# Washington State Auditor's Office

## *2004 Statewide Accountability Report Supplemental*

Washington
*State Auditor*
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# STATE AUDITOR'S OFFICE
# STATEOF WASHINGTON ACCOUNTABILITY REPORT
# SUPPLEMENTAL
# FISCAL YEAR 2004
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**TABLE OF CONTENTS**

Introduction.....1

Schedule of Additional Federal Compliance Findings.....1

Agency Findings.....2

# Introduction

On page 15 of our fiscal year 2004 State Accountability Report, issued on March 7, 2005, we noted that, based on final fiscal year expenditure amounts we had recently received, three additional federal programs had to be reviewed before our audit of federal programs for the year was finished. These three programs, which were not reported to our Office during our regular audit work, were:

- Improving Teacher Quality State Grants
- State Children's Health Insurance Program
- Trade Adjustment Assistance - Workers

We stated we would issue a supplemental report with any findings developed while completing the review of those programs. The following three findings are the result of this subsequent review and are numbered in sequence following 04-41, the final finding number in the original report.

# Schedule of Additional Federal Compliance Findings

| Finding Number | Finding Caption | Page Number |
|---|---|---|
| 04-42 | **The Department of Social and Health Services' Medical Assistance Administration did not comply with allowability and reporting requirements for the State Children's Health Insurance Program.** | 2 |
| 04-43 | **The Employment Security Department does not have adequate internal controls over the reporting of grant expenditures on the Schedule of Expenditures of Federal Awards.** | 5 |
| 04-44 | **The Employment Security Department did not comply with federal requirements for time and effort reporting.** | 8 |

# Agency Findings

**04-42 The Department of Social and Health Services' Medical Assistance Administration did not comply with allowability and reporting requirements for the State Children's Health Insurance Program.**

**Background**

The Department of Social and Health Services administers the federally-funded State Children's Health Insurance Program (CFDA 93.767), which provides health care to uninsured, low-income children not eligible for Medicaid. The Department has assigned responsibility for the Program to the Medical Assistance Administration. Total Program payments during fiscal year 2004 were approximately $36 million.

Effective August 15, 2003, qualifying states are allowed to use up to 20 percent of their federal fiscal year 1998-2001 Program awards to help pay for coverage for state Medicaid-eligible children whose family income falls within certain limits. These funds may be used only for federal fiscal years 2004 and 2005. Requests for reimbursement from the federal grantor must be based on actual, not estimated, payments.

In addition, the federal government approved an amendment to the Program's State Plan that added coverage for unborn children not eligible for Medicaid. Under this amendment, prenatal care and associated health services are covered from conception to birth. The effective date of the amendment was November 12, 2002.

**Description of Condition**

We found the Administration reported payments and requested and received federal Program reimbursements for:

- Children's Medicaid expenditures that were based on estimated amounts rather than on actual payments. Total payments involved were approximately $22 million.

- Prenatal medical expenditures that were paid prior to the November 12, 2002 effective date. Total payments involved were approximately $4.3 million.

**Cause of Condition**

Administration managers stated they had insufficient time to obtain the actual amounts for Program payments made from Departmental systems. They also stated they are currently working to obtain actual amounts for fiscal years 2004 and 2005. We will review this information during our fiscal year 2005 audit.

Administration managers interpreted the State Plan amendment to allow them to claim prenatal payments for children born on the effective date.

**Effect of Condition**

The Department may have received federal funds to which it is not entitled. We question the approximately $26.3 million received by the Department based on estimated costs and on costs incurred before the effective date.

**Recommendation**

We recommend the Administration base its requests for federal Program reimbursements on:

- Actual rather than estimated payments for Medicaid-eligible children whose family incomes fall within certain limits.

- Payments made for prenatal services provided only after the effective date of the State Plan amendment.

We also recommend the Administration consult with the federal grantor to determine if any funds received must be returned.

**Department's Response**

*This finding encompasses two issues uncovered by the auditor.*

*First, amounts claimed for higher income children covered under the program were based on estimated costs rather than actual costs. These estimates were used for federal reporting and Medicaid claiming purposes. The Department agrees with this finding. Procedures have been changed to claim actual costs rather than estimated costs and an adjustment to the quarterly Medicaid claim will be submitted to reflect actual costs for the time period of the audit.*

*Second, the Department received authorization from the federal Centers for Medicare and Medicaid Services (CMS) to claim the cost of prenatal care for undocumented low income women under the State Children's Health Insurance Program. These costs could be claimed as of November 12, 2002, the date of the authorization. The Department misinterpreted the date as of (sic) which services could be claimed, and claimed services before the authorization date. The Department agrees with this finding. CMS has been contacted and repayment of the unauthorized services will be made.*

**Auditor's Concluding Remarks**

We appreciate the Department's commitment to resolve the issues identified in the finding and will review Department's progress in our 2005 audit. We also appreciate the cooperation extended to us throughout the audit by Department staff.

**Applicable Laws and Regulations**

Title 42 Code of Federal Regulations, Section 457.630(c), states:

> Expenditure reports. (1) The State must submit Form CMS-64 (Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program) and Form CMS-21 (Quarterly State Children's Health Insurance Program Statement of Expenditures for title XXI), to central office (with a copy to the regional office) not later than 30 days after the end of the quarter. (2) This report is the State's accounting of actual recorded expenditures. This disposition of Federal funds may not be reported on the basis of estimates. (Emphasis added.)

State Children's Health Insurance Program State Plan Amendment number 4 states:

> Addition of SCHIP Coverage for Prenatal Care and Associated Health Care Services to the State Child Health Plan
>
> State/Territory: Washington
>
> Section 4. Eligibility Standards and Methodology. (Section 2102/(b))
>
> 4.1.2.1 Age: Conception through birth
>
> 4.1.3.1.1 Income: 0% of the FPL (and not eligible for Medicaid) through 185% of the FPL
>
> Effective Date: 11/12/02 (date costs begin to be incurred
>
> Implementation Date: 11/12/02 (date services begin to be provided)

**04-43 The Employment Security Department does not have adequate internal controls over the reporting of grant expenditures on the Schedule of Expenditures of Federal Awards.**

**Background**

The Employment Security Department administers the benefit provisions of the federal Trade Adjustment Assistance Workers Program (TAA) and the North American Free Trade Agreement Assistance Act (NAFTA). Funds for these two programs are separately granted, and the federal Department of Labor requires their expenditures to be separately tracked and reported; however, both programs are included in CFDA 17.245.

Both programs provide testing, counseling, and job placement services; job search and relocation assistance; training; and payment of weekly subsistence allowances to workers whose unemployment is the result of increased imports or shifts in production to certain countries. During fiscal year 2004, these programs together spent $30,964,797 for administrative activities and for benefits to 8,485 participants.

For the State of Washington Schedule of Expenditures of Federal Awards included in the State of Washington Single Audit Report, each agency is required to report total fiscal year expenditures for each federal program by federal agency and the identifying Catalog of Federal Domestic Assistance (CFDA) number. These amounts are reported to the Office of Financial Management (OFM) to be consolidated into the final Schedule.

**Description of Condition**

The Department has not established sufficient internal controls to ensure its expenditures reported for CFDA 17.245 are accurate and complete. We found the following weaknesses:

- There was inadequate support for the total amount originally reported on the Schedule and submitted to OFM.

- No one had reconciled the TAA grant activity included in the total to other Department records to ensure it included all the benefits paid to participants.

**Cause of Condition**

The Employment Security Department provided the following cause:

The Employment Security Department recorded revenue received for Federal Unemployment benefits issued to eligible claimants under CFDA.17.225. In FY04 it was learned that Federal reimbursements received through the UI Grant for TRA benefit expenditures are to be recorded as revenue under CFDA 17.245. The department prepared the AFRS entries to move the FY04 revenue to the correct CFDA, 17.245. When analyzing the accounting records to prepare the correction, the accrued revenue for FY04 TRA benefits was inadvertently left in CFDA 17.225. This amount totaled approximately $528,000.00.

**Effect of Condition**

The Department did not originally report its expenditures for these programs accurately. It initially indicated that the Schedule correctly reflected the grant expenditures. We were able to verify through independent sources that the portion of the expenditures related to grant administration was supported by the Department's financial documentation. However, financial documents provided to us for the benefit portion of expenditures did not agree with the amounts used to calculate the total for the Schedule. Based on our review of the documents the Department was able to provide, the Schedule was understated by approximately $528,000. The Office is currently working with the Department to correct its reported amounts on the Schedule.

**Recommendation**

We recommend that the Department:

- Ensure it has adequate supporting documents for its financial reporting to the federal government.

- Establish and follow adequate reconciliation procedures to verify its grant expenditures reported in the Schedule are accurate.

**Department's Response**

*Effective July 1, 2004 all Trade Act benefit transactions have been recorded properly in the department's accounting system under CFDA 17.245. Also, additional AFRS (Agency Financial Reporting System) codes were created to allow for more detailed tracking of Federal Unemployment Insurance benefits. These codes show the details of all Federal benefit activity separately, instead of combined as one total. This change will remove any confusion over the CFDA codes to use for reporting and will give the department the ability to accurately report Federal benefits issued at the needed detail level. It will also allow the department to accurately report Trade Act activities on the Schedule of Expenditure of Federal Awards (SEFA). In addition, a monthly reconciliation of Trade Act benefit expenditures will be performed to ensure all entries are correct.*

*The department's fiscal year 2004 SEFA will be corrected to reflect the actual revenue and expenditure amounts for the Trade Act program.*

**Auditor's Concluding Remarks**

We appreciate the cooperation provided by the Department staff during this audit. We note the Department submitted a request to correct this program's expenditure data and the Office of Financial Management made the correction to the Schedule. We will review the Department's corrective actions during the next review of this program.

**Applicable Law and Regulations**

Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Section .310(b)(3), of the federal 87, *Cost Principles for State, Local and Indian Tribal Governments*, states the auditee must:

> Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

The Office of Financial Management's *State Administrative and Accounting Manual*, Sections 95.10.40.a states:

> Each state agency or institution that expends awards of federal assistance during a state fiscal year must complete federal electronic disclosure forms provided by OFM's Accounting Division. To meet federal reporting requirements, agencies must report all federal assistance received, disbursed, and/or on hand and must complete the "Federal Assistance Certification." Both the agency head and chief financial officer are to certify, to the best of their knowledge, that the agency complied with federal assistance requirements and that the information reported by the agency is complete and accurate. The cutoff deadline date for completing federal disclosure forms is published annually by OFM.

Section 95.10.40.d of the *Manual* states:

> Direct federal assistance is to be reported at the individual federal program and identified by Catalog of Federal Domestic Assistance (CFDA) number, federal program title, and federal program cluster designation . . . .

**04-44 The Employment Security Department did not comply with federal requirements for time and effort reporting.**

**Background**

The Employment Security Department administers the benefit provisions of the federal Trade Adjustment Assistance Workers Program (TAA) and the North American Free Trade Agreement Assistance Act (NAFTA). Funds for these two programs are separately granted, and the federal Department of Labor requires their expenditures to be separately tracked and reported; however, both programs are included in CFDA 17.245.

Both programs provide testing, counseling, and job placement services; job search and relocation assistance; training; and payment of weekly subsistence allowances to workers whose unemployment is the result of increased imports or shifts in production to certain countries. During fiscal year 2004, these programs together expended $30,964,797 for administrative activities and for benefits to 8,485 participants.

When participants have exhausted these benefits, additional benefits may be available to them from the Workforce Investment Act (WIA) program cluster, which are other grants provided by the U.S. Department of Labor (CFDA 17.258-17.260).

For payroll costs charged directly to federal awards, federal regulations require employees to document their time and effort spent on each federal activity monthly. These monthly records must reflect the actual after-the-fact distribution of the employee's activities. However, if an employee works on only one federal activity, semi-annual certifications signed by the employee or supervisor meet federal requirements. States may charge by budget only if they compare the budget to actual activities at least every three months and adjust requests for federal funds accordingly. Employees at the Department fill out semi-monthly timesheets and sign certifications indicating that the time documented consists of actual working hours or leave taken during the period.

**Description of Condition**

During our review of TAA and NAFTA, we selected 25 of the 67 employees who charged time for these programs during fiscal year 2004 and reviewed the support for payroll charges. We analyzed documentation and held discussions with the employees. We found that 21 of the employees were given instructions to charge their hours on some basis that did not reflect their actual activities. While the methods used were inconsistent, our review indicates the instructions were based on management decisions to use more grant funding than would otherwise occur in order to prevent certain funds from lapsing at stated deadlines. We identified at least $130,515 in costs inappropriately charged between TAA and NAFTA. In addition, we found that eight of the 21 employees charged significant time to WIA but no time to TAA, even though the clients they served were mostly from TAA.

We also noted that indirect charges are not charged properly either, because the agency uses time and effort charges to allocate its indirect costs to various federal funding sources. Based upon the testing of timesheets, we believe that indirect charges were misstated for an unknown amount in TAA, NAFTA and WIA.

**Cause of Condition**

Management did not always follow the policies set by the Commissioner of the Department.

**Effect of Condition**

Without proper time and effort records, the Department is unable to substantiate the accuracy of the costs charged to the administration of these grants. We are questioning the $130,515 that was inappropriately charged to TAA and NAFTA. Because of the improper hours charged to WIA and the incorrect calculation of indirect charges, the total unallowable costs for these three programs are difficult to determine.

**Recommendation**

We recommend the Department maintain time and effort records that comply with federal regulations and consult with the federal grantor to determine whether any questioned costs should be repaid.

**Department's Response**

*It is recognized and accepted within the WorkSource Operations Division (WSOD) that management and staff in all programs, including the Trade Adjustment Assistance Program, need to adhere to the policies and procedures surrounding the requirements for time and effort reporting. The WSOD will be working with the regional offices to reinforce the agency message to all staff in the local offices on the importance of accurate time and effort reporting.*

*In the near future the WorkSource Operations Division will be conducting refresher training of all managers and supervisors statewide to ensure understanding of the Commissioner's Memo on "Accurate Time Reporting" dated July 22, 2003.*

*Following are the responses from each region on how they will be strengthening their processes to ensure that offices follow the policies as set by the Commissioner of the Department to comply with federal requirements for time and effort reporting. It should be noted that costs being questioned by the auditor in this finding resulted from time reported by staff to components (TAA/NAFTA) of the same federal program. Funding for NAFTA has subsequently been discontinued.*

*Puget Sound Region*

*This subject was an agenda item at the Regional WorkSource Administrator's meeting on April 6, 2005 and will also be discussed at their meeting on April 20, 2005. The discussion at this meeting will focus on the six expectations listed in the previous Commissioner' s memo dated July 22, 2003, titled "Accurate Time Reporting". Each Administrator will receive a copy of this memo.*

- ***King County (includes WorkSource Auburn & WorkSource Renton offices)***
  *The King County WorkSource Administrator addressed this issue with their leadership team on April 7, 2005. In addition to providing examples to the supervisors on how to discuss the importance of this topic to staff, the Administrator also discussed the role and expectations of the supervisor in the time reporting process. This Administrator also assigned the Operations Manager to conduct a random review of time sheets every pay period.*

- ***Snohomish County (includes WorkSource Everett office)***
  *Corrective action has been initiated by Snohomish County WorkSource offices regarding the accurate time reporting issue. The WorkSource Administrator has sent an e-mail containing the requirements for accurate time reporting to all of his supervisors. Also, the WorkSource Administrator provided an example that the supervisors could use while talking with staff about this topic.*

  *The WorkSource Snohomish County Administrator has communicated the following information to local ESD management & staff:*
  - *Time sheets are not budget driven.*
  - *Staff should be made aware of their work assignment and the work assignment should line up with what has been budgeted.*
  - *If work assignments do not match up with budgets, then office management will need to address it.*
  - *Staff should fill out their time sheets on a daily basis and they should reflect the type of work they performed.*
  - *Each supervisor will check time sheets every pay period to make sure there is not a repetitive pattern in the time sheet. Supervisors will talk with staff completing timesheets with a repetitive pattern and explain the above requirements on how they are to complete their time sheet.*

*West Region*

- ***Clallam County WorkSource (includes Port Townsend office)***
  *The following corrective action was taken in the WorkSource Clallam County (covering Port Angeles/Port Townsend offices) area in response to areas of concern related to accurate time reporting (TAA/NAFTA Programs):*
  - *TAA/NAFTA activities have been assigned to one staff person for the Olympic Workforce Development Area (Bremerton / Port Angeles / Port Townsend). This is his sole responsibility and he will be charging 100% of his time to this program.*
  - *The TAA project where most of the time and effort report issues occurred is closed.*
  - *The project manager who authorized the time charging retired. The new supervisor overseeing the time charging for the program staff has been trained on accurate time reporting procedures.*

- ***Pierce County (includes Tacoma WorkSource office)***
  *The staff person serving Trade Act clients in Tacoma stated she misunderstood as to how to charge her time as she felt the NAFTA and TAA programs were consolidated and so she estimated her time spent serving clients in each. Effective July 1, 2004, this employee has only one code (TAA) to which she will charge her time.*

*Cascade East Region*

- ***WorkSource Spokane***

  *In State Fiscal Year 2004 staff were instructed and expected to charge their time accurately based upon the program participants they were serving. Staff were given program descriptions and charge codes to assist them in making decisions about which program to charge on their timesheets. Staff tools include using either a desk calendar and/or an Outlook calendar, and many staff make daily entries to their timesheet that reflect their time usage.*

  *The office Financial Analyst did provide staff with a chart that reflected budget plans by program. This chart did include the percentage of salaries budgeted to each program. However, it was never intended that staff charge their time based upon a planned budget.*

  *To prevent any further misunderstandings, the practice of issuing budget plans with charge codes and percentages has stopped. Only charge codes are to be given to staff with instructions to accurately report their time on their timesheets based upon the customers they are serving.*

- ***WorkSource Columbia Gorge***

  *The supervisor in question charged 59 hours to the NAFTA code over a 6-month period between January and June 2004. During this time period, he also charged a significant number of hours (188) to the "9/11 Rapid Response National Emergency Grant (NEG)" code. The 9/11 Rapid Response NEG allocation was designated to serve TAA participants. The supervisor's duties for hours charged to the 9/11 Rapid Response NEG and NAFTA involved supervision of the two programs, which are operated together.*

  *As he mentioned in his response to the auditor, his time charged to NAFTA was spent directly supervising staff, managing performance, attending meetings impacting TAA/NAFTA operations, reviewing client files, approving and signing payment vouchers, coordinating activities with other WorkSource programs for seamless integration, coordinating with the regional Dislocated Worker Program Manager on service integration, and researching and implementing of quality improvement processes on a local level. We do not believe time charges made by this employee were inappropriate.*

*Statewide, the staff identified through this review are now aware that their time is to be charged on a daily basis and is distributed by project codes that reflect actual activities performed. They will fill out their time sheets and use proper charge codes according to the duties performed each day.*

**Auditor's Concluding Remarks**

We appreciate the Department's commitment to resolve the issue identified in the finding and will review the Department's progress in our 2005 audit. We also appreciate the cooperation extended to us throughout this audit by Department staff.

**Applicable Laws and Regulations**

Attachment A, Section C.3.a. of the Office of Management and Budget's Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires allocable costs to be chargeable or assignable in accordance with the relative benefits received.

Attachment B, Section 8(h) of the Circular states in part:

1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

2) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation...unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

   a) More than one Federal award,
   b) A Federal award and a non-Federal award,
   c) An indirect cost activity and a direct cost activity,
   d) Two or more indirect activities which are allocated using different allocation bases, or
   e) An unallowable activity and a direct or indirect cost activity.

3) Personnel activity reports or equivalent documentation must meet the following standards:

   a) They must reflect an after-the-fact distribution of the actual activity of each employee,
   b) They must account for the total activity for which each employee is compensated,
   c) They must be prepared at least monthly and must coincide with one or more pay periods, and
   d) They must be signed by the employee.
   e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

      i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

      ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the

quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

On July 22, 2003, the former Commissioner of the Department issued a memo to agency management entitled Accurate Time Reporting. The memo provided the following guidance:

> We must be able to identify the actual cost of these programs and demonstrate to our funding sources that charges through our time distribution system have a direct relationship to the level of services we provide to our customers.
>
> The allocation of costs to our agency programs is driven by the time reporting system. If the accuracy of our time reporting is compromised, the true cost of operating those programs cannot be determined. Questioned or disallowed costs can result.
>
> I am asking managers, supervisors, and staff to follow the time reporting principles listed below:
>
> 1. Employees will fill out their own time sheets by computer or in ink. The employee should initial any changes made after the employee has completed and signed the time sheet.
>
> 2. Time reported to a program will be based on the employee's best estimate of the time spent on that program.
>
> 3. Supervisors are not to request an employee change time reported unless an error has been made (examples: expired project code, transposed numbers).
>
> 4. Supervisors will direct the activities of the staff, not manage or influence the time sheets they fill out.
>
> 5. Time reported to a program should be consistent with and traceable to records of service provided (if applicable).
>
> 6. Managers intending to use any recurring percentage distribution method for salaries other than Projects 9997 and 9998 (AS&T) or Project 9999 (Cost Center Allocation) must receive pre-approval to do so from the agency Budget Office. Approval will be contingent upon the submission of an allocation plan that describes whose time will be distributed based on the plan and how the percentages will be determine (sic).