



STATE OF MISSOURI
SINGLE AUDIT
YEAR ENDED JUNE 30, 2002

From The Office Of State Auditor
Claire McCaskill

Report No. 2003-46
May 30, 2003
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2003

The United States Congress passed the Single Audit Act of 1996 to establish uniform requirements for audits of federal awards administered by states, local governments, and non-profit organizations. The Single Audit includes the federal awards expended by all state agencies, except for the public universities and various financing authorities which provide their financial information directly to the federal government. State agencies expended \$7.2 billion of federal grant funds during the year ended June 30, 2002. Expenditures of federal awards have increased significantly over the past five years. Although all sixteen state departments and other state offices expended federal awards, six state departments expended the bulk of the federal awards (95 percent). These six departments are: Social Services, Labor and Industrial Relations, Transportation, Elementary and Secondary Education, Health and Senior Services, and Economic Development. Overall, the state expended federal awards in 275 different programs.

Expenditures reported on the original schedule of expenditures of federal awards prepared by the Department of Health and Senior Services (DHSS) were understated by approximately \$38 million. Many of the understatements resulted from the incorrect compilations of data reported on the department's internal accounting system. In addition, the DHSS does not reconcile its internal accounting system to the statewide accounting system (SAM II). (page 31)

On July 19, 2002, the Missouri State Auditor's Office issued audit report No. 2002-52, **Child Care Facilities Inspections and Licensing**. The audit noted several weaknesses in child care licensing laws and regulations, and DHSS procedures for ensuring facilities comply with these requirements. These weaknesses include: not proactively identifying providers who are operating without a license nor determining how many children may be in the care of such providers, and not establishing standard guidelines for determining the severity of rule violations and effectively assessing penalties or revoking child care licenses. (page 32)

The Department of Labor and Industrial Relations, Division of Employment Security does not have adequate procedures to ensure that individuals (claimants) receiving unemployment benefits meet the eligibility requirement of conducting weekly work search contacts. (page 36)

State and federal regulations require the Department of Social Services (DSS) conduct a redetermination of eligibility at least every 12 months for adults and children receiving Medicaid and State Children's Health Insurance Program benefits. However, the DSS does not have adequate procedures to ensure it performs eligibility redeterminations in accordance with state and federal regulations.

(over)

YELLOW SHEET

Similar conditions were noted in our prior report. To ensure all recipients remain eligible for benefits, the eligibility status of all recipients should be reviewed annually. (page 40)

Weaknesses in DSS disbursement procedures have allowed duplicate payments to occur. DSS county offices receive invoices and initiate payments for day care services, treatment services, and other contracted services for clients. During our review of vendor refunds for the two years ending June 30, 2002, we identified approximately \$348,000 of refunds received by the DSS for duplicate payments, including approximately \$293,000 received from one vendor. We also found vendor refunds were not always remitted to the Division of Budget and Finance for deposit on a timely basis. (page 43)

All reports are available on our website: www.auditor.state.mo.us

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SINGLE AUDIT

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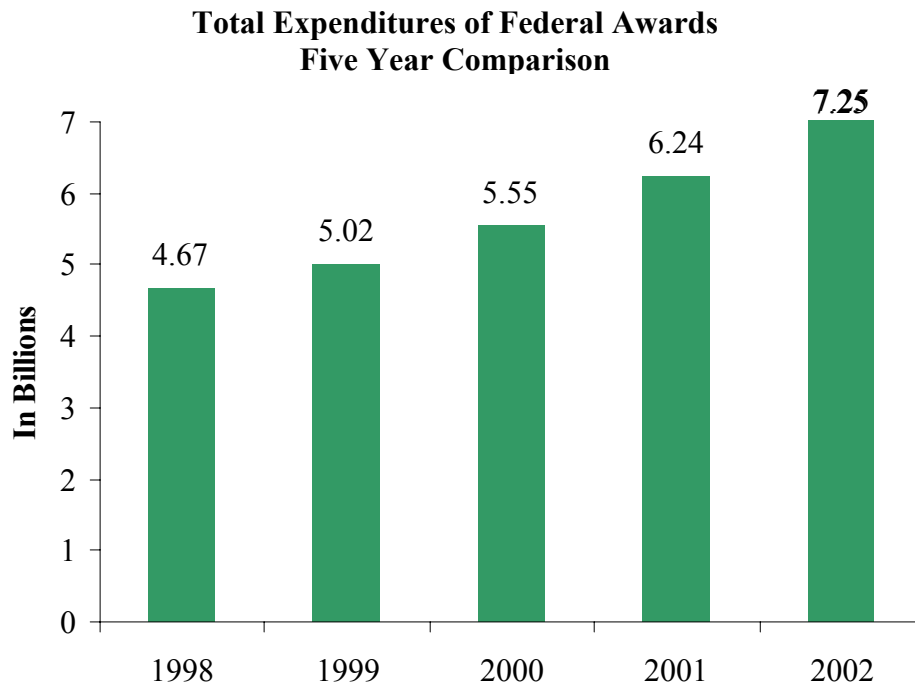
INTRODUCTION AND SUMMARY

INTRODUCTION AND SUMMARY

The United States Congress passed the Single Audit Act of 1996 to establish uniform requirements for audits of federal awards administered by states, local governments, and non-profit organizations. The Office of Management and Budget (OMB) issued Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* to set forth standards for obtaining consistency and uniformity among federal agencies for the audit of non-federal entities expending federal awards. The single audit requires an audit of the state's financial statements and expenditures of federal awards. The audit is required to determine whether:

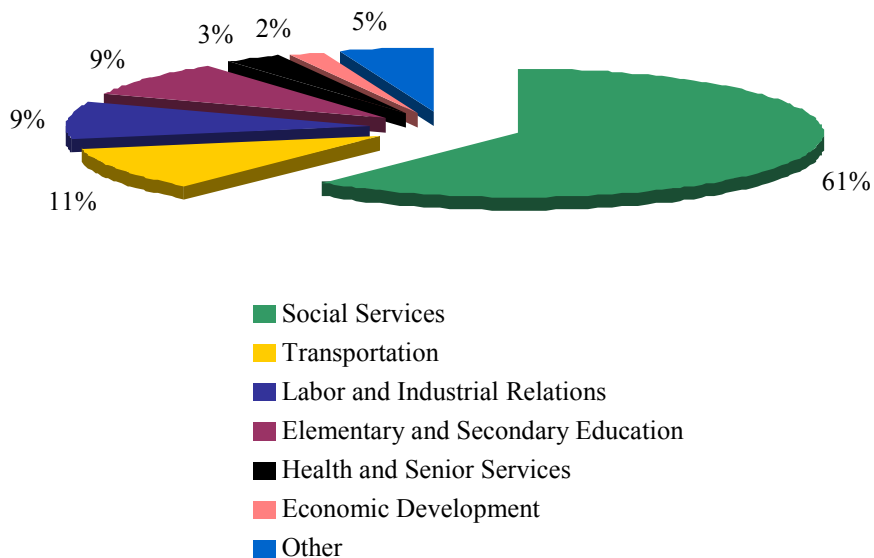
- The state's general-purpose financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles.
- The schedule of expenditures of federal awards is presented fairly in all material respects in relation to the general-purpose financial statements taken as a whole.
- The state has adequate internal controls to ensure compliance with federal award requirements.
- The state has complied with the provisions of laws, regulations, and contracts or grants that could have a direct and material effect on federal awards.

The Single Audit report includes the federal awards expended by all state agencies that are part of the primary government. The report does not include the component units of the state, which are the public universities and various financing authorities. These component units have their own separate OMB Circular A-133 audits conducted by other auditors. The state expended \$7.2 billion in federal awards during the year ended June 30, 2002. Expenditures of federal awards have increased significantly over the past five years.



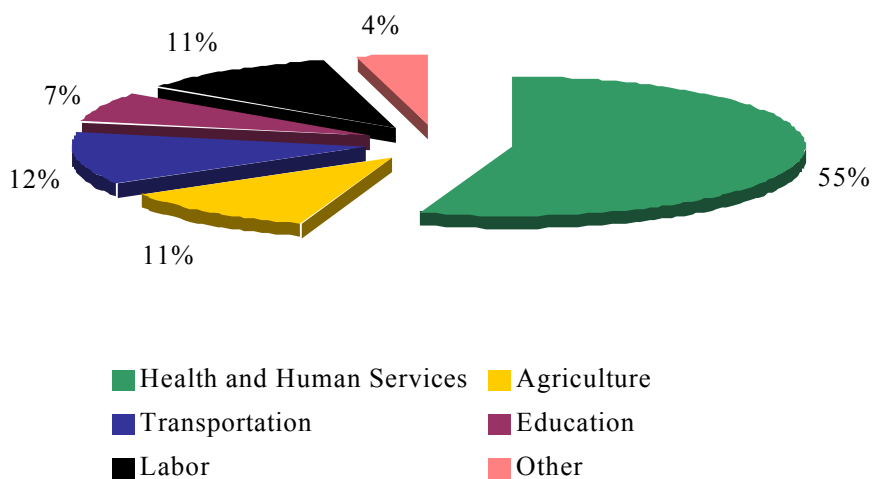
Although all sixteen state departments and other state offices expended federal awards, six state departments expended the bulk of the federal awards (95 percent).

Expenditures of Federal Awards by State Department



The state received federal awards from 21 different federal agencies. Most of the federal awards (96 percent) came from five federal agencies.

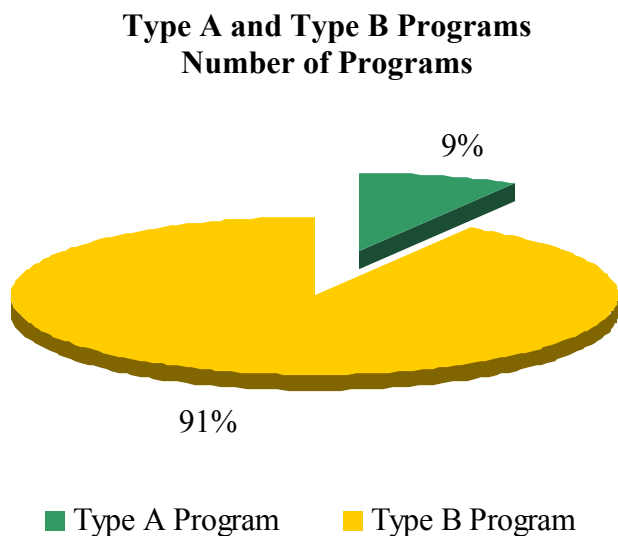
Expenditures of Federal Awards by Federal Department



Overall, the state expended federal awards in 275 different programs. Under the audit requirements of OMB Circular A-133, federal programs are divided into Type A and Type B programs based on a dollar threshold. For the state of Missouri, OMB Circular A-133 defines the dollar threshold to distinguish between Type A programs and Type B programs at three-tenths of one percent (.003) of total awards expended.

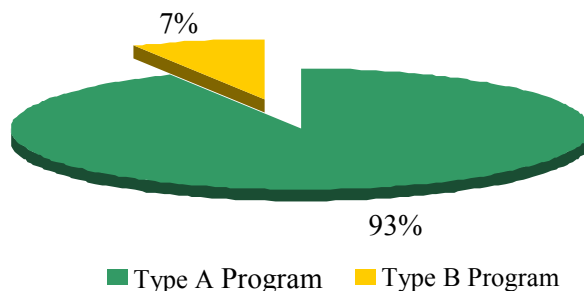
Determination of Type A Programs	
Total expenditures of federal awards	\$ 7,245,660,004
Three-tenths of one percent	.003
Dollar Threshold	\$ 21,736,980

We rounded the dollar threshold to \$21.7 million. Programs with federal expenditures over \$21.7 million are Type A programs and the programs under \$21.7 million are Type B programs. Of the 275 different federal award programs, 25 were Type A programs and 250 were Type B programs.



The 25 Type A programs had expenditures of federal awards totaling \$6.7 billion, which was 93 percent of the total expenditures for all programs. The 250 Type B programs had expenditures of federal awards totaling \$539 million, which was only 7 percent of the total expenditures for all programs.

Type A and Type B Programs Expenditures of Federal Awards



OMB Circular A-133 requires the auditor to use a risk-based approach to determine which federal award programs to audit as major programs. We performed a risk assessment on each Type A program and determined that 14 of the 25 Type A programs were low risk and did not need to be audited as major, based on the guidance in OMB Circular A-133.

OMB Circular A-133 requires the auditor to perform risk assessments on the larger Type B programs to determine which ones to audit as major in place of the Type A programs that are not audited as major. The dollar threshold to determine the larger Type B programs is three-hundredths of one percent (.0003) of total awards expended, (\$7.24 billion times .0003 = \$2.17 million). We performed risk assessments on the 63 larger Type B programs that were over \$2.17 million and determined that 7 of them were high risk. In accordance with OMB Circular A-133, we audited 4 (one-half) of these 7 high risk Type B programs as major. As a result of the risk-based approach required under OMB Circular A-133, we audited 11 Type A programs and 4 Type B programs as major.

Major and Non-major Programs

Audit Coverage by Type of Program	Number of Programs	Expenditures	Percentage of Expenditures
Type A major programs	11	\$ 5,020,834,041	
Type B major programs	4	48,600,595	
Total major programs	15	5,069,434,636	70%
Type A non-major programs	14	1,685,797,440	
Type B non-major programs	246	490,427,928	
Total non-major programs	260	2,176,225,368	30%
Total all programs	275	\$ 7,245,660,004	100%

STATE OF MISSOURI
SUMMARY OF TYPE A PROGRAMS AND TOTAL EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Program Name	Federal Grantor Agency	Federal Awards Expended
	Food Stamp Cluster:		
10.551	Food Stamps	Agriculture	\$ 462,842,100
10.561	State Administrative Matching Grants for Food Stamp Program	Agriculture	40,435,429
	Child Nutrition Cluster:		
10.553	School Breakfast Program	Agriculture	28,666,260
10.555	National School Lunch Program	Agriculture	106,608,010
10.556	Special Milk Program for Children	Agriculture	407,941
10.559	Summer Food Service Program for Children	Agriculture	5,386,096
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture	66,939,111
10.558	Child and Adult Care Food Program	Agriculture	32,443,772
14.228	Community Development Block Grants/State's Program	Housing and Urban Development	33,716,935
17.225	Unemployment Insurance	Labor	680,081,748
	Workforce Investment Act Cluster:		
17.255	Workforce Investment Act	Labor	22,028,461
17.258	Workforce Investment Act - Adult Program	Labor	9,645,504
17.259	Workforce Investment Act - Youth Activities	Labor	12,119,954
17.260	Workforce Investment Act - Dislocated Workers	Labor	7,016,230
20.205	Highway Planning and Construction	Transportation	809,261,627
66.458	Capitalization Grants for State Revolving Funds	Environmental Protection Agency	46,038,596
84.010	Title I Grants to Local Educational Agencies	Education	143,371,668
	Special Education Cluster:		
84.027	Special Education - Grants to States	Education	131,034,700
84.173	Special Education - Preschool Grants	Education	4,802,446
84.032	Federal Family Education Loans	Education	62,971,623
84.048	Vocational Education - Basic Grants to States	Education	22,211,777
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Education	47,844,686
84.340	Class Size Reduction	Education	28,733,462
93.558	Temporary Assistance for Needy Families	Health and Human Services	186,049,315
93.563	Child Support Enforcement	Health and Human Services	42,936,873
93.568	Low-Income Home Energy Assistance	Health and Human Services	35,720,639
	Child Care Cluster:		
93.575	Child Care and Development Block Grant	Health and Human Services	62,628,895
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services	53,617,584
93.658	Foster Care - Title IV-E	Health and Human Services	61,643,980
93.667	Social Services Block Grant	Health and Human Services	47,270,282
93.767	State's Children's Insurance Program	Health and Human Services	58,889,694
	Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	Health and Human Services	754,516
93.777	State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services	12,629,631
93.778	Medical Assistance Program	Health and Human Services	3,277,011,484
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services	29,962,224
96.001	Social Security - Disability Insurance	Social Security Administration	32,908,228
	Total Type A Programs (expenditures greater than \$21.7 million)		6,706,631,481
	Total Type B Programs (expenditures less than \$21.7 million)		539,028,523
	Total Expenditures of Federal Awards		\$ <u>7,245,660,004</u>

STATE AUDITOR'S REPORTS



CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING

Honorable Bob Holden, Governor
and
Members of the General Assembly

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Missouri, as of and for the year ended June 30, 2002, which collectively comprise the state's basic financial statements, and have issued our report thereon dated March 21, 2003. We did not audit the financial statements of the Missouri Department of Transportation, the Consolidated Health Care Plan, the State Employees' Insurance Plan, the Transportation Employees' and Highway Patrol Insurance Plan, and the Transportation Self-Insurance Plan, which represent 80 percent and 14 percent of the assets and operating revenues, respectively, of the governmental activities. We did not audit the State Lottery, which represent 24 percent and 65 percent of the assets and operating revenues of the business-type activities. We did not audit the component units. We did not audit the pension trust funds and the Public Employees' Deferred Compensation Plan, which represent 94 percent and 83 percent of the assets and additions, respectively, of the fiduciary funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to these amounts, are based on the reports of the other auditors. Our report expressed a qualified opinion on the basic financial statements because we were not allowed access to tax returns and related source documents for income taxes. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the state of Missouri taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The state of Missouri has excluded federal award expenditures of public universities from the accompanying Schedule of Expenditures of Federal Awards. The information in the Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the exclusion of federal award expenditures of public universities, is fairly presented in all material respects, in relation to the basic financial statements.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the state of Missouri are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the state of Missouri, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the state of Missouri's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 1 to 3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

The State Auditors office regularly issues management reports on the various programs, agencies, divisions, and departments of the state of Missouri. The conditions mentioned in those management reports were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements. Our reports of these conditions do not modify our report dated March 21, 2003, on the basic financial statements.

This report is intended for the information and use of the management of the state of Missouri and federal awarding agencies. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

March 21, 2003 (fieldwork completion date)



CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE

Honorable Bob Holden, Governor
and
Members of the General Assembly

Compliance

We have audited the compliance of the state of Missouri with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The state's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state's management. Our responsibility is to express an opinion on the state's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the state's compliance with those requirements.

As described in item 2001-13 in the accompanying schedule of findings and questioned costs, the state of Missouri did not comply with requirements regarding eligibility and activities allowed for the Adoption Assistance program (CFDA Number 93.659). Compliance with such requirements is necessary, in our opinion, for the state of Missouri to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the state of Missouri complied, in all material respects, with the requirements referred to above that

are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2002-4 and 2002-10.

Internal Control over Compliance

The management of the state of Missouri is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the state's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1, 2002-5, 2002-6, 2002-8, and 2002-9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information and use of the state's management, and federal awarding agencies and pass-through entities, and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.



Claire McCaskill
State Auditor

February 21, 2003 (fieldwork completion date)

SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

STATE OF MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Grantor Agency - Program	Federal Awards Expended	Amount Provided to Subrecipients
Office of National Drug Control Policy			
07	HIDTA	1,902,138	1,250,680
	Total Office of National Drug Control Policy	1,902,138	1,250,680
Department of Agriculture			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	167,900	17,655
10.064	Forestry Incentives Program	1,543	0
10.069	Conservation Reserve Program	21,658	0
10.156	Federal-State Marketing Improvement Program	12,508	0
10.250	Agricultural and Rural Economic Research	94,940	0
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	141,970	0
10.550	Food Donation	18,691,660	16,960,263
10.551	Food Stamps	462,842,100	0
10.553	School Breakfast Program	28,666,260	28,666,260
10.555	National School Lunch Program	106,608,010	105,434,563
10.556	Special Milk Program for Children	407,941	407,941
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	66,939,111	12,199,843
10.558	Child and Adult Care Food Program	32,443,772	31,968,933
10.559	Summer Food Service Program for Children	5,386,096	5,099,590
10.560	State Administrative Expenses for Child Nutrition	2,635,049	0
10.561	State Administrative Matching Grants for Food Stamp Program	40,435,429	249,892
10.565	Commodity Supplemental Food Program	28,198	0
10.568	Emergency Food Assistance Program (Administrative Costs)	1,036,499	802,867
10.569	Emergency Food Assistance Program (Food Commodities)	11,529,813	11,529,813
10.570	Nutrition Services Incentive	3,311,951	3,311,951
10.572	WIC Farmers' Market Nutrition Program (FMNP)	85,695	85,695
10.574	Team Nutrition Grants	62,726	0
10.576	Seniors Farmers' Market Program	360	360
10.664	Cooperative Forestry Assistance	1,513,457	285,810
10.665	Schools and Roads - Grants to States	2,991,450	2,991,450
10.672	Rural Development, Forestry, and Communities	27,000	0
10.769	Rural Business Enterprise Grants	45,367	0
10.OM	USDA - Mark Twain N. F./BLM	50,000	50,000
	Total Department of Agriculture	786,178,463	220,062,886
Department of Defense			
12	Troops to Teachers	46,303	20,372
12.104	Flood Plain Management Services	10,902	0
12.106	Flood Control Projects	486,057	0
12.112	Payments to States in Lieu of Real Estate Taxes	1,025,353	1,025,353
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	633,207	14,589
12.401	National Guard Military Operations and Maintenance Projects	16,296,259	0
12.AAG	Drug Interdiction & Counter Drug Activities (Note 4)	1,977	1,977
	Total Department of Defense	18,500,058	1,062,291
Department of Housing and Urban Development			
14.228	Community Development Block Grants/State's Program	33,716,935	32,770,342
14.231	Emergency Shelter Grants Program	1,288,995	1,288,995
14.238	Shelter Plus Care	3,444,431	3,444,431
14.241	Housing Opportunities for Persons with AIDS	471,116	471,116
14.401	Fair Housing Assistance Program - State and Local	795,158	0
	Total Department of Housing and Urban Development	39,716,635	37,974,884
Department of the Interior			
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	453,302	0
15.252	Abandoned Mine Land Reclamation Program	1,844,315	1,098,466
15.605	Sport Fish Restoration	4,448,009	0
15.611	Wildlife Restoration	5,545,167	0
15.615	Cooperative Endangered Species Conservation Fund	47,258	0
15.616	Clean Vessel Act	35,627	0
15.617	Wildlife Conservation and Appreciation	50,000	0
15.622	Sportfishing and Boating Safety Act	70,120	70,120
15.623	North American Wetlands Conservation Fund	916,190	0
15.625	Wildlife Conservation and Restoration	969,823	0
15.808	U.S. Geological Survey - Research and Data Acquisition	1,100	0

STATE OF MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Grantor Agency - Program	Federal Awards Expended	Amount Provided to Subrecipients
15.810	National Cooperative Geologic Mapping Program	182,271	0
15.904	Historic Preservation Fund Grants-In-Aid	779,384	201,761
15.916	Outdoor Recreation - Acquisition, Development and Planning	162,627	107,500
15.921	Rivers, Trails, and Conservation Assistance	10,701	0
15.978	Upper Mississippi River System Long Term Resource Monitoring Program	284,335	0
15.FFB	Webless Migratory Game Bird Research Program	53,040	0
15.unknown	Assistance for Drill Core Logging Sample Collecting & Interpretation	36	0
Total Department of the Interior		15,853,305	1,477,847
Department of Justice			
16	Marijuana Eradication Program	431,532	0
16.523	Juvenile Accountability Incentive Block Grants	4,528,338	4,457,100
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	937,613	866,328
16.542	National Institute for Juvenile Justice and Delinquency Prevention	1,231,087	0
16.543	Missing Children's Assistance	23,542	0
16.548	Title V - Delinquency Prevention Program	616,452	616,452
16.549	Part E - State Challenge Activities	91,390	91,390
16.554	National Criminal History Improvement Program	1,528,779	681,791
16.575	Crime Victim Assistance	6,362,108	6,249,891
16.576	Crime Victim Compensation	1,502,990	0
16.579	Byrne Formula Grant Program	8,422,062	8,233,556
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	633,122	19,984
16.585	Drug Court Discretionary Grant Program	105,575	0
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	3,593,473	0
16.588	Violence Against Women Formula Grants	2,510,617	2,409,653
16.592	Local Law Enforcement Block Grants Program	629,774	627,179
16.593	Residential Substance Abuse Treatment for State Prisoners	610,096	610,096
16.606	State Criminal Alien Assistance Program	3,713,729	0
16.610	Regional Information Sharing Systems	2,840,332	2,820,000
16.710	Public Safety Partnership and Community Policing Grants	3,005,974	71,394
16.727	Enforcing Underage Drinking Laws Program	35,592	35,592
16.733	National Incident Based Reporting System	58,427	38,238
16.WC-MO	Organized Crime Drug Enforcement Task Force	28,467	0
Total Department of Justice		43,441,071	27,828,644
Department of Labor			
17.002	Labor Force Statistics	2,002,069	0
17.005	Compensation and Working Conditions	151,769	0
17.203	Labor Certification for Alien Workers	129,878	0
17.207	Employment Service	14,431,523	259,118
17.225	Unemployment Insurance (Note 3)	680,081,748	0
17.235	Senior Community Service Employment Program	2,127,680	2,095,765
17.245	Trade Adjustment Assistance - Workers	12,565,367	0
17.249	Employment Services and Job Training - Pilot and Demonstration Programs	648,006	561,023
17.253	Welfare-to-Work Grants to States and Localities	6,238,156	6,029,824
17.255	Workforce Investment Act	22,028,461	20,489,585
17.258	Workforce Investment Act - Adult Program	9,645,504	8,382,407
17.259	Workforce Investment Act - Youth Activities	12,119,954	9,454,724
17.260	Workforce Investment Act - Dislocated Workers	7,016,230	5,878,658
17.266	Work Incentives Grant	3,579	0
17.504	Consultation Agreements	1,256,524	0
17.600	Mine Health and Safety Grants	354,501	0
17.801	Disabled Veterans' Outreach Program	1,457,901	0
17.804	Local Veterans' Employment Representative Program	1,499,341	0
Total Department of Labor		773,758,191	53,151,104
Department of Transportation			
20.02-154-AL-1	154/164 Transfer Funds	3,314,704	3,314,704
20.106	Airport Improvement Program	9,177,556	9,008,411
20.205	Highway Planning and Construction	809,261,627	66,586,326
20.218	National Motor Carrier Safety	913,858	906,366
20.219	Recreational Trails Program	381,912	379,765
20.500	Federal Transit - Capital Investment Grants	4,894,172	4,894,172
20.505	Federal Transit - Metropolitan Planning Grants	897,151	813,395

STATE OF MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Grantor Agency - Program	Federal Awards Expended	Amount Provided to Subrecipients
20.509	Formula Grants for Other Than Urbanized Areas	4,154,723	3,843,356
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,412,068	1,349,525
20.516	Job Access - Reverse Commute	545,664	545,664
20.600	State and Community Highway Safety	3,382,439	3,382,439
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	750,428	750,428
20.602	Occupant Protection	153,999	153,999
20.603	Federal Highway Safety Data Improvements Incentive Grants	340,579	340,579
20.604	Safety Incentive Grants for use of Seatbelts	247,264	247,264
20.700	Pipeline Safety	298,517	0
Total Department of Transportation		840,126,661	96,516,393
Department of the Treasury			
21.052	Alcohol, Tobacco, and Firearms - Training Assistance	15,373	0
Total Department of the Treasury		15,373	0
Equal Employment Opportunity Commission			
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	225,933	0
Total Equal Employment Opportunity Commission		225,933	0
General Services Administration			
39.003	Donation of Federal Surplus Personal Property (Note 4)	1,925,985	1,467,132
Total General Services Administration		1,925,985	1,467,132
National Foundation of Arts and the Humanities			
45.025	Promotion of the Arts - Partnership Agreements	460,569	102,000
45.302	Museum Assessment Program	967	0
45.310	State Library Program	2,714,098	1,923,553
Total National Foundation of Arts and the Humanities		3,175,634	2,025,553
Department of Veterans Affairs			
64.005	Grants to States for Construction of State Home Facilities	4,377,198	0
64.015	Veterans State Nursing Home Care	18,606,263	0
64.203	State Cemetery Grants	342,157	0
Total Department of Veterans Affairs		23,325,618	0
Environmental Protection Agency			
66.433	State Underground Water Source Protection	124,479	0
66.438	Construction Management Assistance	48	0
66.454	Water Quality Management Planning	454,267	226,519
66.458	Capitalization Grants for State Revolving Funds	46,038,596	33,788,409
66.460	Nonpoint Source Implementation Grants	1,912,018	1,017,155
66.461	Wetlands Grants	309,260	0
66.463	Water Quality Cooperative Agreements	75,171	38,488
66.468	Capitalization Grants for Drinking Water State Revolving Fund	10,130,168	8,537,435
66.470	Hardship Grant Program Rural Community	69,440	20,694
66.500	Environmental Protection Consolidated Research	94,517	0
66.605	Performance Partnership Grants	10,088,107	638,426
66.606	Surveys, Studies, Investigations and Special Purpose Grants	3,820,543	1,187,866
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	120,817	0
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	297,545	112
66.708	Pollution Prevention Grants Program	86,441	0
66.709	Capacity Building Grants and Cooperative Agreements for States and Tribes	44,069	0
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	2,452,318	209,851
66.805	Leaking Underground Storage Tank - Trust Fund	1,294,588	56,524
66.810	CEPP Technical Assistance Grants Program	12,571	0
Total Environmental Protection Agency		77,424,963	45,721,479
Department of Energy			
81.039	National Energy Information Center	5,499	0
81.041	State Energy Program	960,875	719,190
81.042	Weatherization Assistance for Low-Income Persons	5,370,963	5,069,702
81.092	Weldon Springs Site Remedial Action Project	472,739	22,540
Energy Efficiency & Renewable Energy Information Dissemination, Outreach, Training, &			
81.117	Technical Analysis/Assistance	40,989	39,312
81.119	State Energy Program Special Projects	97,370	47,810

STATE OF MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Grantor Agency - Program	Federal Awards Expended	Amount Provided to Subrecipients
81.902	State Environmental Oversight & Monitoring	445,029	45,333
	Total Department of Energy	7,393,464	5,943,887
Federal Emergency Management Agency			
83.105	Community Assistance Program - State Support Services Element	178,404	0
83.536	Flood Mitigation Assistance	9,585	9,585
83.541	Disaster Unemployment Assistance	44,669	0
83.543	Individual and Family Grants	1,826,723	1,822,349
83.544	Public Assistance Grants	18,417,088	18,341,043
83.548	Hazard Mitigation Grant	1,367,251	1,367,251
83.550	National Dam Safety Program	20,265	0
83.552	Emergency Management Performance Grants	4,977,726	2,407,665
	Total Federal Emergency Management Agency	26,841,711	23,947,893
Department of Education			
84.002	Adult Education - State Grant Program	11,500,204	11,079,555
84.010	Title I Grants to Local Educational Agencies	143,371,668	141,772,994
84.011	Migrant Education - State Grant Program	1,895,287	1,895,287
84.013	Title I Program for Neglected and Delinquent Children	883,486	865,334
84.027	Special Education - Grants to States	131,034,700	128,210,811
84.032	Federal Family Education Loans	62,971,623	0
84.048	Vocational Education - Basic Grants to States	22,211,777	20,156,098
84.069	Leveraging Educational Assistance Partnership	1,079,909	0
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	47,844,686	1,195,252
84.154	Public Library Construction and Technology Enhancement	52,975	52,975
84.158	Secondary Education and Transitional Services for Youth with Disabilities	631,814	580,232
84.162	Immigrant Education	785,509	785,509
84.169	Independent Living - State Grants	274,070	206,931
84.173	Special Education - Preschool Grants	4,802,446	4,802,325
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	398,169	0
84.181	Special Education - Grants for Infants and Families with Disabilities	7,305,891	6,587,284
84.185	Byrd Honors Scholarships	855,750	0
84.186	Safe and Drug-Free Schools and Communities - State Grants	8,982,039	8,045,157
84.187	Supported Employment Services for Individuals with Severe Disabilities	412,525	0
84.194	Bilingual Education Support Services	47,192	47,192
84.196	Education for Homeless Children and Youth	693,514	693,514
84.213	Even Start - State Educational Agencies	3,254,440	3,254,440
84.215	Fund for the Improvement of Education	285,744	178,914
84.216	Capital Expenses	37,085	37,085
84.224	Assistive Technology	473,384	0
84.243	Tech-Prep Education	2,340,499	2,292,523
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	9,124	0
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	7,160,694	6,994,562
84.278	School To Work State Implementation Grants	2,516,590	1,784,987
84.281	Eisenhower Professional Development State Grants	8,565,747	7,843,533
84.282	Charter Schools	592,586	572,814
84.298	Innovative Education Program Strategies	6,770,196	5,762,041
84.318	Technology Literacy Challenge Fund Grants	4,258,978	4,024,126
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	1,091,308	1,091,308
	Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	214,112	214,112
84.326	Children with Disabilities	214,112	214,112
84.330	Advanced Placement Program	11,184	11,184
84.331	Grants to States for Incarcerated Youth Offenders	299,893	0
84.332	Comprehensive School Reform Demonstration	3,748,640	3,646,450
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	837,802	0
84.340	Class Size Reduction	28,733,462	28,733,462
84.RN94-13-6026	National Cooperative System Program	12,496	0
	Total Department of Education	519,249,198	393,417,991
National Archives and Records Administration			
89.003	National Historical Publications and Records Grants	145,185	145,185
	Total National Archives and Records Administration	145,185	145,185
Department of Health and Human Services			
93	Outcomes and Assessment System Information Set Project	47,566	0

STATE OF MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Grantor Agency - Program	Federal Awards Expended	Amount Provided to Subrecipients
93	Prenatal and Early Childhood Home Visitation Program	7,362	0
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	113,507	107,832
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	253,114	240,458
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	435,187	413,428
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	6,838,417	6,496,496
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	11,652,086	11,069,481
93.048	Special Programs for the Aging - Title IV and Title II - Discretionary Projects	305,652	0
93.052	National Family Caregiver Support	1,747,211	1,659,850
93.103	Food and Drug Administration - Research	93,572	0
93.110	Maternal and Child Health Federal Consolidated Programs	472,292	0
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	695,630	104,874
93.119	Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services - Technical Assistance Centers for Evaluation	130,706	0
93.130	Primary Care Services - Resource Coordination and Development	184,993	70,000
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	142,664	0
93.136	Injury Prevention and Control Research and State and Community Based Programs	206,079	151,290
93.150	Projects for Assistance in Transition from Homelessness (PATH)	546,329	524,503
93.161	Health Program for Toxic Substances and Disease Registry	640,650	85,609
93.165	Grants for State Loan Repayment	70,250	67,750
93.197	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	652,083	238,029
93.230	Consolidated Knowledge Development and Application (KD&A) Program	317,302	299,819
93.234	Traumatic Brain Injury - State Demonstration Grant Program	126,151	105,898
93.235	Abstinence Education	1,354,922	0
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	525,098	395,912
93.239	Policy Research and Evaluation Grants	190,000	0
93.241	State Rural Hospital Flexibility Program	349,047	298,606
93.251	Universal Newborn Hearing Screening	212,232	0
93.268	Immunization Grants (Note 4)	17,165,527	14,175,454
93.270-95-0031	State Demand and Needs Assessment Studies: Alcohol and Drugs	706,391	702,279
93.277-98-6020	Prevention Needs Assessment	118,326	118,326
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	5,528,244	260,993
93.283-95-0026	Uniform Alcohol and Drug Abuse Grants	56,043	56,043
93.556	Promoting Safe and Stable Families	8,193,950	0
93.558	Temporary Assistance for Needy Families	186,049,315	0
93.563	Child Support Enforcement	42,936,873	9,352,294
93.566	Refugee and Entrant Assistance - State Administered Programs	3,585,717	69,466
93.568	Low-Income Home Energy Assistance	35,720,639	14,635,538
93.569	Community Services Block Grant	16,013,384	15,834,946
93.570	Community Services Block Grant - Discretionary Awards	20,000	0
93.571	Community Services Block Grant Discretionary Awards - Community Food and Nutrition	72,657	0
93.575	Child Care and Development Block Grant	62,628,895	104
93.576	Refugee and Entrant Assistance - Discretionary Grants	298,099	200,985
93.584	Refugee and Entrant Assistance - Targeted Assistance	985,676	0
93.585	Empowerment Zones Program	421,499	421,499
93.586	State Court Improvement Program	189,884	70,816
93.590	Community-based Family Resource and Support Grants	412,939	412,939
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	53,617,584	0
93.597	Grants to States for Access and Visitation Programs	153,737	0
93.600	Head Start	340,798	340,798
93.603	Adoption Incentive Payments	1,562,726	0
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,300,990	804,356
93.631	Developmental Disabilities Projects of National Significance	108,871	108,871
93.643	Children's Justice Grants to States	277,992	0
93.645	Child Welfare Services - State Grants	5,916,176	0
93.652	Adoption Opportunities	53,346	0
93.658	Foster Care - Title IV-E	61,643,980	0
93.659	Adoption Assistance	19,057,498	0
93.667	Social Services Block Grant	47,270,282	0
93.669	Child Abuse and Neglect State Grants	147,652	0

STATE OF MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

CFDA Number	Federal Grantor Agency - Program	Federal Awards Expended	Amount Provided to Subrecipients
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	1,486,154	0
93.674	Chafee Foster Care Independent Living	3,329,268	0
93.767	State Children's Insurance Program	58,889,694	0
93.768	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	374,082	0
93.769	Demonstration to Maintain Independence and Employment	185,852	0
93.775	State Medicaid Fraud Control Units	754,516	0
93.777	State Survey and Certification of Health Care Providers and Suppliers	12,629,631	0
93.778	Medical Assistance Program	3,277,011,484	66,403
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	411,665	0
93.865	Center for Research for Mothers and Children	223,493	194,149
93.913	Grants to States for Operation of Offices of Rural Health	62,568	0
93.917	HIV Care Formula Grants	8,056,830	8,056,830
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	3,009,014	1,681,424
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	249,539	162,709
93.940	HIV Prevention Activities - Health Department Based	3,773,496	2,294,421
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	732,362	250,053
93.945	Assistance Programs for Chronic Disease Prevention and Control	1,617,746	481,691
93.958	Block Grants for Community Mental Health Services	6,752,278	6,439,895
93.959	Block Grants for Prevention and Treatment of Substance Abuse	29,962,224	27,208,394
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	1,979,195	663,970
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	296,850	52,000
93.991	Preventive Health and Health Services Block Grant	3,878,019	437,952
93.994	Maternal and Child Health Services Block Grant to the States	13,692,302	5,821,224
Total Department of Health and Human Services		<u>4,030,224,054</u>	<u>133,706,657</u>
Corporation for National Service			
94.003	State Commissions	284,028	0
94.004	Learn and Serve America - School and Community Based Programs	414,414	333,269
94.006	AmeriCorps	2,440,234	2,440,234
94.007	Planning and Program Development Grants	116,500	115,512
94.009	Training and Technical Assistance	72,960	0
Total Corporation for National Service		<u>3,328,136</u>	<u>2,889,015</u>
Social Security Administration			
96.001	Social Security - Disability Insurance	32,908,228	0
Total Social Security Administration		<u>32,908,228</u>	<u>0</u>
Total Expenditures of Federal Awards		<u>\$ 7,245,660,004</u>	<u>1,048,589,521</u>

STATE OF MISSOURI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Significant Accounting Policies

A. Purpose of Schedule and Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards of the state of Missouri has been prepared to comply with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The circular requires a schedule of expenditures of federal awards showing total expenditures for each federal financial assistance program as identified in the catalog of federal domestic assistance (CFDA), and identification of federal financial assistance programs which have not been assigned a CFDA number.

The accompanying schedule includes all federal financial assistance programs administered by the state of Missouri, except for those programs administered by public universities which are legally separate component units of the state of Missouri. Federal financial assistance provided to public universities has been excluded from this audit. The public universities were audited by other auditors under OMB Circular A-133.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133, which defines federal financial assistance as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursement for services rendered to individuals.

The schedule presents both Type A and B federal assistance programs administered by the state of Missouri. OMB Circular A-133 establishes the formula for determining the level of expenditures or disbursements to be used in defining Type A and B federal financial assistance programs. For the state of Missouri, Type A programs are those which exceed \$21.7 million in disbursements, expenditures, or distributions. The determination of major and nonmajor programs is based on the risk-based approach outlined in OMB Circular A-133.

C. Basis of Accounting

The expenditures for each of the federal financial assistance programs are presented on the accounting basis as required by the federal agency which awarded the assistance. Most programs are presented on a cash basis, which recognizes expenditures of federal awards when disbursed in cash. However, some are presented on a modified accrual basis, which recognizes expenditures of federal awards when the related liability is incurred.

2. Special Supplemental Nutrition Program for Women, Infants and Children Program Rebates

The state received cash rebates from an infant formula manufacturer, totaling \$28,931,723, on sales of formula to participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557). Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for food benefit costs. The state was able to extend program benefits to more persons than could have been served this fiscal year in the absence of the rebate contract.

3. Unemployment Insurance Expenditures

Expenditures of federal awards for the Unemployment Insurance program (CFDA No. 17.225) include unemployment benefit payments from the State Unemployment Compensation Fund totaling \$631,209,343 and \$48,872,405 funded by federal grants.

4. Nonmonetary Assistance

The Department of Health and Senior Services distributes vaccines to local health agencies and other health care professionals under the Immunization Grants program (CFDA No. 93.268). Distributions are valued at the cost of the vaccines paid by the federal government and totaled \$13,098,335.

The State Agency for Surplus Property distributes federal surplus property to eligible donees under the Donation of Federal Surplus Personal Property program. Property distributions totaled \$8,266,030 valued at the historical cost as assigned by the federal government, which is substantially in excess of the property's fair market value. The amount of expenditures presented on the Schedule of Expenditures of Federal Awards is 23.3 percent of the historical cost, which approximates the fair market value of the property at the time of distribution as determined by the General Services Administration.

The Department of Public Safety distributes excess Department of Defense equipment to state and local law enforcement agencies under the Department of Defense Surplus Property program. Property distributions totaled \$8,485 valued at the historical cost as assigned by the federal government, which is substantially in excess of the property's fair market value. The amount of expenditures presented on the Schedule of Expenditures of Federal Awards is 23.3 percent of the historical cost, which approximates the fair market value of the property at the time of distribution.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF MISSOURI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002

Section I - Summary of Auditor's Results

Financial Statements

The auditor's report on the financial statements was qualified.

The audit identified reportable conditions in the internal control over financial reporting.

None of the reportable conditions were considered to be material weaknesses.

The audit did not note any noncompliance material to the financial statements.

Federal Awards

The auditor's report on compliance on the major programs was unqualified, except for the Adoption Assistance (CFDA 93.659) program, which was qualified.

The audit identified reportable conditions in the internal controls over major programs.

None of these reportable conditions were considered to be material weaknesses.

The audit identified findings related to compliance on major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

The state of Missouri did not qualify as a low-risk auditee under the provisions of OMB Circular A-133.

The dollar threshold to distinguish between Type A programs and Type B programs was **\$21,700,000**.

The following programs were audited as major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Food Stamp Cluster:
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program

	Employment Service Cluster:
17.207	Employment Service
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
17.225	Unemployment Insurance
17.253	Welfare-to-Work Grants to States and Localities
	Workforce Investment Act Cluster:
17.255	Workforce Investment Act
17.258	Workforce Investment Act - Adult Program
17.259	Workforce Investment Act - Youth Activities
17.260	Workforce Investment Act - Dislocated Workers
66.458	Capitalization Grants for State Revolving Funds
84.032	Federal Family Education Loans
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.645	Child Welfare Services - State Grants
93.659	Adoption Assistance
93.767	State Children's Insurance Program
	Medicaid Cluster:
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program

Section II - Financial Statement Findings

1. Internal Control Plans

As noted in the prior audit, following the implementation of the SAM II system, the Office of Administration (OA) requested state agencies to submit an internal control plan. As of March 12, 2003, 15 state agencies have submitted a complete internal control plan; however, there are still 17 agencies that have not submitted an internal control plan.

Subsequent to the prior audit, the OA gave agencies a deadline of June 30, 2002, to submit an internal control plan. As a result, the OA received 10 additional internal control plans from state agencies.

The state agencies are responsible for preparing the internal control plans and submitting the plans to the OA. The state agencies are also responsible for reviewing and evaluating internal controls on an annual basis and are required to report on the annual review to the OA. The development of internal control plans by the state agencies will provide assurance that assets are being safeguarded, that applicable statutes, rules and regulations are being followed, and that the objectives of agency management are being met.

WE RECOMMEND the Office of Administration make further attempts to obtain an internal control plan from all state agencies.

AUDITEE'S RESPONSE

We concur. OA will make further attempts to obtain internal control plans from those agencies that have not submitted one.

2. Accounts Receivable Estimates

Accounting estimates may be necessary in determining amounts for accounts receivable and any corresponding uncollectible amounts. Management is responsible for making the accounting estimates included in the financial statements and the auditor is responsible for evaluating the reasonableness of these estimates. Various state agencies calculate estimates for accounts receivables and uncollectible amounts and report the estimates to the Office of Administration (OA). The OA does not have procedures for state agencies to follow in preparing accounting estimates.

State agencies reported the following:

Accounts Receivable by Agency			
State Agency	Receivables (millions)	Uncollectibles (millions)	Net Amount (millions)
Department of Social Services	\$ 1,396	\$ 977	\$ 419
Department of Revenue	1,055	177	878
Department of Natural Resources	388	0	388
Department of Transportation	94	0	94
Department of Labor and Industrial Relations	80	0	80
Department of Elementary and Secondary Education	26	0	26
Lottery Commission	24	0	24
State Treasurer	15	0	15
Department of Mental Health	12	0	12
All other state agencies	21	0	21
Total	\$ 3,111	\$ 1,154	\$ 1,957

Accounts receivables were reported for the following sources of revenue:

Accounts Receivable by Type of Revenue	
Type of Revenue	Amount (millions)
Taxes	\$ 1,140
License, fees, and permits	15
Sales	26
Services	13
Contributions and intergovernmental	424
Interest	15
Penalties and unclaimed properties	1
Miscellaneous	525
Refunds	952
Total	\$ 3,111

Significant accruals for taxes include income tax, sales tax, motor fuel tax, cigarette tax, estate tax, and gaming gross receipts tax. Significant accruals for contributions and intergovernmental receipts include federal grants earned but not yet received. Significant accruals for miscellaneous revenue include loans receivables of the Department of Natural Resources and claims established by the Department of Social Services against persons who were overpaid welfare program benefits, typically because they were not eligible. Significant accruals for refunds include claims established by the Department of Social Services against third parties who may be liable to the state for medical costs initially paid by the Medicaid program. Each revenue type has a different degree of collectability. As a result, procedures for estimating uncollectible accounts need to be specific to each revenue type.

The lack of standard procedures could cause inaccurate and inconsistent estimates. Since the OA prepares the state's financial statements and is primarily responsible for their fair presentation, the OA should ensure state agencies use an appropriate process for estimating receivables.

WE RECOMMEND the Office of Administration implement procedures to ensure state agencies use an appropriate process to calculate estimates for accounts receivable and uncollectible accounts.

AUDITEE'S RESPONSE

As stated in the auditor's recommendation, "Each revenue type has a different degree of collectability. As a result, procedures for estimating uncollectible accounts need to be specific to each revenue type." OA can give general guidelines to the agencies with regard to calculating estimates for accounts receivables and uncollectible accounts. However, the agencies are in the best position to make the final determination if these estimates are realistic especially by specific revenue type.

3.**Fixed Assets and Accumulated Depreciation**

For fiscal year 2002, the state began using the statewide accounting system (SAM II) to account for fixed assets and accumulated depreciation. Prior to 2002, state agencies maintained their own systems to account for fixed assets. The conversion from these agency systems to SAM II has been in process for the last two years and is still ongoing. The SAM II provides the state with a standard system for all agencies to use. The SAM II system includes fixed asset procedures that agencies must follow. However, during our review of fixed assets we noted the following concerns:

- A. The Department of Revenue, the House of Representatives, and the Senate have not converted their fixed assets to the new SAM II system. In addition, the Department of Conservation did not convert to the SAM II system because they prefer the system they currently use. For the statewide system to be of maximum benefit to the state, all agencies should use it.
- B. SAM II procedures require each state agency to perform a periodic reconciliation between the general ledger and the fixed asset subsystem to ensure all fixed asset items are properly recorded. Very few agencies performed these reconciliations during 2002. Therefore, OA requested agencies to perform a reconciliation after the year ended for the preparation of the state's financial statements. Performing this year-end reconciliation proved to be a very formidable and time-consuming task for state agencies. As a result, the general ledger does not agree with the fixed asset subsystem. For example, the Department of Transportation, Division of Family Services, and Department of Mental Health have differences of \$26 million, \$4 million, and \$2 million, respectively that have not been identified.
- C. State regulation 15 CSR 40-2.031, Control of Fixed Assets issued by the State Auditor, requires each agency to perform an annual physical inventory of its fixed assets. The Department of Corrections, the Department Social Services, most of the facilities within the Department of Mental Health, the Department of Natural Resources, and 3 of the 11 divisions within the Department of Public Safety did not perform a physical inventory during 2002. As a result, approximately \$422 million in equipment was not accounted for with a physical inventory in fiscal year 2002. A complete physical inventory is necessary to ensure fixed assets are properly accounted for.
- D. The OA issued guidance in SAM II that allows agencies to decide the estimated useful life and salvage value for fixed asset items. However, allowing agencies to make these decisions has resulted in unnecessary inconsistencies. Most agencies use the SAM II guidance on estimated useful lives; however, some agencies have devised their own method. In addition, the SAM II guidance appears to be unnecessarily complicated because the list includes over 600 depreciation options from which to select. Most agencies do not record a salvage value for fixed assets. However, the Department of Mental Health uses a 5% salvage value, the

Department of Natural Resources uses a salvage value only on vehicles, and 2 of the 11 divisions within the Department of Public Safety use a salvage value.

The OA should consider simplifying the guidance on estimated useful lives to make it easier for agency personnel to comply with requirements. The OA should also consider establishing a statewide policy on salvage value. These changes would result in a more consistent accounting treatment for fixed assets.

- E. During preparation of the state's financial statements for fiscal year 2002, the OA determined that accumulated depreciation and the corresponding expense, as calculated by the SAM II system were not accurate because of problems in the SAM II system and/or insufficient data entry by various state agencies. For example, agencies are allowed to process fixed asset modifications, including the ability to change the cost of an asset and the date of acquisition. However, when these modifications are processed, the SAM II system does not properly recognize the change and may recalculate depreciation on an asset that was already fully depreciated. In addition, the SAM II system calculates depreciation on a daily basis from the date of acquisition to the date of disposition and does not always properly recognize year-end cutoffs. The OA should determine if system changes are needed to the SAM II system to fix these problems.

WE RECOMMEND the Office of Administration:

- A. Make further attempts to get all state agencies to convert fixed assets to the SAM II system.
- B. Ensure state agencies perform periodic reconciliations between the general ledger and fixed asset subsystem.
- C. Ensure state agencies perform an annual physical inventory.
- D. Consider simplifying the guidance on estimated useful lives and consider establishing a statewide policy on salvage value.
- E. Determine if changes are needed to the SAM II system to ensure depreciation is calculated correctly.

AUDITEE'S RESPONSE

- A. *OA is continuing to work with all state agencies to convert their fixed assets to SAM II.*
- B. *In the Policies and Procedures (P&P), OA recommends that agencies perform a reconciliation between the general ledger and fixed asset subsystem at least monthly. OA continues to encourage agencies to follow P&P and explains the importance of this reconciliation. OA is developing an exception report that will assist agencies with this reconciliation.*

- C. *In the P&P, OA recommends that agencies perform an annual physical inventory. We will remind agencies that this is required via State regulation 15 CSR 40-2.031 and will update the P&P to reflect this regulation.*
- D. *We believe that the guidance on the estimated useful lives of assets satisfactorily meets the needs of all users. In the P&P, OA gives general guidelines on estimated useful life. These general guidelines meet the reporting requirements for the CAFR. Some agencies, however, require more precise depreciation calculations for other reporting requirements. The SAMII system utilizes the Fixed Asset Catalog (FCLG) to give agencies greater options and flexibility as the useful life and other information can be inferred on the fixed asset record based on the catalog number.*
- As far as salvage value we will update the P&P to designate that the salvage value should be stated at \$0, unless specified for other (federal) reporting requirements.*
- E. *OA is working on and will continue to work to ensure that depreciation is calculated correctly, and that the information on the SAMII General Ledger and Fixed Asset Subsystem are materially correct.*

Section III - Federal Award Findings and Questioned Costs

2002-1.	Subrecipient Monitoring
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Federal Agency: Department of Agriculture
 Federal Program: 10.557 Special Supplemental Nutritional Program for Women, Infants, and Children (WIC)
 State Agency: Department of Health and Senior Services (DHSS)

The DHSS needs to improve its monitoring of subrecipients of the WIC program. The DHSS awards subgrants to 119 local health agencies to certify applicants' eligibility for benefits and to deliver benefits to eligible persons. The DHSS provided approximately \$12 million to subrecipients for these services during fiscal year 2002. The DHSS is required by federal regulations to conduct an on-site monitoring review of each subrecipient at least once every two years.

- A. The DHSS does not always notify the subrecipient on a timely basis about the findings noted in the on-site monitoring review. Federal regulation 7 CFR 246.19(b)(4) requires the DHSS to promptly notify a subrecipient of any instances of noncompliance with program requirements. The DHSS internal policy says it will mail a finding letter within 21 days of the on-site monitoring visit. For 3 of 25 (12 percent) reviews we tested, the finding letter had not yet been sent approximately three months after the on-site review.
- B. The DHSS does not adequately ensure that subrecipients take corrective action on findings. Federal regulation 7 CFR 246.19(b)(4) provides that the state must

require the subrecipient to submit a corrective action plan within 60 days if a monitoring review reports findings of program non-compliance. The state plan says the DHSS will require subrecipients to file a corrective action plan within 21 days after receipt of the finding letter and DHSS internal policy says they will approve the corrective action plan within 21 days of receipt. For 1 of 25 (4 percent) reviews we tested, there was no documentation that the subrecipient had filed a corrective action plan for an on-site review performed in September 2001. Also, for 1 of 25 (4 percent) reviews we tested, the corrective action plan was received in February 2002 but it was not approved by the DHSS until October 2002.

- C. The DHSS does not adequately monitor and document the implementation of the corrective action plans. The state plan says the DHSS will monitor the subrecipients' corrective action within six to twelve months after approval of the corrective action plan. During fiscal year 2002, the DHSS revised its procedures to review the subrecipients' corrective action plans during the subsequent monitoring of the subrecipient, and monitoring visits are only performed every two years. Federal regulation 7 CFR 246.19 provides that the state should monitor the subrecipients' corrective action and document the results. The only documentation the DHSS provides is a check box on a review worksheet that indicates if the findings were resolved.
- D. The DHSS has not established adequate internal controls to ensure subrecipient monitoring is adequately completed and documented. The DHSS prepares a routing form to document each step in the monitoring process. For 7 of 40 (18 percent) reviews we tested, the routing form was not fully completed. For two of these seven reviews, the routing form was not complete because the subrecipient had not filed a corrective action plan and the DHSS had not prepared an approval letter. For the other five reviews, the monitoring process appeared to be complete; however, the routing form did not indicate that all steps had been performed and that all documentation had been received. In addition, for these five reviews, the DHSS files did not contain all documentation to support the review. The corrective action plan and/or the approval letter were not in the files.

WE RECOMMEND the DHSS:

- A. Submit finding letters to subrecipients on a timely basis.
- B. Ensure that subrecipients file a corrective action plan within 21 days of the finding letter and approve the corrective action plan within 21 days of receipt.
- C. Monitor the subrecipients' implementation of their corrective action plan within six to twelve months after approval of the corrective action plan.
- D. Ensure that routing forms are complete and accurate, and maintain adequate documentation to support each monitoring review.

AUDITEE'S RESPONSE

A-D. We agree with the auditor's finding. Our Corrective Action Plan includes our planned actions to address the finding.

2002-2.	Schedule of Expenditures of Federal Awards
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Federal Agency: Department of Agriculture
Federal Program: 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
10.558 Child and Adult Care Food Program
State Agency: Department of Health and Senior Services (DHSS)

Expenditures reported on the original schedule of expenditures of federal awards prepared by the DHSS were understated by approximately \$38 million. Amounts were incorrectly stated on the schedule for numerous programs. Listed below are the programs with the most significant misstatements.

CFDA #	Program	Understated
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	\$10,226,819
10.558	Child and Adult Care Food Program	8,344,743
93.268	Immunization Grants	13,486,693
93.994	Maternal and Child Health Services Block Grant to the States	4,063,189

Many of the understatements resulted from the incorrect compilation of data reported on the department's internal accounting system. The DHSS uses its internal accounting system to track expenditures of federal programs and to prepare the schedule of expenditures of federal awards.

The DHSS does not reconcile its internal accounting system to the statewide accounting system (SAM II). We noted two WIC program rebates, totaling approximately \$5.6 million, which were recorded in the SAM II system but had not been recorded in the internal accounting system which contributed to the misstatement of the WIC federal expenditures. Periodic reconciliation of the internal accounting records to the SAM II records is needed to identify any unrecorded expenditures or rebates and to ensure the schedule of expenditures of federal awards is accurate.

We noted additional problems with the schedule prepared by the DHSS:

- The amount provided to subrecipients was overstated by approximately \$78 million for the WIC program (CFDA # 10.557). For some other programs, the schedule indicated the amount provided to subrecipients exceeded the total expenditures of the program.

- The program name was not correct for many of the programs included on the schedule. Programs were identified by the generic title used by the DHSS instead of the proper name used by the federal government in the Catalog of Federal Domestic Assistance.
- Several grants were not reported on the original schedule.
- The schedule did not indicate whether each program was received directly from a federal agency or received indirectly from another state agency. In addition, the Taxpayer Identification Number was not reported on the schedule.

Although the summary schedule of prior audit findings prepared by the DHSS indicates corrective action was taken, we noted similar concerns in our current audit. It appears these errors resulted from lack of adequate procedures for preparing the schedule, inadequately trained staff, inappropriate sources for the information, failure to reconcile the internal accounting system to SAM II, and a lack of appropriate supervisory reviews. DHSS made revisions to the schedule after our review.

Section .310(b) of OMB Circular A-133 requires the DHSS to prepare a schedule of expenditures of federal awards showing the financial activity for each federal program. The DHSS needs to establish effective procedures to ensure the schedule is complete and accurate. To be effective, the procedures should include a detailed supervisory review.

WE RECOMMEND the DHSS implement procedures to ensure the schedule of expenditures of federal awards is complete and accurate.

AUDITEE'S RESPONSE

We agree with the auditor's finding. Our Corrective Action Plan includes our planned actions to address the finding.

2002-3.	Child Care Facilities Inspections and Licensing
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Federal Agency:	Department of Health and Human Services
Federal Program:	93.575 Child Care and Development Block Grant
State Agency:	Department of Health and Senior Services (DHSS)

On July 19, 2002, the Missouri State Auditor's Office issued audit report No. 2002-52, **Child Care Facilities Inspections and Licensing**. (A copy of the complete audit report can be obtained from: Missouri State Auditors Office, P.O. Box 869, Jefferson City, MO 65102-0869, or on the internet at www.auditor.state.mo.us.)

The audit noted several weaknesses in child care licensing laws and regulations, and DHSS's procedures for ensuring facilities comply with these requirements.

- 1) The DHSS has not proactively identified providers who are operating without a license nor determined how many children may be in the care of such providers. The audit found that a substantial number of children could potentially be cared for by providers who were operating illegally without a license and who were not subject to the same annual fire, safety, and sanitation inspections as licensed facilities. Auditors and DHSS officials estimate several thousand unlicensed child care providers have been operating in Missouri. Based on 2000 U.S. Census data for Missouri, auditors estimate there could be as many as 156,000 children ages 5 and under who may be in unlicensed child care facilities.

Child care providers are required to be licensed in Missouri if they care for more than four unrelated children. Licensed child care providers receive annual fire, safety, and sanitation inspections and semi-annual compliance inspections.

- 2) State law allows a maximum \$200 fine for a child care law conviction for a first offense, which has been an ineffective deterrence. This \$200 fine has not deterred some providers from continuing to operate illegally even though some providers were prosecuted and fined and others knew they could be fined. Fines levied against unlicensed providers are much higher in other states.
- 3) State law does not limit the number of total children allowed in child care facilities since children related to providers are not included in capacity limits. State laws and regulations allow an adult (a person age 18 or older) operating a licensed family child care facility to care for 10 unrelated children, including two children under age 2, and an unlimited number of related children. The eight states surrounding Missouri include related children in capacity limits. In addition, state laws and regulations that allow one adult to care for an unlimited number of related children, in addition to 10 unrelated children, can place children at risk in event of fire. The national Fire Protection Association recommends one adult for no more than six children, regardless of the relationship to the provider.
- 4) DHSS officials have not established standard guidelines for determining the severity of rule violations and effectively assessing penalties or revoking child care licenses. As a result, some providers operate substandard facilities that do not comply with safety and sanitation rules and endanger children's safety and health. There are over 100 safety and sanitation rules to help ensure children are staying in safe and sanitary facilities.

Federal regulation 45 CFR, Section 98.41 requires that states administering the Child Care and Development Block grant establish requirements over the child care providers which are designed to protect the health and safety of children, and to establish procedures to ensure these child care providers comply with the established health and safety requirements. As noted above, improvements are needed to ensure the health and safety of children cared for by these providers.

WE RECOMMEND the DHSS establish procedures to improve oversight of unlicensed child care facilities. In addition, the DHSS should establish written guidelines to determine the severity of rule violations and effectively assess penalties or revoke child care licenses.

In addition, the DHSS should pursue legislative action to increase the penalty that can be assessed against child care providers operating in violation of state laws and regulations, and to limit the number of related and unrelated children in child care facilities to more closely align with the National Fire Protection Association suggested limit of one adult for no more than six children.

AUDITEE'S RESPONSE

We disagree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement. The department's complete response to the Child Care Facilities Inspections and Licensing report is set forth in that report.

2002-4.

Cost Allocation Procedures

Federal Agency: Department of Education
Federal Program: 84.032 Federal Family Education Loans (FFEL)
State Agency: Department of Higher Education (DHE)
Questioned Costs: \$183,084

- A. The DHE allocates joint salary costs to its various federal programs and state programs based on periodic estimates of the time spent by employees on each program. Approximately 30 of the department's 87 employees worked on more than one program and were required to submit time sheets. Our review of 11 of these employees indicated that time sheets either did not exist or did not support the salary amount allocated to the FFEL program.

In July 2001 and January 2002, the DHE estimated percentages to be used in allocating each employee's salary for the ensuing months. These estimates were made by having various supervisors estimate the time spent by their employees on various functions. To determine if the allocations were accurate, we compared the timesheets for 11 employees to the allocations. Some of the 11 employees did not prepare timesheets for some or all of the two six-month periods. Most of the missing timesheets were in the first six months reviewed. For the employees who did prepare timesheets, the hours for loan activities differed from the estimated percentages used to allocate the salaries.

The time sheets generally classified time as spent on loan activities, which is directly related to the FFEL program, and time spent on non-loan activities. DHE officials indicated that some of the hours recorded as non-loan activities pertain to financial-aid related duties, which are allowable costs of the FFEL program.

However, the lack of adequately detailed time sheets does not allow those hours to be identified.

During the year ended June 30, 2002, these 11 employees were paid salaries totaling \$386,498 of which \$246,375 was allocated to the FFEL program. Timesheets did not exist to support \$104,484 of the allocated salary expenses, and \$78,600 of the allocated salary expenses exceeded the amount supported by the timesheets for the prior six months. As a result, we question costs totaling \$183,084 which is the federal share of salary costs not supported by the time sheets.

In addition, the DHE uses the salary allocation percentages to allocate other joint costs to the FFEL program.

Office of Management and Budget (OMB) Circular A-87 requires that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages has to be supported by personnel activity reports or equivalent documentation.

- B. The DHE has drafted a new policy which would require every employee to fill out a time sheet each month. The draft policy says that time sheets are to be filled out according to each employee's salary split for his or her position, and that supervisors are responsible for reconciling the employee's time sheet with the employee's salary split.

Having employees complete their time sheets in accordance with predetermined salary splits, as opposed to their actual time worked, is contrary to OMB Circular A-87 which states that distribution percentages determined before the services are performed do not qualify as support for charges to federal awards.

WE RECOMMEND the DHE:

- A. Resolve the questioned costs with the grantor agency. In addition, the DHE should comply with the provisions of OMB Circular A-87 and allocate costs based on the actual time spent on the various federal and state programs.
- B. Require employees to complete time sheets that document actual time worked and require supervisors to ensure that time sheets reflect actual hours worked.

AUDITEE'S RESPONSE

A&B. We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

Federal Agency: Department of Labor
Federal Program: 17.225 Unemployment Insurance (UI)
State Agency: Department of Labor and Industrial Relations -
Division of Employment Security (DES)

The DES does not have adequate procedures to ensure that individuals (claimants) receiving UI benefits meet the eligibility requirement of conducting weekly work search contacts.

According to Section 288.040, RSMo 2000, for a claimant to remain eligible for UI benefits, he or she must be able to work and available for work. For a claimant to be considered available for work, state law requires the claimant to actively and earnestly seek work. State law also requires the DES to inform the claimant each week of the number of work search contacts the claimant is required to make (typically 1 to 3 depending on their county of residence) to constitute an active search for work.

The DES requires the claimant to submit a weekly report using the Interactive Voice Response telephone system or the Internet. The claimant is required to report the number of work search contacts made during the week, but is not required to provide any documentation about the employers contacted.

The DES mails each claimant a packet of information that includes a pamphlet titled *Information for Workers*. The pamphlet instructs the claimant to document their work search contacts and includes a work search record, which consists of several pages in the back of the pamphlet that can be used by the claimant to record their weekly work search contacts. The pamphlet informs the claimant to list all employers and labor unions contacted and that the work search record is subject to verification.

Each year the DES performs a Benefits Accuracy Measurement (BAM) review, which tests a sample of 480 UI benefit payments to determine whether claimants were paid the proper amounts. The DES contacts the claimant by telephone and asks questions about work search contacts made, then the DES contacts the employers to verify the claimant's statements.

We reviewed 17 of the 480 UI benefit payments tested by the DES in the BAM review and noted that for 5 of the 17 payments, the claimant stated they did not document their work searches on the work search record and did not remember the employers they contacted. As a result, the BAM reviewer could not verify work search contacts with the employer. The BAM reviewer is suppose to remind the claimant of the requirement to document their work searches and that work searches are subject to verification. Even though the claimant did not document their work searches, the DES does not count this as an exception in the BAM review, and the claimant is not required to repay the UI benefits received for the week. Although the claimant reported on the Interactive Voice Response

telephone system or the Internet that they conducted the required number of work search contacts during the week, the claimant was unable to provide documentation that the required contacts were made.

To ensure claimants are meeting the eligibility requirement of being able and available for work, and actively and earnestly seeking work, the DES needs to implement additional procedures to verify claimants work search contact information and deny benefits to those claimants that do not adequately document the required information.

The State Auditor's Office is currently conducting a review of the validity of unemployment benefits, which will include further tests of DES procedures related to eligibility of claimants. The results of this review will be presented in a separate report issued later this year.

WE RECOMMEND the DES implement additional procedures to verify claimants work search contact information and deny benefits to those claimants that do not adequately document the required information.

AUDITEE'S RESPONSE

We disagree with the auditor's finding. The state's Corrective Action Plan includes an explanation and specific reasons for our disagreement.

2002-6.

Subrecipient Monitoring

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

The DNR does not adequately monitor subrecipients to ensure that an A-133 audit is performed when applicable and submitted to the DNR. We noted the DNR did not have an annual A-133 audit on file for 3 of the 14 communities with more than \$300,000 in grant expenditures and did not adequately monitor subrecipients to determine whether thresholds were met requiring an audit under OMB Circular A-133. A similar condition was noted in our prior report.

OMB Circular A-133 requires grant recipients to ensure that subrecipients obtain an A-133 audit when grant expenditures exceed \$300,000 in a fiscal year.

WE RECOMMEND the DNR ensure all subrecipients submit an A-133 audit.

AUDITEE'S RESPONSE

We agree with the auditor's finding. Our Corrective Action Plan includes our planned actions to address the finding.

Federal Agency: Department of Health and Human Services
Federal Program: 93.563 Child Support Enforcement
State Agency: Department of Social Services - Division of
Child Support Enforcement (DCSE)

The objectives of the Child Support Enforcement program are to: enforce support obligations owed by non-custodial parents, locate absent parents, and establish paternity and orders for child support. Federal regulations establish standards for program operations that the DCSE must meet in providing support enforcement services.

To test the effectiveness of DCSE's procedures in meeting program standards for case management, we reviewed the division's enforcement efforts in five areas of support enforcement services. Division officials provided computer-generated lists of case populations for each enforcement area for the period July 1, 2001, through June 30, 2002.

- A. Federal regulations require DCSE to establish paternity or attempt to establish paternity within 90 calendar days of locating the alleged father (45 CFR Section 303.5). We randomly selected cases to review for paternity services from a population of 39,757 cases in the paternity function. Test results disclose that for 9 of 67 cases reviewed, DCSE failed to take action within the required time frames, resulting in a compliance rate of 87 percent for paternity services.
- B. Federal regulations require DCSE to establish an order of support or serve process to establish an order of support within 90 calendar days of locating the non-custodial parent (45 CFR Section 303.4). We randomly selected cases to review for establishment services from a population of 51,367 cases in the establishment function. Test results disclose that for 17 of 60 cases reviewed, DCSE failed to take the required actions to establish an order of support within the established time frame, including one case where DCSE did not access all appropriate location sources, resulting in a compliance rate of 72 percent for establishment services.
- C. Federal regulations require DCSE to initiate income withholding or another appropriate enforcement action within no more than 30 calendar days of identifying a delinquency (45 CFR Section 303.100). We randomly selected cases to review for enforcement services from a population of 294,421 cases in the enforcement function. Test results disclose that for 7 out of 48 enforcement cases reviewed, DCSE failed to initiate income withholding, or another enforcement action, within 30 days of identifying a delinquency, resulting in a compliance rate of 85 percent for enforcement services. While testing interstate cases, we noted that six of the responding state cases were not meeting required enforcement time frames.

- D. Federal regulations require DCSE to petition for and secure, or pursue enforcement of medical support in the form of health insurance as part of support orders, and to inform the Medicaid agency and custodial parent, as applicable (45 CFR Section 303.31). We randomly selected cases to review for medical support services from a population of 328,939 cases requiring or having medical support orders. Test results disclose that for 4 of 59 cases reviewed, DCSE failed to take one or more of the following required actions: petition for an order of medical support when requested by the custodial parent, verify if employer-related insurance was available at a reasonable cost, enroll dependents when employer-related insurance was available, and provide insurance coverage information to the custodial parent and/or Medicaid agency after dependents were enrolled in health insurance plans. The compliance rate for providing medical support services is 93 percent for cases tested.
- E. Federal regulations require DCSE, as the responding state, to take appropriate action on inquiries received from other states within ten working days, and as the initiating state, to refer cases requiring interstate services to other states within 20 calendar days of determining that the non-custodial parent is in another state (45 CFR Section 303.7). We randomly selected cases to review for interstate services from a population of 51,546 cases requiring interstate services. For 2 of 36 initiating interstate cases reviewed, DCSE failed to provide interstate services within the required timeframes, resulting in a compliance rate of 94 percent for cases tested.

Federal regulations include program standards to ensure child support clients receive effective and timely enforcement services. When DCSE fails to meet program standards, some child support clients do not receive effective and timely services.

In response to the prior audit recommendation, DCSE officials explained that the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) requires states to perform internal self-assessment measures previously performed by the federal Office of Child Support Enforcement (OCSE). The self-assessment uses an outcome-based approach rather than determining compliance with the various timeframes outlined in the federal regulations. However, according to the final rule of state self-assessments, all timeframes, including those for paternity establishment, support order establishment, review and adjustment, and income withholding, are still federal requirements that states must meet. Thus, it is important for the DCSE to identify non-compliance with established timeframes and ensure staff strive to meet these goals.

WE RECOMMEND the DCSE provide services within timeframes established by federal regulation.

AUDITEE'S RESPONSE

We partially agree with the auditor's findings. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

2002-8.	Eligibility Redeterminations
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Federal Agency:	Department of Health and Human Services
Federal Program:	93.767 State Children's Insurance Program (SCHIP) 93.778 Medical Assistance Program
State Agency:	Department of Social Services - Division of Family Services (DFS) Division of Medical Services (DMS)

State regulation 13 CSR 40-2.020 and federal regulation 42 CFR 435.916 require a redetermination of eligibility at least every 12 months. However, the DFS does not have adequate procedures to ensure it performs Medicaid and SCHIP eligibility redeterminations in accordance with state and federal regulations.

Similar conditions were noted in our prior report. The summary schedule of prior audit findings prepared by the DFS indicates staff shortages have resulted in the DFS establishing priorities within the redetermination process with the highest priority cases being those in which information has indicated a change in eligibility status. The DFS uses various match alerts to help establish priorities on cases where the eligibility status may have changed. However, the federal agency indicated these match alerts are not sufficient to replace the annual eligibility redeterminations. In addition, while the match alerts may be beneficial in identifying changing eligibility factors for some recipients, changes in the eligibility status for other recipients may be overlooked if only the match alerts are relied upon to identify changes in eligibility factors. To ensure all recipients remain eligible for benefits, the eligibility status of all recipients should be reviewed annually. Without timely redetermination of recipient eligibility, there is increased risk these programs are paying medical costs for ineligible individuals.

WE RECOMMEND the DFS establish procedures to ensure Medicaid and SCHIP recipient eligibility is redetermined in accordance with state and federal regulations.

AUDITEE'S RESPONSE

We partially agree with the auditor's finding. Our corrective action plan includes an explanation and specific reasons for our disagreement and planned actions to address the finding.

2002-09.

Schedule of Expenditures of Federal Awards

Federal Agency: Department of Agriculture
Department of Health and Human Services
Federal Programs: 10.561 State Administrative Matching Grants for Food Stamp Program
93.575 Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.667 Social Services Block Grant
93.777 State Survey and Certification of Health Care Providers and Suppliers
93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS)

The DSS incorrectly reported expenditure amounts for some programs on the schedule of expenditures of federal awards (SEFA). The original schedule prepared by the DSS misreported expenditure amounts for the following programs:

CFDA #	Program	Overstated (Understated)
10.561	State Administrative Matching Grants for Food Stamps Program	\$ (77,123)
93.575	Child Care and Development Block Grant	(6,317,171)
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,317,171
93.667	Social Services Block Grant	(11,777,140)
93.777	State Survey and Certification of Health Care Providers and Suppliers	(3,000)
93.778	Medical Assistance Program	(12,634,702)

We noted similar conditions in our two prior reports. Although the summary schedule of prior audit findings prepared by the DSS indicates corrective action was taken, our review of the SEFA noted the above errors. It appears several of these errors were caused by typographical errors in the supporting documentation used to prepare the schedule and omitting expenditures of monies transferred from another federal program. In addition, the preparer did not always receive notification of all revisions to grant program financial reports used to prepare the schedule. The errors noted above were corrected when we brought them to the attention of DSS management.

Section .310(b) of OMB Circular A-133 requires the DSS to prepare a SEFA showing the financial activity for each federal program. The DSS needs to establish effective procedures to ensure the SEFA is complete and accurate. To be effective, the procedures should include a detailed supervisory review.

WE RECOMMEND the DSS implement procedures to ensure the SEFA is complete and accurate.

AUDITEE'S RESPONSE

We agree with the auditor's finding. Our Corrective Action Plan includes our planned actions to address the finding.

2002-10.

Employee Cost Allocation

Federal Agency:	Department of Health and Human Services	<u>Questioned Costs</u>
Federal Program:	93.566 Refugee and Entrant Assistance – State Administered Programs	\$88,042
State Agency:	Department of Social Services – Division of Family Services (DFS)	

During our review of the department's procedures for assigning employee costs to federal grants when the employee is assigned to work on a specific grant on a full time basis, we noted full time charges for one employee have been in error for nearly two years.

To minimize the record keeping burden for allocating payroll costs for such direct employee time, OMB Circular A-87, Attachment B, Section 11.h.(3) indicates that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages are to be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and are to be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Our review of the certifications for October 1, 2001 to March 30, 2002, noted an employee's salary, benefits, and related indirect costs were erroneously charged to the Refugee and Entrant Assistance - State Administered Programs grant. Based on discussions with the program coordinator and the employee's supervisor, the employee has never worked for the program. Our review of time distribution records shows the employee's salary, benefits, and related indirect costs have been erroneously charged to the program grant since August 2000. To ensure time distribution certifications are accurate and complete, the DSS should ensure time distribution certifications are signed by one or more employees having first hand knowledge of the work performed by the employees being certified, as required by OMB Circular A-87.

We question the federal share of \$88,042 (100 percent) for salary, benefit, and indirect costs erroneously charged to the Refugee and Entrant Assistance - State Administered Programs grant from August 2000 through June 2002.

WE RECOMMEND the DFS resolve the questioned costs with the grantor agency. In addition, the DFS should ensure that the semi-annual federally funded certifications are accurate and complete.

AUDITEE'S RESPONSE

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

2002-11.

Duplicate Payments and Refunds

Federal Agency:	Department of Health and Human Services
Federal Program:	93.658 Foster Care - Title IV-E 93.659 Adoption Assistance 93.667 Social Services Block Grant
State Agency:	Department of Social Services (DSS) - Division of Family Services (DFS)

- A. Weaknesses in disbursement procedures have allowed duplicate payments to occur. DFS county offices receive invoices and initiate payments for day care services, treatment services, and other contracted services for DFS clients. The county office employees record payment requests in the Children's Services Integrated Payment System (CSIPS). The CSIPS uses the request data to generate checks which are mailed to the applicable vendors. The CSIPS is also used to generate monthly maintenance payments for children in foster care and special needs children that have been adopted. During the year ending June 30, 2002, the CSIPS generated approximately 178,000 checks totaling approximately \$236 million for federal and state programs.

During our review of vendor refunds for the two years ending June 30, 2002, we identified approximately \$348,000 of refunds received by the DFS for duplicate payments issued through the CSIPS, including approximately \$293,000 received from one vendor.

It appears DFS county office employees did not adequately review disbursement records, prior to initiating payment requests, to ensure payments had not already been made. As a result, some invoices were paid two or more times. DFS county office employees initiated some payments based on a summary billing statement, rather than the original detailed invoice, resulting in duplicate payments. The DFS was not aware of the duplicate payments until receiving refunds from vendors and the DFS has no assurance that all duplicate payments have been identified and refunded.

The DFS should establish internal controls to prevent duplicate payments, including a policy requiring all payments to be supported by an original detailed vendor invoice. In addition, the DFS should review supporting documentation for payments processed through the CSIPS to identify and correct any other duplicate payments.

- B. Vendor refunds were not always remitted to the Division of Budget and Finance (DBF) for deposit on a timely basis. Some vendor refunds for duplicate payments are sent directly to the DFS central office where employees review payment documentation to determine how the refunds should be recorded in the accounting system. The receipts are then sent to the DBF for deposit.

While DSS policy is to transmit receipts to the DBF daily or when total receipts exceed \$100, we noted instances where the policy was not followed. For example, a \$58,049 refund check, dated December 8, 2000, was not deposited and was subsequently outlawed. A replacement check, dated December 31, 2001, was finally deposited on February 8, 2002. In addition, a \$181,643 refund check was held 77 days before being deposited, and twelve other refund checks totaling \$6,980 were held from 41 days to 131 days before being deposited on April 16, 2001. DFS staff indicated receipts were not remitted more timely due to insufficient staff and difficulties in determining how the refunds should be recorded.

To maximize interest revenue, adequately safeguard monies, and reduce the risk of loss or misuse of funds, receipts should be transmitted to the DBF for deposit on a timely basis.

WE RECOMMEND the DFS:

- A. Establish internal controls to prevent duplicate payments, including a policy requiring all payments to be supported by an original vendor invoice. In addition, the DFS should review supporting documentation for payments processed through the CSIPS to identify and correct any other duplicate payments.
- B. Remit receipts to the DBF for deposit on a timely basis in accordance with DSS policy.

AUDITEE'S RESPONSE

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

2002-12.	Oversight of Temporary Assistance for Needy Families
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Federal Agency: Department of Health and Human Services
Federal Program: 93.558 Temporary Assistance for Needy Families (TANF)
State Agency: Department of Social Services-Division of
Family Services (DFS)

On January 28, 2003, the Missouri State Auditor's Office issued audit report No. 2003-10, ***Division of Family Services Oversight of Temporary Assistance for Needy Families***. (A copy of the complete audit report can be obtained from: Missouri State Auditors Office, P.O. Box 869, Jefferson City, MO 65102-0869, or on the internet at www.auditor.state.mo.us.)

Division guidance states the goal of the TANF program is for families to become independent of the need for cash assistance. However, the audit noted division personnel had not made and/or not documented referrals to employment assistance programs for 39 of 179 (22 percent) cases reviewed.

In addition, the audit noted case managers had not stayed in contact with recipients to monitor compliance with work requirements or reevaluate exemptions from work requirements for 36 of 120 (30 percent) cases reviewed. The 36 cases included 27 cases managed by the St. Louis City Office and 9 cases managed by other DFS offices. The average time between contacts was 239 days for the St. Louis City cases and 272 days for the other cases. Division guidance requires contacts to be made every 30 or 90 days, depending on the recipient's circumstances.

The audit also noted case documentation was not adequate for 78 of 120 (65 percent) cases reviewed. Critical family information records and narratives of case activity and history were not always prepared and barriers to employment were not always documented as required by division guidance.

Further, the audit noted that on July 1, 2002, the division extended temporary assistance benefits for 1,034 recipients beyond the 60-month lifetime benefit period without determining whether these recipients were entitled to receive extended benefits. The audit noted division officials had not established extension criteria until after the 60-month limitation period had expired. Federal regulation 45 CFR Section 264.1 prohibits the state from issuing TANF cash benefits for more than 60 months unless an extension has been granted.

WE RECOMMEND the DFS:

- A. Establish quality controls to require periodic reviews of cases to ensure referrals are made and recipients are contacted in a timely manner.
- B. Ensure division personnel provide adequate case documentation.

AUDITEE'S RESPONSE

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

2002-13.	Eligibility for Adoption Assistance Payments
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Federal Agency:	Department of Health and Human Services	
Federal Program:	93.659 Adoption Assistance	<u>Questioned Costs</u>
State Agency:	Department of Social Services – Division of Family Services (DFS)	\$ 17,804

During the year ending June 30, 2002, the DFS provided Adoption Assistance benefits totaling approximately \$27 million for 6,062 adopted children with special needs. To qualify for the benefits, the child must be eligible for Title IV-E foster care benefits, Temporary Assistance for Needy Families (TANF) benefits, or Social Security Income (SSI) benefits, as required by 42 USC 673(a)(2)(A). In addition, the nature of services to be provided and nonrecurring expenses to be paid must be stated in the subsidy contract between the DFS and the adoptive parents, as required by 42 USC 675(3) and 45 CFR 1356.41(a), respectively. Subsidized costs may include maintenance, tutoring, clothing, day care, respite care, legal expenses, etc.

To test compliance with these requirements, we reviewed eligibility documentation, subsidy contracts, and expenditure documentation for 28 Adoption Assistance recipients. The 28 recipients received Adoption Assistance totaling \$132,900 during the year ending June 30, 2002. We could not locate eligibility documentation for five of twenty-eight (17 percent) cases reviewed. Some services paid were not listed in the subsidy contracts for three of twenty-eight (10 percent) cases reviewed. We could not locate invoices or other supporting documentation for some payments on eight of twenty-eight (29 percent) cases reviewed. The expenditures related to these errors totaled \$29,188. We question the federal share of \$17,804 (61 percent).

The DFS should establish procedures to ensure eligibility is properly documented and all services to be provided are documented in adoption subsidy contracts, as required by federal law. In addition, the DFS should ensure all payments are supported by adequate documentation.

WE RECOMMEND the DFS resolve the questioned costs with the grantor agency. In addition, the DFS should ensure eligibility is properly documented, ensure all services to be provided are documented in adoption subsidy contracts, and ensure all payments are supported by adequate documentation.

AUDITEE'S RESPONSE

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

STATE OF MISSOURI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Circular A-133 requires the auditee to prepare a Summary Schedule of Prior Audit Findings to report the status of all audit findings in the prior audit for the year ended June 30, 2001, and the findings from the prior audits for the years ended June 30, 2000 and 1999, except those that were listed as corrected, no longer valid, or not warranting further action. This section includes the Summary Schedule of Prior Audit Findings, which is prepared by the state's management.

Circular A-133 requires the auditor to follow-up on these prior audit findings, perform procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings, and report, as a current year finding, when the auditor concludes that the Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit findings.

The disposition of the findings from the year ended June 30, 2000 is as follows:

Findings numbered 1, 2A, 4, 5, 6, 7, 8, 9, 10, 11B, and 12 were corrected.

Findings numbered 2B, 3, and 11A are included in the Summary Schedule of Prior Audit Findings.

For the year ended June 30, 1999, all of the findings were corrected, no longer valid, or did not warrant further action.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2000-2.B. Schedule of Expenditures of Federal Awards

State Agency: Department of Social Services
Federal Agency: Department of Health and Human Services
Federal Program: 93. – Combined
Questioned Costs: \$11,832,573

The SEFA prepared by the DSS did not report any amounts provided to subrecipients for the Social Services Block Grant or Family Preservation and Support Services programs. The DSS indicated they did not report these amounts as payments to subrecipients because these entities were vendors instead of subrecipients within the definition of OMB Circular A-133. However, we believed these entities were subrecipients. The DSS indicated another reason they classified the community partnerships as vendors is they were unable to determine the specific grant fund source for the funding provided the partnerships. The DSS stated its accounting system did not provide the needed information. To comply with OMB Circular A-133 Section 400 (d), the DSS should provide all possible required information to subrecipients. In addition, the above problems resulted in additional concerns, including failure of appropriate subrecipients to obtain required audits of the use of their federal funds in compliance with OMB Circular A-133. As a result, we questioned the federal funds provided to the local juvenile courts and the Caring Communities Program totaling an estimated \$11,832,573.

Recommendation:

The DSS resolve the questioned costs with the grantor agency. In addition, the DSS should treat the community partnerships and local juvenile courts as subrecipients and report funds provided to subrecipients correctly on the SEFA. The subrecipients should be appropriately notified of grant funding sources and regulations and should be required to obtain audits in compliance with OMB Circular A-133 when appropriate.

Status of Finding:

DSS rejected the finding. HHS agreed with the SAO but then DSS appealed the decision. The appeals body rejected jurisdiction as they said there were no questioned costs at stake. They returned it to DSS with the condition that “this is closed if you agree with the agency’s finding”. However, DSS does not agree and strongly believes that to be in compliance with the A-133 regulations it should report the Caring Community expenditures as payments to vendors. As the A-133 regulations gives DSS the discretion to decide the vendor/sub-recipient question, DBF decided the Juvenile Court diversion activities were the purchase of a service and not reportable as payments to a grant sub-recipient. Since we do not agree, this is therefore not a resolved issue. All these federal grants are being accurately reported as expenditures of grants received by DSS.

Status of Questioned Costs:

The federal appeal agency determined there are no questioned costs.

Contact Person: Victoria Therien
Phone number: (573)751-2170

2000-3. Inadequate Monitoring of Immigrant Mutual Aid Association

Federal Agency: Department of Health and Human Services
Federal Program: 93.566 - Refugee & Entrant Assistance - State Administered Programs
State Agency: Department of Social Services - Division of Family Services (DFS)
Questioned Costs: \$36,000

The Lao Mutual Aid Association (Association) received reimbursements from the DFS for expenditures incurred in accordance with a contract to provide refugee resettlement services to persons immigrating to Missouri from Laos. The Association was unable to provide supporting documentation for most of the expenditures claimed for reimbursement. The DFS contract with the Association did not cover the retention period for financial records. Although the DFS contract with the Association required an annual audit, such an audit was not obtained and the DFS had only limited assurance monies provided to the Association were used in accordance with the budget specified in the contract. As a result, we questioned the entire \$36,000 paid to the Association during the year ended June 30, 2000.

Recommendation:

The DFS resolve the questioned costs with the Association and the grantor agency. In addition, DFS should require the Association to keep all financial records for at least three years and submit an annual audit as required by the contract.

Status of Finding:

The contracts have been amended to require proper record retention and annual audit submissions.

Status of Questioned Costs:

The DFS understands, based on verbal contact with the ACF, that there is not an obligation to reconcile with the grantor agency, the Office of Refugee Resettlement (ORR), as the questioned grant was awarded in accordance with established ORR guidelines. Issue resolution is, however, a matter between the state agency and the vendor if the awarded vendor did not utilize or account for the grant money according to the terms and conditions of the contract.

Contact Person: D. Wayne Osgoode
Phone number: (573) 526-0967

2000-11A. Compliance Issues

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

Unused Construction Loan Funds (CLF) were not used to reduce bond issue debt. We noted thirty-seven completed projects with CLF balances totaling approximately \$26,675,000 at June 30, 2000.

Recommendation:

The DNR revise the bond covenant to require unused CLF monies to be applied to the reduction of bond principal.

Status of Finding:

In order for the department to revise the bond covenant, a regulation must be approved. The department will propose a regulation change in a future rulemaking proposal to require unused CLF monies to be applied to the reduction of bond principal.

Contact Person: Carrie Schulte
Phone Number: (573) 526-8403

2001-1. Reconciliation of Accounting Systems

Federal Agency: Department of Labor
Federal Program: 17.207 - Employment Service
 17.801 - Disabled Veterans Outreach Program
 17.804 - Local Veterans Employment Representative
 17.253 - Welfare-to-Work Grants to States and Localities
 17.255 - Workforce Investment Act
State Agency: Department of Economic Development (DED), Division of Workforce
 Development (DWD)

The DWD did not reconcile its internal accounting systems to the statewide accounting system (SAM II) during fiscal years 2000 or 2001. We noted several expenditures that had been processed through the SAM II system that had not been recorded in the internal accounting systems. The DWD performed a reconciliation of fiscal year 2000 records and identified approximately \$1.4 million that had not been recorded in the internal accounting systems and, therefore, was not reported to the Department of Labor. A partial reconciliation of fiscal year 2001 records as of November 30, 2001, indicated the amount of unrecorded expenditures for fiscal year 2001 was more than \$235,000. These unrecorded expenditures represent expenses incurred by the state agency for which available federal funds have not been drawn down.

Recommendation:

The DWD reconcile internal accounting records to the SAM II records on a periodic basis. In addition, the DWD should complete the reconciliation for 2000 and 2001 and draw down the appropriate amount of federal funds.

Status of Finding:

Fully Completed: Fiscal year 2000 was completed in April 2002. Fiscal year 2001 was completed in July 2002.

Contact Person: Carl Rogers
Phone Number: (573) 526-8214

2001-2. Schedule of Expenditures of Federal Awards

Federal Agency: Department of Agriculture
Federal Program: 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
10.558 - Child and Adult Care Food Program
State Agency: Department of Health and Senior Services (DHSS)

The original schedule of expenditures of federal awards prepared by the DHSS was overstated by approximately \$126 million.

Recommendation:

The DHSS implement procedures to ensure the schedule of expenditures of federal awards is complete and accurate.

Status of Finding:

Corrective action was taken.

Contact Person: Peggy Honoré
Phone number: (573) 751-6014

2001-3A. Subrecipient Monitoring

Federal Agency: Housing and Urban Development
Federal Program: 14.238 - Shelter Plus Care
State Agency: Department of Mental Health (DMH)

The DMH did not adequately monitor subrecipients of the program. In addition, program spending exceeded the limits established by the grant agreement and some expenditures were improperly charged to the grant.

Recommendation:

The DMH implement a monitoring system which provides adequate assurance that subrecipients comply with grant requirements.

Status of Finding:

Corrective action was taken.

Contact Person: Janet Gordon
Phone number: (573) 751-8050

2001-3B. Subrecipient Monitoring

Federal Agency: Housing and Urban Development
Federal Program: 14.238 - Shelter Plus Care
State Agency: Department of Mental Health (DMH)

On May 2, 2001, the federal Department of Housing and Urban Development issued their report resulting from a review of the program, which noted several concerns on compliance with grant requirements.

Recommendation:

The DMH resolve these issues with the grantor agency and implement procedures to ensure compliance with grant requirements.

Status of Finding:

Finding 3B(1) and 3B(2) have been corrected.

We have attempted to correct Finding 3B(3) by submitting a proposal to HUD for making an adjustment. To date we have not received a response.

Contact Person: Janet Gordon
Phone number: (573) 751-8050

2001-4A. Accounting and Reporting Procedures

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

The DNR did not complete the Clean Water State Revolving Fund annual report for fiscal year 2001 in a timely manner.

Recommendation:

The DNR establish procedures to ensure the annual report is submitted to the federal agency in a timely manner.

Status of Finding:

Preliminary accounting procedures regarding the State Revolving Fund have been established by the Financial Services Section accountants and included within the internal control plan for the Water Pollution Control Program (WPCP). Following these preliminary accounting procedures, as well as continual improvements to these procedures, has and will enhance the department's ability to submit the annual report in a timely manner.

The department has contracted with a consultant for the development of a new State Revolving Fund (SRF) accounting system. The system will generate reports necessary in properly monitoring the SRF and work performed by accounting staff. This will also enhance the department's ability to submit the annual report in a timely manner.

Contact Person: Carrie Schulte
Phone Number: (573) 526-8403

2001-4.B. Accounting and Reporting Procedures

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

The original schedule of expenditures of federal awards prepared by DNR understated the amounts provided to subrecipients by approximately \$1.9 million.

Recommendation:

The DNR establish procedures to ensure the schedule of expenditures of federal awards is prepared timely and accurately.

Status of Finding:

A note is placed in the file to alert the Accountant II's (AII) attention to the uniqueness of any date that differs from standard DNR practice when preparing the Schedule of Expenditures of Federal Awards (SEFA) each year. The Program Director, Accounting Analyst III (AIII), Accountant III (AIII), and AII meet to discuss the data prior to the SEFA being finalized. A standard written checklist is used by the AIII and AIII during the supervisory review process.

Contact Person: Sandy Wells
Phone Number: (573) 751-0960

2001-4.C. Accounting and Reporting Procedures

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

The DNR is not processing Trustee Reserve Fund administration fees in a timely manner.

Recommendation:

The DNR establish procedures to ensure all administration fees are processed in a timely manner.

Status of Finding:

Procedures for processing administration fees have been established and can be found in the internal control plan for the Water Pollution Control Program (WPCP). Following these procedures will assist in the timely processing of administration fees.

The department continues to improve its timeliness with depositing administration fee checks. Staff documents the date and time each check is received and approved for deposit. This documentation shows that administration checks received in State Fiscal Year (SFY) 2002 have been deposited timely. The maximum number of days any one check was held and the average number of days checks were held have improved significantly.

Contact Person: Carrie Schulte
Phone Number: (573) 526-8403

2001-4.D. Accounting and Reporting Procedures

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

Administration fees are unnecessarily being held by the trustee banks.

Recommendation:

The DNR establish procedures to ensure the trustee banks remit administration fees to the DNR when received from each community.

Status of Finding:

The department has negotiated an informal agreement with the trustee to submit fees on a timelier basis. The department will formally address this issue when trustee agreements are re-negotiated.

Contact Person: Carrie Schulte
Phone Number: (573)526-8403

2001-4.E. Accounting and Reporting Procedures

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

The DNR management does not periodically supervise accounting and reporting responsibilities over the State Revolving Fund.

Recommendation:

The DNR establish procedures to ensure periodic supervisory reviews are performed over the State Revolving Fund accounting and reporting activities.

Status of Finding:

Depending on the activity, State Revolving Fund (SRF) accounting and reporting activities are either reviewed or overseen by; the immediate supervisor, the section chief, the program's administration staff, the division's budget staff, the department's Division of Administrative Support, Invest in Cash Management Office (ICMO), SRF project coordinators, or SRF Financial Advisors.

The program's administration unit has recently filled a vacancy. One of this position's responsibilities is to complete the program's Internal Control Plan. The plan outlines procedures for all financial transactions within the program.

The department has contracted with a consultant for the development of a new SRF accounting system. The system will generate management reports necessary in properly monitoring the SRF and work performed by the accounting staff.

Contact Person: Carrie Schulte
Phone Number: (573) 526-8403

2001-5. Subrecipient Monitoring

Federal Agency: Environmental Protection Agency
Federal Program: 66.458 - Capitalization Grants for State Revolving Funds
State Agency: Department of Natural Resources (DNR)

The DNR did not adequately monitor subrecipients to ensure that an A-133 audit had been performed when applicable and submitted to the DNR.

Recommendation:

The DNR ensure all subrecipients submit an A-133 audit.

Status of Finding:

A tracking report is in place and is reviewed for non-complying recipients. Reminder letters are sent to these communities. Communities that continue not to comply are referred to EPA.

Contact Person: Carrie Schulte
Phone Number: (573) 526-8403

2001-6. Schedule of Expenditures of Federal Awards

Federal Agency: Department of Agriculture
Department of Education

Federal Program: Department of Health and Human Services
 10.551 - Food Stamps
 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
 93.767 - State Children's Insurance Program
 93.778 - Medical Assistance Program
State Agency: Department of Social Services (DSS)

The DSS incorrectly reported expenditure amounts for some programs on the schedule of expenditures of federal awards.

Recommendation:

The DSS implement procedures to ensure the schedule of expenditures of federal awards is complete and accurate.

Status of Finding:

Corrective action was taken.

Contact Person: Victoria Therien
Phone number: (573) 751-2170

2001-7. Eligibility – Improper Benefit Payments

Federal Agency: Department of Agriculture
 Department of Health and Human Services

		<u>Questioned Costs</u>
Federal Program:	10.551 - Food Stamps	\$ 28,817
	93.558 - Temporary Assistance for Needy Families	4,290
State Agency:	Department of Social Services – Division of Family Services (DFS)	

On August 3, 2001, the Missouri State Auditor's Office issued audit report No. 2001-58, ***Department of Social Services Electronic Benefit Security Card and Electronic Benefit Transfer Benefit Delivery System***. The audit matched September 2000 Food Stamp and Temporary Assistance recipients to state death records through January 2001. In total, 300 of the 418 (72 percent) deceased recipients in the test had received \$31,130 in food stamp benefits following the death of the recipient and at least \$2,117 had been used. In addition, the audit matched September 2000 recipients to incarceration records of state correctional facilities during October 2000. The audit noted improper food stamp benefits totaling at least \$13,100 were used while the recipients were incarcerated. The audit also determined that parents of children in state custody were allowed to collect Food Stamp and Temporary Assistance benefits for an average of 8 and 12.5 months, respectively, after the child was placed in state custody. Audit tests estimated that \$7,150 in improper Temporary Assistance benefits, and \$13,600 in improper Food Stamp benefits were paid to parents after their children were placed in state custody. The federal share of the Temporary Assistance benefits is \$4,290 (60 percent) and the Food Stamp benefits is \$13,600 (100 percent). We questioned the federal share of Food Stamp benefits (\$28,817) and Temporary Assistance

benefits (\$4,290).

Recommendation:

The DFS resolve the questioned costs with the grantor agencies. In addition, the DFS should investigate the various cases noted above and establish recoupment claims where appropriate. The DFS should also implement policy and procedure changes to ensure that improper payments do not occur. Where necessary, the DFS should reinforce to staff the importance of compliance with existing policies and procedures.

Status of Finding:

Corrective action has been taken.

Status of Questioned Costs:

Neither the Department of Health and Human Services nor the U.S. Department of Agriculture's (USDA) Food and Nutrition Service have notified the DFS whether they intend to uphold the questioned costs.

Contact Person: D. Wayne Osgoode
Phone number: (573) 526-0967

2001-8. Eligibility – Unreported Lottery Winnings

Federal Agency: Department of Agriculture
Department of Health and Human Services
Federal Program: 10.551 - Food Stamps
93.558 - Temporary Assistance for Needy Families
State Agency: Department of Social Services – Division of Family Services (DFS)

We performed a match of Temporary Assistance and Food Stamp recipients for June 2001 with individuals who received lottery winnings greater than \$5,000 between July 1999 and June 2001. We identified 13 cases where the recipient received either Temporary Assistance and/or Food Stamps during the same month of their lottery win. Two of the 13 clients properly reported their winnings. The DFS did not perform a redetermination of eligibility for 8 of the 11 (73 percent) recipients who had lottery winnings of as much as \$18,890.

Recommendation:

The DFS perform a redetermination of eligibility on the eight recipients noted above. In addition, the DFS should ensure that caseworkers perform redeterminations of eligibility on all recipients identified in the match of lottery winners.

Status of Finding:

At the recommendation of the SAO, the DFS has performed reviews of the exception cases identified in the finding. The DFS will issue a memorandum to counties instructing that lottery winnings notices should be distributed promptly and that supervisors should insure that staff appropriately act on the information disclosed. Staff will be reminded that they should discuss with assistance applicants (and at continued eligibility reviews) the income

change – whether earned or unearned --reporting requirements.

Contact Person: D. Wayne Osgoode
Phone number: (573) 526-0967

2001-9. Cash Management - Interest Calculation Errors

Federal Agency: Department of Health and Human Services
Federal Program: 93.568 - Low-Income Home Energy Assistance
State Agency: Department of Social Services – Division of Budget and Finance (DBF)

The DBF has not established procedures to ensure interest earned on federal grants is calculated correctly.

Recommendation:

The DBF implement procedures, including supervisory review, to ensure interest calculations are accurate.

Status of Finding:

Corrective action was taken.

Contact Person: Victoria Therien
Phone number: (573) 751-2170

2001-10. Sponsored Alien Reimbursement Claims

Federal Agency: Department of Agriculture
Department of Health and Human Services

Questioned Costs

Federal Program:	10.551 - Food Stamps	\$ 3,364
	93.558 - Temporary Assistance for Needy Families	3,510
State Agency:	Department of Social Services – Division of Family Services (DFS)	

The DFS has not established policies and procedures to pursue reimbursement of public assistance benefits provided to sponsored aliens. During our testing of Temporary Assistance case files, we noted the DFS provided a sponsored alien \$5,580 in Temporary Assistance benefits and \$3,364 in Food Stamp benefits over a period of nearly 24 months. We questioned the federal share of \$3,364 for Food Stamps (100 percent) and \$3,510 for Temporary Assistance (60 percent).

Recommendation:

The DFS resolve the questioned costs with the grantor agencies and pursue reimbursement from the sponsor. In addition, the DFS should establish policies and procedures to ensure identification of sponsors and reimbursement of benefits.

Status of Finding:

DFS is working to revise and expand its policies to include verifying sponsorship,

sponsorship assistance (in-kind and/or financially), and procedures for dealing with the client or their sponsor if an assistance overpayment occurs. It is uncertain when the more comprehensive policy will be implemented. Under current policy, it is uncertain whether the sponsored alien or their sponsor can be held liable if an overpayment occurs.

Status of Questioned Costs:

The DFS is exploring the avenue for appropriate recoupment of assistance payments.

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Phone number: (573) 526-0967

2001-11. Service Organization Audits

Federal Agency: Department of Agriculture
Department of Health and Human Services
Federal Program: 10.551 - Food Stamps
10.561 - State Administrative Matching Grants for Food Stamp Program
93.558 - Temporary Assistance for Needy Families
State Agency: Department of Social Services – Division of Family Services (DFS)

The DFS did not require its electronic benefits transfer service provider to fully comply with audit requirements imposed by the federal grantor.

Recommendation:

The DFS ensure service providers obtain annual audits that cover the entire period since the previous audit.

Status of Finding:

No corrective action is required. The federal agency (FNS) provided Missouri a waiver from special audit requirements the State Auditor cites in this finding because the requirement was adopted after the current EBT contract was signed. The EBT program and our contractor fully comply with federal regulations.

Contact Person: D. Wayne Osgoode
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2001-12. Management of Outstanding Felony Warrants

Federal Agency: Department of Agriculture
Department of Health and Human Services
Federal Program: 10.551 - Food Stamps
93.558 - Temporary Assistance for Needy Families
State Agency: Department of Social Services – Division of Family Services (DFS)

On August 16, 2001, the Missouri State Auditor's Office issued audit report No. 2001-63, ***Management of Outstanding Felony Warrants***. The audit matched the Missouri Highway

Patrol's database of outstanding warrants to the DFS database of benefit recipients. The audit reported 802 individuals with outstanding felony warrants were collecting Food Stamp and/or Temporary Assistance benefits. We determined 605 individuals collected an estimated \$192,712 in improper Food Stamp benefits and 197 individuals collected an estimated \$479,928 in improper Temporary Assistance benefits. The federal share of the Temporary Assistance benefits is \$287,956 (60 percent) and the Food Stamp benefits is \$192,712 (100 percent).

Recommendation:

The DFS coordinate with the Missouri Highway Patrol to develop a system to routinely match benefit payments on federal programs to felony warrants data and use the results to stop payments to ineligible individuals. In addition, the DFS should establish recoupment claims where appropriate.

Status of Finding:

In response to the SAO's recommendations, the DFS will effect claims as appropriate where a benefit recipient, identified as being sought by law enforcement officials to satisfy an outstanding felony warrant, is involved.

The USDA has indicated that 'self-disclosure' suffices insofar as how aggressive the DFS should be to identify persons with outstanding felony warrants issued against them. The DFS has been working with the Missouri State Highway Patrol exploring the possibility of effecting some type of match that will reliably alert DFS staff to potential felons. Nothing has yet been finalized and the resources required to pursue this project and implement such a proposal are presently not available. Until these staffing and funding issues for programming, processing the data, and communicating the results are resolved, we can not proceed further and can not project a completion date.

The DFS does note that it was able to recently issue (revised) policy in accord with the USDA's position that a public assistance household containing a member suspected of being a fleeing felon must be duly notified. When the DFS has received notice that a possible fleeing felon is part of a household's assistance group, the policy outlines the formal procedure for working with the household regarding eligibility.

Contact Person: D. Wayne Osgoode
Phone number: (573) 526-0967

2001-13. Eligibility – Out of State Recipients

Federal Agency: Department of Agriculture
 Department of Health and Human Services

Questioned Costs

Federal Program: 93.767 - State Children's Insurance
 Program (SCHIP) \$ 87
 93.778 - Medical Assistance Program 67,861

State Agency: Department of Social Services – Division of Family Services (DFS)

Division of Medical Services (DMS)

Inadequate procedures for changing the eligibility and benefit status for Medicaid and SCHIP recipients that move out of the state resulted in unnecessary managed care payments of at least \$111,312 (federal share \$67,948).

Recommendation:

The DSS resolve the questioned costs with the grantor agency. In addition, the DSS should improve procedures to ensure recipients that move out of the state are timely removed from eligibility or the managed care program. The DSS should review the eligibility status for all other managed care program recipients with out of state addresses and recoup improper managed care payments.

Status of Finding:

The DFS IM section has worked with the DMS to resolve questioned costs relating to exception cases identified by the SAO; the DMS has recouped capitation payments erroneously made to managed care vendors on behalf of ineligible IM clients identified by the SAO. Additionally, the DFS IM section did recently discuss identifying managed care recipients who relocate from Missouri and remain case-active; the discussion was a part of a discussion about Missouri's participation in the multi-state PARIS match. The DFS IM section will issue a memo to staff reiterating, when it is established that a Medicaid-covered client has relocated to another state while in active status in Missouri, the case should be reviewed as to whether it is a managed care case and acted upon accordingly.

Status of Questioned Costs:

Questioned costs, as of yet, have not been resolved.

Contact Person: D. Wayne Osgoode
Phone number: (573) 526-0967

2001-14. Eligibility - Recipient Social Security Numbers

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 - State Children's Insurance Program (SCHIP)
93.778 - Medical Assistance Program
State Agency: Department of Social Services (DSS)

During July 2001, there were nearly 57,000 recipients (7 percent of the total 838,000 recipients) that were eligible for Medicaid or SCHIP benefits without social security numbers or with invalid numbers on the state's computer systems.

Recommendation:

The DSS improve procedures to ensure social security numbers are received from all Medicaid and SCHIP eligible recipients, validated with the Social Security Administration, and entered into the state's computer systems.

Status of Finding:

Staff is periodically reminded to secure and validate Social Security Numbers prior to entering them into the system.

Contact Person: D. Wayne Osgoode
Phone number: (573) 529-0967

2001-15. Eligibility - Redeterminations

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 - State Children's Insurance Program (SCHIP)
93.778 - Medical Assistance Program
State Agency: Department of Social Services – Division of Family Services (DFS)
Division of Medical Services (DMS)

The DFS did not perform Medicaid and SCHIP eligibility redeterminations on a timely basis.

Recommendation:

The DFS establish procedures to ensure Medicaid and SCHIP recipient eligibility is redetermined in accordance with state and federal regulations.

Status of Finding:

Because of the serious staff shortages, the DFS is required to establish priorities within the eligibility redetermination process. The highest priority cases are those in which we have information indicating the eligibility status has changed. Through numerous sources, the DFS has additional information about many of the factors that can effect eligibility. Doing

eligibility reviews on cases where there is information about changes that might change eligibility is another low priority. A general eligibility review in cases where no known changes have occurred is a lower priority. DFS always strives to do eligibility redeterminations in accordance with state and federal regulations.

Contact Person: D. Wayne Osgoode
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2001-16. Spenddown Program

Federal Agency: Department of Health and Human Services
Federal Program: 93.778 - Medical Assistance Program
State Agency: Department of Social Services – Division of Family Services (DFS)
 Division of Medical Services (DMS)
Questioned Costs: \$2,283

The state is incurring unnecessary Medicaid costs because spenddown program policies are not in compliance with federal requirements. In five spenddown recipients tested, costs paid by the Medicaid program, which were the responsibility of the spenddown recipient, totaled \$3,741. We questioned the federal share of this amount, \$2,283.

Recommendation:

The DMS resolve the questioned costs with the grantor agency. In addition, the DFS should establish policies and procedures to ensure Medicaid does not pay for any portion of a recipient's spenddown obligation.

Status of Finding:

DFS/DMS completely disagree with the finding. We believe that State Auditor's Office is confusing Missouri's spenddown program with a medically needy program and for the following reasons believe DFS is operating in compliance with federal law, federal regulations, and provisions of the State Medicaid Plan.

Missouri adopted the "spenddown" provision in January 1974, when the federal SSI program went into effect. Missouri took the 209(b) Medicaid option for the aged, blind, and disabled, which requires that these individuals be allowed to spend down to the Medicaid eligibility level.

The distinction between Missouri's 209(b) spenddown provision and the other alternative "medically needy" provisions is important. While both allow clients to deduct incurred medical expenses from their income to qualify for Medicaid, they have as their bases different sections in the Social Security Act. Additionally, there are separate Medicaid regulations governing the two provisions, and the regulations for one are different than the regulations for the other.

The basis for Missouri's spenddown provision is found at Section 1902(f) of the Social Security Act. It states, in part, "any such individual shall be deemed eligible for medical assistance...if...the income of any such individual as determined in accordance with section 1903(f) (after deducting any supplemental security income payment and State supplementary payment made with respect to such individual, and incurred expenses for medical care as recognized under State law regardless of whether such expenses are reimbursed under another public program of the State or political subdivision thereof) is not in excess of the standard for medical assistance established under the State plan as in effect on January 1, 1972." "In states which do not provide medical assistance to individuals pursuant to paragraph (10)(C) of that subsection, an individual who is eligible for medical assistance by reason of the requirements of this section concerning the deduction of incurred medical expenses from income shall be considered an individual eligible for medical assistance under paragraph (10)(A) of that subsection." Paragraph (10)(C) is medically needy, whereas paragraph (10)(A) is categorically needy.

Section 1903(f) further states, in part, "(2)(A) in computing a family's income... there shall be excluded any costs...incurred by such family for medical care...or...at State option, an amount paid by such family...to the State. The amount of State expenditures for which medical assistance is available under subsection (a)(1) will be reduced by amounts paid to the State pursuant to this subparagraph." This clearly states that if a person pays in the spenddown amount, the State cannot claim FFP. It does not say the same for incurred costs.

Federal regulations also emphasize the distinction between 209(b) spenddown and medically needy programs. Regulations at 42 CFR 435.831, which apply to the medically needy, clearly state that expenses used to meet spenddown are not reimbursable under Medicaid. Regulations at 42 CFR 435.121, which apply to states with more restrictive requirements, make no mention of Medicaid treatment of expenses used to meet spenddown.

Federal regulations at 42 CFR 435.914 state that the State Plan must specify the date on which eligibility will be made effective. Our State Plan specifies the beginning date is when spenddown is met. Missouri Medicaid does not pay expenses for days in the quarter before spenddown is met, and the State Auditor has produced no evidence to the contrary.

Status of Questioned Costs:

DFS/DMS dispute the questioned costs.

Contact Person: Janel Luck
Phone number: (573) 751-3124

2001-17. ADP Risk Analysis and Security Review

Federal Agency: Department of Health and Human Services
Federal Program: 93.778 - Medical Assistance Program
State Agency: Department of Social Services – Division of Medical Services (DMS)

The DMS failed to perform an automated data processing analysis and system security

review in accordance with federal regulations during fiscal years 2001 and 2000.

Recommendation:

The DMS perform a periodic risk analysis and system review in accordance with federal requirements.

Status of Finding:

Corrective action has been implemented.

Contact Person: Todd Meyer
Phone number: (573) 751-8176

2001-18. Claims Processing Service Provider System Reviews

Federal Agency: Department of Health and Human Services
Federal Program: 93.778 - Medical Assistance Program
State Agency: Department of Social Services – Division of Medical Services (DMS)

The DMS did not perform system reviews as specified in the claims processing contract.

Recommendation:

The DMS perform system reviews in accordance with the claims processing contract.

Status of Finding:

Corrective action has been implemented.

Contact Person: Lynn Young
Phone number: (573) 751-3752

2001-19. School District Administrative Claiming Program

Federal Agency: Department of Health and Human Services
Federal Program: 93.778 - Medical Assistance Program
State Agency: Department of Social Services – Division of Medical Services (DMS)

Sufficient controls are not in place to ensure claims submitted for the School District Administrative Claiming (SDAC) program are accurate. The DMS did not adequately monitor the work performed by the contractor.

Recommendation:

The DMS strengthen procedures to evaluate the controls in place by the contractor to ensure program billings are accurate.

Status of Finding:

Program Operations (PO) and Program Integrity (PI) are jointly developing procedures to carry out the recommendations of the SAO. Tentative completion date will be during FY2003. A draft audit tool for the School District Administrative Claiming program has been developed and is under review by staff in both PO and PI. In July 2002 the federal Center for Medicare and Medicaid Services conducted an on-site financial review of Missouri's SDAC program. Managers of PO and PI agreed the draft audit tool should not be finalized and implemented until the results of this review were known in case CMS had recommendations in addition to those of the SAO. It is anticipated the CMS findings and DMS's response will be final within a few weeks and at that point PO and PI staff will resume work toward finalizing and implementing the new audit procedures. We anticipate finalizing and implementing the revised audit procedures during FY2003, as stated in our corrective action plan.

Contact Person: Sandra Levels
Phone number: (573) 751-6926

2001-20. Review of Hospital Final Settlements

Federal Agency: Department of Health and Human Services
Federal Program: 93.778 - Medical Assistance Program
State Agency: Department of Social Services – Division of Medical Services (DMS)

The DMS is not completing hospital final settlements in a timely manner. As of September 2001, the DMS was working on final settlement determinations for fiscal years ending in 1993, 1994, and 1995, and have completed more than 80 percent of the final settlements for these three years.

Recommendation:

The DMS consider ways to speed up hospital final settlement determinations.

Status of Finding:

The division's corrective action plan proposed the completion of desk audit of the FY 1996 thru FY 1998 reports by October 1, 2002 and the potential adoption of a prospective outpatient reimbursement system which would eliminate the retroactive settlement process. The backlog of desk audits for FY 1996 thru FY 1998 cost reports has been significantly reduced. The eight hospitals remaining are pending completion upon receipt of the Medicare audited cost report. . Proposed and emergency rules for a prospective outpatient reimbursement system (13 CSR 70-15.160) effective July 1, 2002 were published in the Missouri Register on July 15, 2002. The final order of rulemaking addressing comments was filed with the Joint Committee on Administrative Rules and was filed with the Secretary of State on November 11, 2002 and published in the Missouri Register on December 16, 2002, and became effective thirty days after publication. The Prospective reimbursement system will eliminate any retroactive settlements beyond the FY 98 cost reports.

Contact Person: Margie Mueller

Phone number: (573) 751-1092

2001-21. Lock-In Program

Federal Agency: Department of Health and Human Services

Federal Program: 93.778 - Medical Assistance Program

State Agency: Department of Social Services – Division of Medical Services (DMS)

The DMS is not evaluating enough recipients for potential inclusion in the lock-in program.

Recommendation:

The DMS expand its reviews of cases for the lock-in program and improve procedures to ensure all recipients determined to be placed in the lock-in program are placed in the program.

Status of Finding:

Corrective action started in January 2003. For the review period of the State Audit, the DMS staff was performing recipient reviews at the level possible with allocated staff resources. Since the review period, the establishment of the Program Integrity Section has been completed. New positions have been filled and revisions of program assignments have occurred. The SURS supervisor has assigned two staff to perform recipient reviews. In addition, there is a supervisor and a staff person to respond to telephone inquiries. With these changes, the DMS will be able to increase the number of recipient reviews.

Additional training and procedures are being implemented for improved oversight of lock-in actions.

Contact Person: Sherry Simon

Phone number: (573) 751-8989

2001-22. Medicaid Eligibility Quality Control

Federal Agency: Department of Health and Human Services

Federal Program: 93.778 - Medical Assistance Program

State Agency: Department of Social Services – Division of Family Services (DFS)

The DFS has not completed Medicaid eligibility quality control pilot projects that cover a broad enough recipient population to meaningfully reduce the state's Medicaid error rate.

Recommendation:

The DFS perform additional pilot projects covering a broader Medicaid recipient population which also evaluate whether the recipient's eligibility was appropriately determined and whether the person remained eligible through appropriate redeterminations.

Status of Finding:

The DFS disagrees with this finding. As is pointed out by the SAO in the finding, "DFS is

conducting pilot projects in compliance with the federal requirements”.

Additionally, the SAO states that three projects were not completed. That conclusion does not accurately reflect the status of these projects. The projects were indeed completed and the data obtained was used to develop training for staff and implement corrective action. We simply did not spend the time to revise the reports into a format to transmit to HCFA (now CMS).

As to the statement that the coverage of the recipient population was too small, we also disagree. Each of these projects targeted areas that we knew were likely to be error prone. We believe this is a better use of resources than broadly reviewing a variety of cases.

We believe the DFS is not only meeting the federal requirements, but the intent of those requirements as well.

Contact Person: Janel Luck

Phone number: (573) 751-3124

2001-24. Allowable Costs

Federal Agency: Department of Health and Human Services
Federal Program: 93.563 - Child Support Enforcement
State Agency: Department of Social Services – Division of Child Support Enforcement (DCSE)
Questioned Costs: \$44,336

We identified expenditures totaling \$67,176 (federal share \$44,336) that were either unallowable or unnecessary.

Recommendation:

The DCSE resolve the questioned costs with the grantor agency. In addition, the DCSE should establish procedures to ensure costs charged to the grant are allowable and necessary to administer the child support program.

Status of Finding:

DCSE has requested DBF resolve the following questioned costs with the grantor agency:

- a) \$35,672 for tuition reimbursement;*
- b) \$119 for the replacement of a lost child support check;*
- c) \$946 for agency provided food;*
- d) \$3,787 for employee tenure awards; and*

- e) \$792 for attorneys fees where the judgment stated the Division unjustly denied a timely hearing request made by a client.

However, DCSE disagrees that \$3,020 for lodging expenses for Jefferson City Central Office employees attending two training seminars at the Lake of the Ozarks should be identified as unnecessary costs. DSS' administrative policy ADM-7-701, Reimbursement of Travel Expenses, provides "overnight lodging may be reimbursed when the distance to be traveled is more than 50 miles from the claimant's official domicile building or private residence, whichever is closer". One of the training seminars was conducted at the Inn at the Grand Glaize, while the other training seminar was conducted at the Tan-Tar-A Resort. Both locations meet the 50-mile requirement when traveling from DCSE's Central Office. Therefore, DCSE does not agree with these questioned costs.

Status of Questioned Costs:

A memo was sent to Division of Budget and Finance on April 4, 2002, to prepare a prior period adjustment to the Federal Form 396-A to correct the federal participation. The adjustment was made on the June 2002 396-A. The adjustment did exclude the \$3,020 for lodging expenses.

Contact Person: Michael Longanecker
Phone number: (573) 526-3277

2001-25. Approval of Allowable Costs

Federal Agency: Department of Health and Human Services
Federal Program: 93.563 - Child Support Enforcement
State Agency: Department of Social Services – Division of Child Support Enforcement (DCSE)
Questioned Costs: \$2,566

We noted the DCSE failed to identify and properly code unallowable guardian ad litem costs, resulting in those costs being claimed for reimbursement. We also noted the Division of Budget and Finance (DBF) incorrectly claimed reimbursement for unallowable guardian ad litem costs that had been correctly coded by the DCSE. Guardian ad litem costs totaling \$3,888 (federal share \$2,566) were either incorrectly coded as allowable by DCSE or incorrectly claimed for reimbursement by the DBF.

Recommendation:

The DCSE resolve the questioned costs with the grantor agency. In addition, establish procedures to ensure costs are coded to the proper reporting category and work with the DBF to ensure that unallowable expenditures are not claimed for reimbursement.

Status of Finding:

Corrective action was taken.

Status of Questioned Costs:

A memo was sent to Division of Budget and Finance on April 4, 2002, to prepare a prior period adjustment to the Federal Form 396-A to correct the federal participation. The adjustment was made on the June 2002 396-A.

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Phone number: (573) 526-3277

2001-26. Compliance

Federal Agency: Department of Health and Human Services
Federal Program: 93.563 - Child Support Enforcement
State Agency: Department of Social Services – Division of Child Support Enforcement (DCSE)

- A. We randomly selected cases to review for paternity services from a population of 48,673 cases in the paternity function. Test results disclosed that for 29 of 85 cases reviewed, DCSE failed to take any action to establish paternity and on 10 cases failed to take action within the required time frames, resulting in a compliance rate of 54 percent for cases tested.
- B. We randomly selected cases to review for establishment services from a population of 57,289 cases in the establishment function. Test results disclosed that for 17 of 42 establishment cases reviewed, DCSE failed to take the required actions to establish an order of support within the established timeframe, resulting in a compliance rate of 60 percent for cases tested.
- C. We randomly selected cases to review for enforcement services from a population of 287,359 cases in the enforcement function. Test results disclosed that for 13 of 55 enforcement cases reviewed, DCSE failed to initiate income withholding, or another enforcement action, within 30 days of identifying a delinquency, resulting in a compliance rate of 76 percent for cases tested.
- D. We randomly selected cases to review for medical support services from a population of 203,341 cases requiring or having medical support orders. Test results disclosed that for 28 of 101 cases reviewed, DCSE failed to take one or more required actions. For cases tested, the compliance rate for providing medical support services is 72 percent.
- E. We selected cases where interstate activity was present on the other tests for support enforcement services. For 12 of 28 cases reviewed, DCSE failed to provide interstate services as required by federal regulation, resulting in a compliance rate of 57 percent for cases tested.

Recommendation:

The DCSE provide services within timeframes established by federal regulation.

Status of Finding:

DCSE does not believe the limited number of cases reviewed by the State Auditor provides a valid sample from which reliable and accurate conclusions may be drawn. For example, if the universe is 50,000 or more and the maximum acceptable margin of error is 5 percent, then a sample of 271 must be used to produce results at the 90 percent confidence level, the minimum confidence level required by OCSE for the self-assessment reviews. The State Auditor disregarded the “outcome-based” audit methodology required of DCSE by OCSE under 45 CFR Part 308 in favor of the “timeframe-based” audit methodology prescribed in OMB Circular No. A-133. DCSE agrees that it must provide services within timeframes established by federal regulation, and believes according to 45 CFR Part 308, it is complying with federal regulations. The results of a statistically valid sample assessing performance is shown below.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) requires states to perform internal self-assessment measures previously performed by the Office of Child Support Enforcement (OCSE). The Federal government’s audit responsibilities now focus primarily on results and fiscal accountability while States are to focus on the responsibilities for child support service delivery in accordance with Federal mandates. The annual self-assessment’s purpose is to give a State the opportunity to assess whether it is meeting Federal requirements for providing child support services and providing the best services possible. Missouri’s performance over the past four years the self-assessment has been required is detailed below.

Audit Category	Compliance Percent			
	FFY 1998	FFY 1999	FFY 2000	FFY2001
Paternity Establishment	79	85	79	77
Establishment of Case Orders	79	83	86	79
Enforcement of Orders	79	77	76	79
Medical Support	96	98	92	90
Modification of Case Orders	75	91	89	90
Case Closure	98	99	95	83
Interstate Services	77	80	64	66
Expedited Process	96	100	99	97
<u>Disbursement of Collections</u>	<u>N/A</u>	<u>N/A</u>	99	93

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2001-27. Reconciliations and Interest

Federal Agency: Department of Health and Human Services
Federal Program: 93.563 - Child Support Enforcement
State Agency: Department of Social Services – Division of Child Support Enforcement (DCSE)

Child support monies in a State Treasurer's account are not being reconciled to DCSE

accounting records by the Division of Budget and Finance (DBF). In addition, interest totaling \$994,383 has accumulated in the Family Support Trust Fund account since October 1999, and has not been disbursed as of October 31, 2001.

Recommendation:

The DCSE and DBF establish procedures to reconcile accounting records to cash in State Treasurer's account. In addition, we recommend the DBF remit accumulated interest to the state's general revenue fund and adjust the quarterly report of expenditures for the federal share.

Status of Finding:

DBF has accomplished the interest transfer every quarter and the federal 396-A report has reflected the transfer since this audit. DBF and DCSE have asked for a change in the programming of the MACSS system. The results of preliminary programming changes indicate additional changes are needed to get data compatible with the SAM system. A new expected completion date is April 2003.

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2001-28. Duplicate Payments

Federal Agency: Department of Health and Human Services
Federal Program: 93.563 - Child Support Enforcement
State Agency: Department of Social Services – Division of Child Support
 Enforcement (DCSE)

The DCSE disbursed 7,505 duplicate payments on November 23, 2001, totaling approximately \$1,204,389 to families receiving child support. These same payments had already been made on November 21, 2001. In addition, the DCSE issued duplicate checks of about \$63,000 in December 2001 and January 2002, on the St. Louis City Circuit Clerk's bank account.

Recommendation:

The DCSE implement procedures to ensure duplicate payments are not made.

Status of Finding:

Corrective action was taken.

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