated ACF's policies and procedures designed to ensure State compliance with the authorizing legislation and ACF Program Instructions; and the mechanics of the reporting system for drawing down ILP funds, expending ILP funds, and complying with the spending cutoff dates. We reviewed all ILP-related reports (SF-269, PMS-272 and R817) available as of February 22, 1991, which related to ILP funds awarded in FYs 1987 through 1989. Our purpose was to determine amounts reported by States as drawn down, expended, unliquidated and unobligated as of the quarters in which the spending cutoff dates occurred. We also compared amounts reported as expended on the SF-269 reports with the amounts shown as drawn down on the PMS-272 reports.

Other than the District of Columbia and the State of West Virginia, where we issued separate reports, we did not visit States to determine the accuracy of reports, the allowability of expenditures, or the impact that spending patterns may have had on achieving program objectives.

RESULTS OF REVIEW

INTERNAL CONTROLS OVER ILP FUNDS NEEDED STRENGTHENING

The ACF made 147 ILP awards totaling $135 million from FYs 1987 through 1989. The States reported expenditures of $119.8 million and unobligated funds of $10.9 million. The disposition of the remaining $4.3 million was not reported on by the States. Our review showed that ACF:

- Took no action in response to States including $3.5 million of unliquidated obligations reported as expenditures after the expiration of the spending cutoff dates. States eventually drew down $1.5 million of the unliquidated obligations, and had continued access to the remaining $2 million.

- Did not deobligate $8.9 million of the $10.9 million of unobligated funds reported by the States as of the spending cutoff dates, and did not require States to refund $0.7 million of the unobligated funds that they had previously drawn down. The States had continued access to the unobligated funds.

- Took no action in response to 8 States failing to submit a single expenditure report for 1 or more years for 11 ILP awards totaling $4.3 million. The States drew down $1.1 million of this amount, and had access to the remaining $3.2 million.

In our opinion, ACF should act to recover or deobligate the $16.7 million shown above that was spent, or at risk of being spent, after the spending cutoff dates. The ACF should also strengthen its internal controls over ILP program funding. In our opinion, the weaknesses in internal controls was a contributing factor to the States' failure to comply with spending cutoff dates and Federal reporting requirements.

Weaknesses in Internal Controls

> Internal controls were not geared to mandated spending cutoff dates, thus contributing to State violations.

The most serious weakness in ACF's internal controls was that, within the entire internal control system, there was not a single, specific control mechanism which was triggered by expiration of a State's spending authority. For instance, no alert was generated when a State reported unliquidated obligations as of the spending cutoff dates. Nor was there an alert generated when a State failed to submit expenditure reports for an entire year or longer. It appeared as if the internal control system over ILP funds was geared primarily to the amount of the ILP award, and that fund transactions were permitted, regardless of their timing, as long as States did not exceed the amount of their awards.

As a result, States were not required to refund unused ILP funds upon expiration of their spending authority, and were not held accountable for complying with the spending time frames established by Congress. This was also the case when States specifically reported their intentions to non-comply with the legislated time frames. We are referring to those situations where

States reported unliquidated obligations as of the spending cutoff dates, and included these amounts in their expenditures. Since the funds had to be spent prior to that time, ACF should have required the States to refund the unliquidated obligations to the Federal Government.

A second weakness was the apparent lack of coordination among the components involved in the internal control process. For example, ACF did not inform DAO or FAFB of the spending cutoff dates prior to which ILP funds had to be expended. Nor did ACF review R817 reports generated by PMS, or PMS-272 reports prepared by States to identify States that reported expenditures incurred after the cutoff dates. Each of the three components appeared to perform their specific functions without considering the effect that the legislated spending cutoff dates had on their functions.

A third weakness was that States routinely failed to comply with reporting requirements and ACF had no formal policies and procedures in place to aggressively pursue these States. This oftentimes left ACF completely in the dark as to the amount of ILP expenditures, and the timeliness of the expenditures.

A fourth weakness was that ACF had no formal policies and procedures to close out ILP grant awards. As a result, ACF did not aggressively seek to close out these grants, deobligate ILP funds, and require States to refund the amount of funds drawn down but not spent.

In our opinion, weaknesses in ACF's management control structure contributed to its inability to detect and prevent States' noncompliance with regulated spending time frames and represents a significant program weakness. The ACF should advise the Department of this significant concern, and implement a corrective action plan.

Unliquidated Obligations

There were 25 ILP awards made to 16 States that reported unliquidated obligations of $3.5 million on SF-269 reports submitted to ACF for the quarter in which their authority to spend ILP funds expired. The States subsequently drew down $1.5 million of the unliquidated obligations.

The ACF was aware that unliquidated obligations reported by States as of the spending cutoff dates were not to be considered expenditures. The ACF was also aware that, because these funds were not spent, they should have been deobligated, and States should have been required to refund that portion previously drawn down. In an internal ACF memorandum dated November 7, 1989, a request by Alabama for a no-cost extension of their FY 1988 ILP program was discussed. The conclusion was that the request had to be denied because the funds would not be spent by the spending cutoff date. The memorandum specifically stated that:

> *"In the absence of any authority to grant an extension, or to change the meaning of the statute from "expend" to "obligate" you have no choice but to deny the request from Alabama."*

Despite knowing that unliquidated obligations were not expenditures and, therefore, not eligible for ILP funding after the spending cutoff dates, ACF did not react to State reports showing unliquidated obligations. As a result, States were able to continue their draw downs and/or expend ILP funds after the spending cutoff dates. As shown below, States had drawn down $1.5 million of the funds previously reported as unliquidated obligations.

REPORTED UNLIQUIDATED OBLIGATIONS

FY	Total Reported	Drawn Down	Not Drawn Down
1987	$ 278,881	$ 39,774	$ 239,107
1988	1,586,523	1,131,673	454,850
1989	1,608,597	321,533	1,287,064
Total	$3,474,001	$1,492,980	$1,981,021

Several States reported unliquidated obligations for more than 1 year. Indiana, for example, reported unliquidated obligations of $242,219 and $586,866 for FYs 1988 and 1989, respectively. Missouri reported the highest amount of unliquidated obligations, a total of $1,614,880 for FYs 1988 and 1989. A review of the reports submitted by Missouri clearly demonstrates the effect of ACF's internal control weaknesses on ILP funds.

Missouri reported on its SF-269 report for the quarter ended September 30, 1989, that it had spent only $67,475 (the amount drawn down) of the FY 1988 award of $839,907. The remaining $772,432 was reported as unliquidated obligations and had not been drawn down. The ACF did not deobligate the $772,432, or prevent the State from having access to these funds.

As a result, Missouri continued, after the spending cutoff date, to draw down and spend funds that it had previously reported as unliquidated obligations as of the spending cutoff date. As of the close of our audit work, Missouri had submitted five additional SF-269 reports showing that it had spent $722,846 of the $772,432 in unliquidated obligations after the spending cutoff date, and had drawn down $570,773 of that amount. These unallowable expenditures could have been prevented had ACF responded to Missouri's reporting of the unliquidated obligations as of the spending cutoff date.

A similar situation occurred with regard to Missouri's FY 1989 ILP award of $842,448. As of the spending cutoff date, Missouri reported that none of the $842,448 was spent. The entire amount was shown on the expenditure report as an unliquidated obligation. Again ACF did not respond to this report. At the close of our audit work, Missouri had drawn down only $150 of this amount, but was still able, under ACF's internal control system to draw down the remaining $842,298.

Unobligated Funds

There were 49 awards made to 34 States that reported unobligated funds totaling $10.9 million on expenditure reports submitted to ACF for the quarter in which their authority to spend ILP funds expired. The ACF closed 17 of these awards and deobligated about $2 million of the $2.1 million that should have been deobligated. The ACF did not close out the other 32 awards that had reported unobligated funds, deobligate $8.9 million, and require States to refund the $0.7 million of the unobligated funds that had been previously drawn down.

In our opinion, the primary reason why ACF did not move quickly to close out ILP grants and deobligate funds was that it had no formal procedures to ensure that States complied with reporting requirements, or to close out grants when final expenditure reports were received.

Of the 32 awards that should have been closed out, 11 awards totaling $3.5 million in unobligated funds, involved States that had failed to submit final expenditure reports as shown below.

STATES THAT FAILED TO SUBMIT FINAL REPORTS

	Fiscal Year		
State	1987	1988	1989
District of Columbia		X	
Georgia	X	X	
Kansas			X
Maine	X		
Michigan		X	
Montana	X		
Nebraska		X	
Nevada			X
New Hampshire		X	
New Mexico			X
Total	3	5	3

We found no evidence that ACF aggressively pursued these States to force compliance with Federal reporting requirements. This contributed to the fact that the States' overall compliance with the Federal reporting requirements contained in 45 CFR 74.73(b) and the ACF Program Instructions was routinely inadequate. States failed to submit 52 percent of the quarterly expenditure reports due in FYs 1988 and 1989. Of the 147 final expenditure reports due for awards made in FYs 1987 through 1989, States failed to submit 43 of them, or 29 percent.

The ACF had received final expenditure reports for the remaining 21 awards that should have been closed, but took no action to close them, and deobligate the $5.3 million reported as unobligated by the States. On the whole, ACF closed out only 43 of the 70 FYs 1987 and 1988 awards, and none of the 34 FY 1989 awards for which it had final expenditure reports. In total, only 41 percent of the grant awards were closed after final expenditure reports were received.

States That Failed to Report Expenditures

There were 11 awards totaling $4.3 million made to 8 States that failed to submit expenditure reports to ACF for 1 or more years. As shown below, the States had drawn down $1.1 million of the ILP funds awarded (Appendix C).

STATES THAT FAILED TO SUBMIT SF 269 REPORTS

FY	State	Award	Drawn Down	Not Drawn Down
1987	North Dakota	$ 123,466	$ 123,466	$ 0
1987	Rhode Island	202,397	202,397	0
1987	West Virginia	335,123	213,079	122,044
1988	Rhode Island	204,194	197,066	7,128
1988	Louisiana	880,835	103	880,732
1988	Maine	367,015	22,635	344,380
1988	West Virginia	338,098	338,098	0
1988	Wyoming	28,916	9,164	19,752
1989	Hawaii	11,602	0	11,602
1989	New Jersey	1,494,809	108	1,494,701
1989	West Virginia	339,121	47,291	291,830
Total		$4,325,576	$1,153,407	$3,172,169

Failure by the States to comply with Federal reporting requirements prevented ACF from knowing whether or not the congressionally mandated spending cutoff dates were being complied with by the States. West Virginia was the most flagrant violator of the Federal reporting requirements. It failed to submit a single expenditure report for the entire 3-year period of our review. The ACF allowed this situation to continue even though it had no assurance that the State had spent any of the funds on a valid program. The ACF personnel in Region III had not reviewed the West Virginia ILP, and could not state with certainty that a program even existed.

We performed an audit of the West Virginia ILP program (CIN: A-03-92-00550). We determined that during the 3-year period, West Virginia drew down $598,468 of the $1,012,342 awarded, and could have drawn down the entire amount had it chosen to do so. The State did not incur any Federal ILP expenditures during the 3-year period, and had, therefore, forfeited use of the ILP funds. We recommended that the entire amount drawn down, $598,468, be refunded to the Federal Government.

Conclusions and Recommendations

Of the $135 million in ILP funds awarded to States in FYs 1987 through 1989, States reported expenditures of $119.8 million and unobligated funds of $10.9 million. We determined that $3.5 million of the reported expenditures were actually unliquidated obligations as of the spending cutoff dates, and that $4.3 million of the amount awarded was not reported on at all by the States. The ACF's main reaction to this information was to deobligate about $2 million of the $10.9 million reported by States as unobligated. Little effort was made to enforce the spending cutoff dates mandated by legislation or the Federal reporting requirements. As a result, States were permitted to retain, expend and have access to ILP funds after the spending cutoff dates. We believe that weaknesses in ACF's internal controls permitted State violations of the spending cutoff dates to continue unabated.

We believe that ACF must strengthen its enforcement of reporting requirements placed upon States. States should not be permitted to draw down ILP funds or to have access to ILP funds while they continually fail to comply with Federal reporting requirements.

We, therefore, recommend that ACF:

1. Strengthen internal controls over ILP funds by:

    a. Advising PMS to deobligate all reported unliquidated obligations as of the spending cutoff dates.

    b. Quickly closing out ILP grant awards, deobligating funds, and requiring States to make the appropriate financial adjustments for amounts drawn down and not used timely.

    c. Obtaining recovery of funds drawn down after the authorized cutoff dates.

    d. Aggressively pursuing States that are continually not in compliance with the Federal funding requirements.

2. Ensure that the following actions are taken to safeguard the $16.7 million of ILP funds that remains at risk:

a. Deobligate $3.5 million reported as **unliquidated obligations** by States as of the spending cutoff dates, and require States to refund the amount that has been drawn down and not used. As of the end of our field work, this totaled $1.5 million (Appendix A).

b. Deobligate $8.9 million reported as **unobligated** by States as of the spending cutoff dates, and require States to refund the amount that has been drawn down. As of the end of our field work, this totaled $0.7 million (Appendix B).

c. Review the 11 awards for the 8 States which failed to submit expenditure reports accounting for $4.3 million. Deobligate all funds spent by States after the spending cutoff dates, and require States to refund those amounts drawn down.

3. Advise the Department of this significant program weakness in internal controls. Correspondingly, ACF should develop and implement an appropriate corrective action plan.

ACF Response And OIG Comments

By memorandum dated December 17, 1992, ACF responded to our draft report (Appendix D). The ACF generally disagreed with our recommendations and questioned whether closer coordination between ACF and PMS would correct the deficiencies noted in the report.

We have reviewed ACF's response and have made some revisions to this report. We noted that, although ACF disagreed with our recommendations, the primary argument presented is that ACF does not have responsibility for: (1) deobligating unliquidated or unobligated ILP funds; (2) requiring States to refund ILP funds that had been drawn down but not spent prior to the spending cutoff dates; and (3) requiring States to comply with the spending cutoff dates. The ACF contends that the responsibility is with the Department's PMS.

We do not agree with this position. In our opinion, the HHS Departmental Grants Administration Manual (GAM) Chapter 1-03, under "Functions of Grants Officers" is quite specific as to assigning responsibility to the grants office which is ACF.

In the following paragraphs, we have summarized key portions of the ACF's response to our draft report, and have provided our comments. Nowhere in the general comments section of the response (or in any other section either) is any mention made of what ACF intends to do to ensure State compliance with Federal laws and regulations.

ACF Response

General comments made by ACF addressed several points concerning: (1) the responsibility of PMS; (2) the existence of the R817 report; and (3) the value of reviewing certain reports cited in our audit report, and the value of closer coordination between ACF and PMS. The ACF agreed that the grant period during which grantees may obligate and liquidate funds should be clearly specified on the grant award. However, it stated that PMS is responsible for assuring that cash drawn down does not exceed the authorized grant amounts, and that any funds improperly drawn down, as determined on close out are recovered.

The ACF did not concur in our recommendation to safeguard the $16.7 million of ILP funds that remain at risk. The ACF suggested that the composition of the $16.7 million be made consistent throughout the report for ease of understanding and reporting on actions taken.

OIG Comment

In response to the above, we have the following comments:

During the course of our audit, we discussed the R817 report with the PMS director and his staff. The R817 is a monthly Synchronization Report which is used to reconcile information obtained from the SF-224, SF-269 and PMS-272 reports. The amounts from the three reports must agree to completely close out a grant on the accounting system.

We believe there is a substantive reason for ACF to review PMS disbursements, namely to ensure that the reported final SF-269 expenditure equals the reported final PMS-272 expenditure. These figures are required to be reported in final within 90 days of the grant expiration date and must be in agreement to permit the grant closeout to be completed. Section 602 B.5 of the PMS manual states that:

> *"...the awarding OPDIV organization that has control over obligation of award amounts must make the necessary corrections when differences occur....The DHHS awarding organization is responsible for resolving any differences with a recipient when that OPDIV closes an award."*

As stated earlier, the ACF as the awarding agency, is responsible for ensuring the effective utilization of Federal program funds. This would include the adequate disposition of the identified $16.7 million. The ACF must coordinate with its finance office (DAO) and fiscal intermediary PMS to timely regulate and close the awards.

ACF Response

The ACF did not concur in our recommendation to strengthen internal controls over ILP funds. The ACF stated that it does not have the authority to require States to make a refund of cash drawn down. The PMS performs this activity through the quarterly cash reconciliation process.

OIG Comment

We believe that ACF, as the awarding agency, is primarily responsible for ensuring the adequacy of internal controls over ILP funds. We also believe that our report demonstrates the need for improved internal controls over ILP funds. Therefore, ACF, not PMS must take the lead role in improving the controls. The GAM is quite clear in that the grants officer has the authority and responsibility to exercise prudent financial management over the grant funds awarded. Chapter 1-03, under "Functions of Grants Officers" states that:

> *"The grants officer shall monitor the grants process to ensure that all required actions are performed by the grantee and the Government in a timely manner, both prior to and after award."*

> *"The grants officer shall assist in ensuring the effective utilization of federal program funds available for granting by analyzing individual and total commitments, forecasting future obligations, and identifying potential lapses of appropriations. The grants officer shall have information available for each program for which he or she is responsible. This information should reflect the current amounts of funds obligated, and other financial information necessary for effective management of grant programs. In performing this function, the grants officer should not duplicate the functions of the finance or budget office, nor keep extensive records."*

Also, the 45 CFR 92.51 notes that:

> *"The closeout of a grant does not affect: (a) The Federal agency's right to disallow costs and recover funds on the basis of a later audit or other review; (b) The grantee's obligations to return any funds due as the result of later refunds, corrections, or other transactions;..."*

This, in our opinion, further gives ACF the authority to require States to make financial adjustments for amounts drawn down for grants that have been closed on the departmental accounting system. For those grants not closed out, ACF can require States to resubmit a corrected final SF-269 with the proper expenditures. This action will permit PMS to recover automatically by its refund mechanism.

The ACF indicates that PMS is primarily responsible for safeguarding ILP funds. As the awarding agency, ACF is primarily responsible to ensure that States comply with all pertinent Federal laws and regulations. If this assurance requires coordination between ACF and other HHS components, ACF should take the lead role in this coordination. If ACF believes that closer coordination between it and PMS would not have corrected the deficiencies noted in this report, it should immediately institute an alternative plan of corrective action designed to safeguard Federal funds and ensure State compliance with Federal laws and regulations.

ACF Response

> The ACF stated that it could not respond to our recommendation that it advise the Department of the significant management weakness in internal controls and to develop and implement an appropriate corrective action plan.

OIG Comment

After considering ACF's response to our draft report along with the findings identified, we have concluded that ACF's internal controls were inadequate to safeguard ILP funds from unauthorized draw downs and expenditures. We believe that a significant program weakness in internal controls exists at the program level and that a corrective action plan should be developed and implemented to improve management controls in this area. Therefore, ACF should implement this recommendation.

APPENDIXES

STATES THAT REPORTED UNLIQUIDATED OBLIGATIONS AT SPENDING CUTOFF DATES

State	Reported By Grant Year 1987	1988	1989	Total Reported	Drawn Down After Cutoff 1987	1988	1989	Total Drawn Down	Total Not Drawn Down
Arkansas	$8,575	$0	$155	$8,730	$168	$0	$155	$323	$8,407
District of Columbia	$0	$171,838	$44,251	$216,089	$0	$171,838	$15	$171,853	$44,236
Georgia	$0	$4,687	$0	$4,687	$0	$158	$0	$158	$4,529
Idahc	$3,189	$0	$10,657	$13,846	$3,189	$0	$56	$3,245	$10,601
Indiana	$0	$242,219	$586,866	$829,085	$0	$129	$296,189	$296,318	$532,767
Iowa	$0	$101,475	$36,552	$138,027	$0	$94,903	$0	$94,903	$43,124
Kansas	$0	$104,905	$0	$104,905	$0	$104,905	$0	$104,905	$0
Maine	$0	$0	$15,642	$15,642	$0	$0	$15,642	$15,642	$0
Maryland	$0	$12,483	$9,899	$22,382	$0	$12,483	$103	$12,586	$9,796
Minnesota	$0	$44,296	$39,697	$83,993	$0	$44,296	$54	$44,350	$39,643
Mississippi	$0	$0	$3,765	$3,765	$0	$0	$3,765	$3,765	$0
Missouri	$0	$772,432	$842,448	$1,614,880	$0	$570,773	$150	$570,923	$1,043,957
New Hampshire	$0	$952	$0	$952	$0	$952	$0	$952	$0
New Jersey	$230,700	$0	$0	$230,700	$0	$0	$0	$0	$230,700
Utah	$36,417	$131,236	$0	$167,653	$36,417	$131,236		$167,653	$0
Wyoming	$0	$0	$18,665	$18,665	$0	$0	$5,404	$5,404	$13,261
GRAND TOTALS	$278,881	$1,586,523	$1,608,597	$3,474,001	$39,774	$1,131,673	$321,533	$1,492,980	$1,981,021

STATES THAT REPORTED UNOBLIGATED FUNDS
AS OF THE SPENDING CUTOFF DATES

State	Amount Reported As Unobligated 1987	1988	1989	Total Unobligated	Deobligated By ACF	Remaining To Be Deobligated	Cash On Hand At Cutoff
Alabama	$0	$62,563	$0	$62,563	$0	$62,563	$62,563
Alaska	$203	$0	$0	$203	$203	$0	$0
Arizona	$0	$38,314	$0	$38,314	$38,314	$0	$0
California	$0	$2,487,266	$503,494	$2,990,760	$0	$2,990,760	$73
D.C.	$0	$451,318	$45,507	$496,825	$0	$496,825	$57,554
Georgia	$15,939	$25,292	$0	$41,231	$0	$41,231	$158
Hawaii	$139	$0	$0	$139	$139	$0	$0
Idaho	$6,589	$0	$10,189	$16,778	$6,589	$10,189	$0
Illinois	$0	$537,695	$54,819	$592,514	$537,695	$54,819	$0
Indiana	$213,574	$0	$0	$213,574	$213,574	$0	$0
Iowa	$0	$2,568	$0	$2,568	$0	$2,568	$0
Kansas	$0	$24,338	$50,042	$74,380	$24,338	$50,042	$0
Kentucky	$0	$3,771	$13,349	$17,120	$3,771	$13,349	$0
Louisiana	$87,098	$0	$0	$87,098	$87,098	$0	$0
Maine	$159,797	$0	$0	$159,797	$0	$159,797	$159,691
Maryland	$0	$153,200	$3,771	$156,971	$153,200	$3,771	$0
Michigan	$0	$2,245,615	$0	$2,245,615	$0	$2,245,615	$125
Montana	$89,617	$0	$0	$89,617	$0	$89,617	$89,617
Nebraska	$0	$236,287	$6,233	$242,520	$0	$242,520	$217,978
Nevada	$0	$0	$17,784	$17,784	$0	$17,784	$95
New Hampshire	$0	$71,954	$0	$71,954	$0	$71,954	$73
New Jersey	$0	$21,118	$0	$21,118	$0	$21,118	$0
New Mexico	$0	$0	$105,460	$105,460	$0	$105,460	$30,074
North Carolina	$0	$242,870	$45,937	$288,807	$242,870	$45,937	$21,730
Ohio	$0	$0	$677,241	$677,241	$0	$677,241	$0
Pennsylvania	$0	$333,961	$4,299	$338,260	$333,961	$4,299	$71
South Carolina	$0	$44,697	$0	$44,697	$44,697	$0	$0
Tennessee	$0	$0	$408,575	$408,575	$0	$408,575	$0
Texas	$0	$514,143	$0	$514,143	$0	$514,143	$172
Vermont	$33,613	$0	$1,879	$35,492	$0	$35,492	$196
Virginia	$80,809	$252,342	$143,008	$476,159	$333,151	$143,008	$0
Washington	$0	$215,121		$215,121	$0	$215,121	$0
Wisconsin	$0	$70,794	$85,964	$156,758	$0	$156,758	$70,794
Wyoming	$11,154	$0	$0	$11,154	$0	$11,154	$25
TOTALS	$698,532	$8,035,227	$2,177,551	$10,911,310	$2,019,600	$8,891,710	$710,989

STATES THAT FAILED TO SUBMIT SF-269 REPORTS

State	Fiscal Year Award 1987	1988	1989	Total Award	Total Drawn Down 1987	1988	1989	Total Drawn Down	Total Not Drawn Down
Hawaii	N/A	N/A	$11,602	$11,602	$0	$0	$0	$0	$11,602
Louisiana	N/A	$880,835	N/A	$880,835	$0	$103	$0	$103	$880,732
Maine	N/A	$367,015	N/A	$367,015	$0	$22,635	$0	$22,635	$344,380
New Jersey	N/A	N/A	$1,494,809	$1,494,809	$0	$0	$108	$108	$1,494,701
North Dakota	$123,466	N/A	N/A	$123,466	$123,466	$0	$0	$123,466	$0
Rhode Island	$202,397	$204,194	N/A	$406,591	$202,397	$197,066	$0	$399,463	$7,128
West Virginia	$335,123	$338,098	$339,121	$1,012,342	$213,079	$338,098	$47,291	$598,468	$413,874
Wyoming	N/A	$28,916	N/A	$28,916	$0	$9,164	$0	$9,164	$19,752
GRAND TOTALS	$660,986	$1,819,058	$1,845,532	$4,325,576	$538,942	$567,066	$47,399	$1,153,407	$3,172,169

DEPARTMENT OF HEALTH & HUMAN SERVICES

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ADMINISTRATION FOR CHILDREN AND FAMILIE
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

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December 17, 1992

TO: Bryan B. Mitchell
Principal Deputy Inspector General

FROM: Jo Anne B. Barnhart
Assistant Secretary
for Children and Families

SUBJECT: Proposed Final Report on Review of Internal Controls Over Independent Living Program Funds Awarded States (A-03-91-00552)

Thank you for the opportunity to comment on the above-referenced report, and for incorporating some of our earlier suggested changes into this draft. We have a few additional suggestions regarding this draft for OIG's consideration in preparing the final report.

General Comments

We discussed the draft report with Payment Management Staff (PMS) and suggest that their responsibilities be made more clear in the report. The last paragraph on page 5 refers to the SF-272 and R817. Since PMS has authorization to use its own report, references to the SF-272 should be corrected to read PMS-272. The PMS has no knowledge of the R817. References to the R817 should be explained or deleted.

We also question whether closer coordination between ACF and PMS would correct the deficiencies noted in the report. We agree that the grant period, during which the grantees may obligate and liquidate program funds, should be clearly specified on the grant award. However, there is no substantive reason why ACF should review PMS-272 forms since they do not show accruals, but only show cash drawn down. It is conceivable that grantees have obligated and liquidated funds authorized by the grant within the specified time period, but have not asked for reimbursements from PMS. The SF-269 will show such activity, but the PMS-272 will not. The critical PMS responsibilities are to assure that cash drawn down does not exceed the authorized grant amounts and to assure that any funds improperly drawn down, as determined on close-out, are recovered.

OIG Recommendation

1. That ACF Strengthen internal controls over ILP funds to:

   a. Deobligate all reported unliquidated obligations as of the spending cutoff dates, and require States to make a financial adjustment for amounts drawn down.

   b. Quickly close out ILP grant awards, deobligate funds, and require States to make the appropriate financial adjustments for amounts drawn down.

   c. Aggressively pursue States that violate Federal reporting requirements. States such as West Virginia, should not be allowed continued access to ILP funds when they continually fail to submit the required financial reports.

Comment

We do not concur with this recommendation and suggest that it be revised. The Administration for Children and Families (ACF) does not have the authority to "require States to make a financial adjustment for amounts drawn down" (#1(a)) nor to "require States to make the appropriate financial adjustments for amounts drawn down" (#1(b)). This activity is performed by the PMS through the quarterly cash reconciliation process. It should be noted that this is not a "financial adjustment" per se; it is a refund of cash drawn down.

OIG Recommendation

2. That ACF act to recover or deobligate the $16.7 million of ILP funds that was spent, or remains at risk of being spent, after the spending cutoff dates.

Comment

We do not concur. We suggest that the composition of the $16.7 million finding be made consistent throughout the report for ease of understanding and reporting on actions taken. Specifically, the components of the $16.7 million are discussed differently on each of the following pages: 1, 2, 6, 12 and 13.

<u>OIG Recommendation</u>

3. That ACF advise the Department of this significant management weakness in internal controls. Correspondingly, ACF should develop and implement an appropriate corrective action plan.

<u>Comment</u>

We cannot respond to this recommendation at this time.

Thank you again for the opportunity to respond to the proposed final report. If I can be of further assistance, please do not hesitate to contact me.