

STATE OF MARYLAND

Single Audit Report

Year ended June 30, 2003 with Reports of Independent Auditors

Report of Independent Auditors on Financial Statements
Audited in Accordance with *Government Auditing Standards*
and Supplementary Schedule of Expenditures of Federal Awards

The Honorable William Donald Schaefer
Comptroller of Maryland

We have audited the basic financial statements, not included herein, of the State of Maryland (the State) as of and for the year ended June 30, 2003. These basic financial statements are the responsibility of the State of Maryland's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We did not audit the financial statements of (1) Economic Development – Loan Programs; (2) Maryland State Lottery Agency; (3) Maryland Transportation Authority; (4) Economic Development – Insurance Programs; (5) State Use Industries; (6) Maryland Environmental Service; (7) Maryland Industrial Development Financing Authority; (8) Maryland Food Center

**Percentage of Opinion Unit
Total
Revenues or
Total Assets Additions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2004, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal avl cordance with atn0.0009Budget (OMB
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Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statements in Accordance with *Government Auditing Standards*

The Honorable William Donald Schaefer
Comptroller of Maryland

We have audited the basic financial statements of the State of Maryland (the State) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report on the basic financial statements included disclosures regarding our references to the reports of other auditors. The financial statements of the Economic Development – Loan Programs (except for the Maryland Water Quality Financing Administration), the Maryland State Lottery Agency, the Maryland Transportation Authority, the Economic Development – Insurance Programs, the Maryland Industrial Development Financing Authority, the Maryland Local Government Investment Pool, and the Deferred Compensation Plan were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the State's basic financial statements 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

consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Finding 2003-1.

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 caused by errors or fraud 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. We consider the reportable condition described above in Finding 2003-1 to be a material weakness. We noted other matters involved tot[Tc1ght

Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable William Donald Schaefer
Comptroller of Maryland

Compliance

We have audited the compliance of the State of Maryland (the State) 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, 2003. The State's major federal programs are identified in the Summary of Auditors' 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 did not audit the major federal programs indicated as audited by other auditors in the Summary of

As described in Finding 2003-4, in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding activities allowed/unallowed that are

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This report is intended solely for the information and use of State management, the U.S. Department of Health and Human Services (the cognizant agency), federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

July 30, 2004

Abrams, Foster, Nole & Williams, P.A.

Certified Public Accountants

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Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable William Donald Schaefer
Comptroller of Maryland

Compliance

We have audited the compliance of the State of Maryland (the State) 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 certain of its major federal programs for the year ended June 30, 2003. The State's major federal programs that we have audited are identified in the Summary of Auditors' 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 auditing standards generally accepted in the United States of America; 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 Non-Profit 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 such 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.

In our opinion, the State complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs that we have audited for the year ended June 30, 2003.

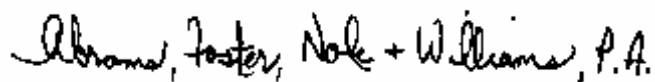
Internal Control Over Compliance

The management of the State 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 the major federal programs that we have audited in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2003-21.

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 the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of State management, the U.S. Department of Health and Human Services (the cognizant agency), federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants

July 30, 2004

State of Maryland

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
02	<u>Agency for International Development (AID)</u>					
	Agency for International Development	02.RD	\$ 426,843	\$ -	\$ -	\$ 426,843
	Pass-Through EURASIA Foundation	02.RD	(466)			(466)
	Pass-Through Supreme Council of Universities, Foreign Relations	02.RD	(73)			(73)
	Pass-Through University of Rawanda	02.RD	31,446			31,446
	Pass-Through United Negro College Fund	02.TELP-UMES			135,808	135,808
	Pass-Through University Research Corporation International	02. Unknown	1,692,649			1,692,649
	Pass-Through University Research Corporation International	02. Unknown			244,359	244,359
	Total Pass-Through Agency for International Development		1,723,556	-	380,167	2,103,723
	Total Agency for International Development		2,150,399	-	380,167	2,530,566
10	<u>Department of Agriculture (DOA)</u>					
	Contracts / Other:					
	Pass-Through Rutgers University	10.97-38411-4250			913	913
	Agricultural Research: Basic and Applied Research	10.001			141,771	141,771
	Plant and Animal Disease, Pest Control and Animal Care	10.025			426,650	426,650

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
10	<u>Department of Agriculture (DOA) (continued)</u>					
	Cooperative State Research, Education, and Extension Service (CSREES)					
		10.RD	\$ 11,345,528	\$ -	\$ -	\$ 11,345,528
		10.RD	48,318			48,318
		10.RD	17,456			17,456
		10.RD	63,564			63,564
		10.RD	40,208			40,208
		10.RD	67,775			67,775
		10.RD	30,215			30,215
		10.RD	141,825			141,825
		10.RD	20,432			20,432
		10.RD	19,527			19,527
	Total Pass-Through CSREES		449,320	-	-	449,320
	Total CSREES		11,794,848	-	-	11,794,848
	Economic Research Service					
		10.RD	149,674			149,674
	Foreign Agricultural Service					
		10.RD	1,568,141			1,568,141
	Forest Service					
		10.RD	268,877			268,877
	National Resources Conservation Service					
		10.RD	154,526			154,526
	Rural Business-Cooperative Service:					
		10.RD	50,463			50,463
	Total DOA		17,075,295	-	502,417,348	519,492,643
11	<u>Department of Commerce (DOC)</u>					
	Special American Business Internship Training Program					
		11.114			13,005	13,005
	Economic Development: Technical Assistance					
		11.303			78,699	78,699
	Economic Adjustment Assistance					
		11.307			6,000,970	6,000,970
	Interjurisdictional Fisheries Act of 1986					
		11.407			37,876	37,876
	Coastal Zone Management Administration Awards					
		11.419			1,595,891	1,595,891
	Coastal Zone Management Estuarine Research Reserves					
		11.420			726,896	726,896
		11.420			6,104	6,104
	Total Coastal Zone Management Estuarine Research Reserves		-	-	733,000	733,000
	Financial Assistance for National Centers for Coastal					
		11.426			461,151	461,151
	Ocean Science					
		11.439			9,730	9,730
	Marine Mammal Data Program					
		11.457			108,547	108,547
	Chesapeake Bay Studies					
		11.470			27,596	27,596
	Office of Administration Special Programs					
		11.474			80,221	80,221
	Atlantic Coastal Fisheries Cooperative Management Act					
		11.481			2,760,925	2,760,925
	Educational Partnership Program					
		11.609			434,329	434,329
	Measurement and Engineering Research and Standards					
		11.609	4,000			4,000
	Total Measurement and Engineering Research and Standards		4,000	-	434,329	438,329
	Minority Business Development Centers					
		11.800			387,198	387,198
	Bureau of the Census					
		11.RD	129,977			129,977
	National Institute for Standards and Technology					
		11.RD	5,588,661			5,588,661

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
11	<u>Department of Commerce (DOC) (continued)</u> National Oceanic and Atmospheric Administration Pass-Through Research Foundation of State University	11.RD	\$ 9,452,985	\$ -	\$ -	\$ 9,452,985

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
12	<u>Department of Defense (DOD)</u> (continued)					
	U.S. Army, Material Command	12.RD	\$ 7,050,940	\$ -	\$ -	\$ 7,050,940
	Pass-Through Boston University	12.RD	411,586			411,586
	Total U.S. Army, Material Command		7,462,526	-	-	7,462,526
	Department of the Navy, Office of Chief of Naval	Too31			TU.S.	

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
14 <u>Department of Housing & Urban Development (HUD)</u>					

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
15	<u>Department of the Interior (DOI) (continued)</u>					
	National Park Service	15.RD	\$ 483,000	\$ -	\$ -	\$ 483,000
	Pass-Through University of Rhode Island	15.RD	1,127			1,127
	Total National Park Service		484,127	-	-	484,127
	U.S. Fish and Wildlife Service	15.RD	13,782			13,782
	Pass-Through Southern Louisiana University	15.RD	28,468			28,468
	Total U.S. Fish and Wildlife Service	15.RD	42,250	-	-	42,250
	Geological Survey	15.RD	421,206			421,206
	Other Department of Interior – Research and Development	15.RD	84,618			84,618
	Total DOI		1,032,201	-	10,579,542	11,611,743
16	<u>Department of Justice (DOJ)</u>					
	Contract / Other	16.Unknown			1,304,667	1,304,667
	State Domestic Preparedness Equipment Support Program	16.007			3,352,192	3,352,192
	Offender Reentry Program	16.202			1,538	1,538
	Juvenile Accountability Incentive Block Grants	16.523			5,547,264	5,547,264
	Reduce Violent Crimes Against Women on Campus	16.525			131,950	131,950
	Juvenile Justice and Delinquency Prevention: Allocation to States	16.540			1,879,380	1,879,380
	Juvenile Justice and Delinquency Prevention: Special Emphasis	16.541			325,022	325,022
	National Institute for Juvenile Justice and Delinquency Prevention	16.542			6,482	6,482
	Missing Children’s Assistance	16.543			201,846	201,846
	Title V: Delinquency Prevention Program	16.548			758,239	758,239
	Part E: State Challenge Activities	16.549			190,956	190,956
	State Justice Statistics Program for Statistical Analysis Centers	16.550			478,359	478,359
	National Criminal History Improvement Program (NCHIP)	16.554			1,134,103	1,134,103
	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			3,233,965	3,233,965
	Public Safety Officers’ Benefits Program	16.571			401,806	401,806
	Crime Victim Assistance	16.575			6,917,539	6,917,539
	Crime Victim Compensation	16.576			1,581,000	1,581,000
	Byrne Formula Grant Program	16.579			13,011,937	13,011,937
	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580			2,775,848	2,775,848
	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586			13,432,409	13,432,409
	Violence Against Women Formula Grants	16.588			2,917,676	2,917,676
	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590			629,129	629,129
	Managing Released Sex Offenders	16.591			64,199	64,199
	Local Law Enforcement Block Grants Program	16.592			1,284,228	1,284,228
	Residential Substance Abuse Treatment for State Prisoners	16.593			793,455	793,455
	State Criminal Alien Assistance Program	16.606			1,641,909	1,641,909
	Bulletproof Vest Partnership Program	16.607			3,001	3,001

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
16	<u>Department of Justice (DOJ)</u>					
	Public Safety Partnership and Community Policing Grants	16.710	\$	-	\$	\$
	Police Corps	16.712			61,440	61,440
	Enforcing Underage Drinking Laws Program	16.727			2,171,769	2,171,769
					638,350	638,350
	Office of Juvenile Justice and Delinquency Prevention	16.RD		8,607,183		8,607,183

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

**Federal Department
Program Title**

CFDA Number

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
23 Appalachian Regional Council (ARC)					

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
43	<u>National Aeronautics and Space Administration (NASA)</u> (continued)					
	NASA (continued)	43.RD				
	Pass-Through Smithsonian Institute	43.RD	\$ 8,403	\$ -	\$ -	\$ 8,403
	Pass-Through Southwest Research Institute	43.RD	100,876			100,876
	Pass-Through Southwest Science Inc.	43.RD	26,800			26,800
	Pass-Through Space Telescope Science Institute	43.RD	289,079			289,079
	Pass-Through Space Telescope Science Institute	43.NAS5-26555	50,672			50,672
	Pass-Through Universities Space Research Association	43.2094-03	7,903			7,903
	Pass-Through Universities Space Research Association	43.NCC5-315	54,242			54,242
	Pass-Through University of Arizona at Tucson	43.RD	24,988			24,988
	Pass-Through University of California	43.RD	23,756			23,756
	Pass-Through University of California at Berkley – Space Science Lab	43.RD	149,425			149,425
	Pass-Through University of Texas-Austin	43.RD	60,405			60,405
	Pass-Through University Research Corporation International	43.RD	200,351			200,351

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance
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State of Maryland

Schedule of Expenditures of

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
66	<u>Environmental Protection Agency (EPA)</u> (continued)					
	Office of Air and Radiation	66.RD	\$ 999,791	\$ -	\$ -	\$ 999,791
	Pass-Through University of Louisville	66.RD	14,501			14,501
	Pass-Through University of West Florida	66.RD	69,648			69,648
	Total Pass-Through Environmental Protection Agency		84,149	-	-	84,149
	Total Environmental Protection Agency		1,083,940	-	-	1,083,940
	Office of Administration	66.RD	185,882	-	-	185,882
	Office of Environmental Education: Pass-Through					
	University of Central Florida	66.RD	60,943			60,943
	Office of Research and Development	66.RD	3,400,924			3,400,924
	Office of Water	66.RD	279,053			279,053

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures			
84	<u>Department of Education (DED) (continued)</u>								
	TRIO Cluster:								
	TRIO: Student Support Services	84.042	\$	-	\$	-	\$ 4,573,493	\$ 4,573,493	
	TRIO: Talent Search	84.044					618,507	618,507	
	TRIO: Upward Bound	84.047					3,465,000	3,465,000	
	TRIO: Educational Opportunity Centers	84.066					231,682	231,682	
	TRIO: McNair Post – Baccalaureate Achievement	84.217					1,099,856	1,099,856	
	Total TRIO Cluster			-		-	9,988,538	9,988,538	
	Higher Education: Institutional Aid	84.031					11,135,771	11,135,771	
	Vocational Education: Basic Grants to States	84.048					15,067,514	15,067,514	
	Leveraging Educational Assistance Partnership	84.069					550,520	550,520	
	Fund for the Improvement of Postsecondary Education	84.116					284,530	284,530	
	Minority Science and Engineering Improvement	84.120					278,208	278,208	
	Rehabilitation Services: Vocational Rehabilitation Grants to States	84.126					39,116,977	,116,977	HRita

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
84 Department of Education (DED) (continued)					
Educational Research and Improvement	84.RD	\$ 722,852	\$ -	\$ -	\$ 722,852
Pass-Through City University of New York	84.RD	432			432
Total Educational Research and Improvement		723,284	-	-	723,284
Institute of Education Sciences	84.RD	654,788			654,788
Postsecondary Education	84.RD	909,483			909,483
Special Education and Rehabilitative Services	84.RD	2,125,004			2,125,004
Pass-Through Vanderbilt University	84.RD	150,959			150,959
Total Special Education and Rehabilitative Services		2,275,963	-	-	2,275,963
55Dui9rd.)230T768d(DED)l)6352t(4 Tr ref7cb2(D)5.6(0))T469)] 144(27634518 983755.9(5185999)2327e481)7.005118(4TT401E3T*73210.8868y(l 9(p4(07ta)5(a)r 3:6.2(e)6.		144,276,345.18	98,375,599.51	232,700,511.80	375,252,456.49

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93 Department of Health & Human Services (HHS) (continued)					
Maternal and Child Health Federal Consolidated Programs	93.110	\$ -	\$ -	\$ 239,380	\$ 239,380
Biological Response to Environmental Health Hazards	93.113			189,426	189,426
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			1,418,028	1,418,028
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118			210,514	210,514
Small Business Innovation Research	93.126			572,524	572,524
Emergency Medical Services for Children	93.127			116,050	116,050
Primary Care Services: Resource Coordination and Development	93.130			264,561	264,561
Injury Prevention and Control Research and State and Community Based Programs	93.136			371,424	371,424
Community Programs to Improve Minority Health Grant Programs	93.137			119,210	119,210
AIDS Education and Training Centers: Pass-Through Howard University	93.145			63,557	63,557
Pass-Through Howard University Hospital	93.145			92,940	92,940
Total AIDS Education and Training Centers		-	-	156,497	156,497
Projects for Assistance in Transition from Homelessness (PATH)	93.150			863,985	863,985
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			1,138,579	1,138,579
Grants for State Loan Repayment	93.165			320,000	320,000
Research related to Deafness and Communication Disorders	93.173			234,834	234,834
Queenin N. Burdick Programs for Rural Interdisciplinary Training: Pass-Through Western Maryland Area Health Education Center	93.192			10,398	10,398
Childhood Lead Poisoning Prevention Projects: State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197			815,413	815,413
Family Planning: Services	93.217			4,152,441	4,152,441
National Research Service Awards: Health Services Research Training	93.225			11,413	11,413
Research on Healthcare Costs, Quality and Outcomes Consolidated Knowledge Development and Application (KD&A) Program	93.230	4,656,717		2,666,589	2,666,589
Loan Repayment Program for General Research	93.232			9,375	9,375
Abstinence Education	93.235			496,959	496,959
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238			204,284	204,284
Policy Research and Evaluation Grants	93.239			98,964	98,964
State Rural Hospital Flexibility Program	93.241			186,784	186,784
Mental Health Research Grants	93.242			32,434	32,434
Substance Abuse and Mental Health Services: Projects of Regional and National Significance	93.243			136,180	136,180

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93	<u>Department of Health & Human Services (HHS)</u> (continued)					
	Universal Newborn Hearing Screening	93.251	\$ -	\$ -	\$ 122,269	\$ 122,269
	State Planning Grant: Health Care Access for the Uninsured	93.256			314,554	314,554
	Rural Access to Emergency Devices Grant	93.259			199,691	199,691
	Immunization Grants	93.268			3,826,828	3,826,828

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93	Department of Health & Human Services (HHS) (continued) Child Support Enforcement Demonstrations and Special					

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93 Department of Health & Human Services (HHS) (continued)					
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	\$ -	\$ -	\$ 3,009,911	\$ 3,009,911
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		190,523		190,523
HIV Prevention Activities: Health Department Based	93.940			12,457,703	12,457,703
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944			1,989,407	1,989,407
Assistance Programs for Chronic Disease Prevention and Control	93.945			110,861	110,861
Improving EMS/Trauma Care in Rural Areas	93.952			48,018	48,018
Block Grants for Community Mental Health Services	93.958			4,771,490	4,771,490
Block Grants for Prevention and Treatment of Substance Abuse	93.959			32,585,095	32,585,095
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State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93	<u>Department of Health & Human Services (HHS)</u> (continued)					
	National Institutes of Health	93.RD	\$ 39,057,561	\$ -	\$ -	\$ 39,057,561
	Pass-Through Boston University	93.RD	46,017			46,017
	Pass-Through Children's Research Institute	93.RD	78,888			78,888
	Pass-Through Cornell University	93.RD	114,089			114,089
	Pass-Through Johns Hopkins University	93.RD	106,403			106,403
	Pass-Through Kennedy Kreiger Institute	93.RD	15,595			15,595
	Pass-Through New York University	93.RD	154,633			154,633
	Pass-Through Oregon Health Sciences	93.RD	15,850			15,850
	Pass-Through RAND Corp.	93.RD	24,556			24,556
	Pass-Through University of Cincinnati	93.RD	68,886			68,886
	Pass-Through University of Florida	93.RD	(5,746)			(5,746)
	Pass-Through University of North Carolina at Chapel Hill	93.RD	20,432			20,432
	Pass-Through University of Pennsylvania	93.RD	240,702			240,702
	Pass-Through University of Rhode Island	93.RD	19,581			19,581
	Pass-Through University of Rochester	93.RD	(120)			(120)
	Pass-Through University of Texas	93.RD	1,763			1,763
	Pass-Through University of Utah	93.RD	133,688			133,688
	Pass-Through Wake Forest University	93.RD	(1,454)			(1,454)
	Total Pass-Through National Institutes of Health		1,033,763	-	-	1,033,763
	Total National Institutes of Health		40,091,324	-	-	40,091,324
	Administration for Children and Families	93.RD	27,479			27,479
	Pass-Through University of Pittsburgh	93.RD	62,579			62,579
	Pass-Through Center for Adoption Support and Education Inc.	93.RD	50,957			50,957
	Total Pass-Through Administration for Children and Families		113,536	-	-	113,536
	Total Administration for Children and Families		141,015	-	-	141,015
	Office of the Secretary	93.RD	86,019			86,019
	Substance Abuse and Mental Health Services Administration	93.RD	150,357			150,357
	Total HHS		171,539,509	13,625,193	3,290,066,963	3,475,231,665
94	<u>Corporation for National and Community Service (CNCS)</u>					
	State Commissions	94.003			318,102	318,102
	Learn and Serve America: School and Community Based Programs	94.004			123,683	123,683
	Learn and Serve America: Higher Education	94.005			150,403	150,403
	AmeriCorps	94.006			7,262,607	7,262,607
	Planning and Program Development Grants	94.007			122,750	122,750
	Training and Technical Assistance	94.009			104,776	104,776
	Foster Grandparent Program	94.011			326,665	326,665
	Volunteers in Service to America (VISTA)	94.013			36,076	36,076
	Corporation for National and Community Service	94.RD	(25,029)			(25,029)
	Total CNCS		(25,029)	-	8,445,062	8,420,033

State of Maryland

Schedule of Expenditures of

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

1. Single Audit Reporting Entity

The State includes expenditures in its Schedule of Expenditures of Federal Awards for all federal programs administered by the same funds, agencies, boards and commissions, including component units, included in the State's reporting entity used for its basic financial statements including the component unit higher education funds—the University System of Maryland, the Baltimore City Community College, Morgan State University, and St. Mary's College of Maryland except for the Maryland Water Quality Financing Administration of the Maryland Department of the Environment. A separate single audit is conducted for this entity which is part of an enterprise fund of the State of Maryland.

2. Basis of Accounting

Except as otherwise noted, the Schedule of Expenditures of Federal Awards has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid. Expenditures for CFDA No. 20.205, Highway Planning and Construction Program, are presented on the basis that expenditures are reported to the U.S. Department of

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State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

2. Basis of Accounting (continued)

Amounts reported as noncash expenditures for CFDA No. 39.003, Donation of Federal Surplus Personal Property, represent the average fair market value percentage per the General Services Administration (GSA) of 25% of the federal government's original acquisition cost (OAC) of the federal property transferred to recipients by the State.

3. Categorization of Expenditures

The Schedule of Expenditures of Federal Awards reflects federal expenditures for all individual grants, which were active during the year. The categorization of expenditures by program included in the Schedule of Expenditures of Federal Awards is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued in June and December of each year. In accordance with the State's policy, the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2003 reflects CFDA changes issued through December 2002.

4. State Nonmonetary Federal Financial Assistance

The State distributes federal surplus food to institutions (schools, hospitals, and prisons) and to

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

9. Loan Programs

St. Mary's College of Maryland

The College adm2\$grams

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

9. Loan Programs (continued)

Morgan State University

The University administers the Federal Perkins Loan Program – Federal Capital Contributions (CFDA No. 84.038). The outstanding loan balance of \$2,840,255 at June 30, 2002, and the loan expenditures of \$477,159 for the fiscal year ended June 30, 2003 are considered current year federal expenditures. These amounts are reported in the Schedule of Expenditures of Federal Awards.

During the fiscal year ended June 30, 2003, the University processed \$21,094,442 of new loans under the Federal Direct Loan Program (CFDA No. 84.268). Since this program is administered by outside financial institutions, new loans made in the fiscal year ended June 30, 2003 relating to this program are considered current year federal expenditures, whereas the outstanding loan balances are not. The new loans made in the fiscal year ended June 30, 2003 are reported in the Schedule of Expenditures of Federal Awards.

University System of Maryland

The System administers the following federal student financial assistance programs:

<u>CFDA Number</u>		<u>Outstanding Balance at June 30, 2002</u>	<u>Loan Expenditures for Fiscal Year Ended June 30, 2003</u>
84.038	Perkins Loan Program	\$ 56,054,824	\$ 11,968,474
93.364	Federal Nursing Loan – Undergraduate	1,474,266	417,361
93.364	Federal Nursing Loan – Graduate	136,365	–

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

9. Loan Programs (continued)

University System of Maryland (continued)

During the fiscal year ended June 30, 2003, the System processed the following amount of new loans under the Federal Family Education Loan Program (which includes the Stafford Loan and PLUS loan) and the Direct Loan program. Since these loan programs are administered by outside financial institutions, new loans made in the fiscal year ended June 30, 2003 relating to these programs are considered current year federal expenditures, whereas the outstanding loan balances are not. The new loans made in the fiscal year ended June 30, 2003 are reported in the Schedule of Expenditures of Federal Awards.

<u>CFDA Number</u>		<u>Loan Expenditures for Fiscal Year Ended June 30, 2003</u>
84.032	Stafford Loan Program	\$ 153,670,662
84.032	PLUS	23,686,506
84.268	Subsidized Ford Federal Direct Student Loan	79,418,531
84.268	Unsubsidized Ford Federal Direct Student Loan	70,178,937
84.268	Ford Federal Direct Parent Loan	26,755,785
		<u>\$ 353,710,421</u>

The System also administers loans under the Economic Adjustment Assistance Program (CFDA No. 11.307). Under this program, the System uses revolving loan funds to enhance economic activity. The revolving loan fund assists business development and expansion. The outstanding loan balance at June 30, 2002 of \$4,811,126 and new loans made in the fiscal year ended June 30, 2003 of \$605,300 are considered current year federal expenditures and are reported in the Schedule of Expenditures of Federal Awards.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Identification of Major Programs (continued):

CFDA Numbers	Name of Federal Program or Cluster	Federal Expenditures
Major programs audited by Ernst & Young LLP:		
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	\$ 106,649,203

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

Finding 2003-1

State Treasurer’s Office Did Not Effectively Perform Cash Reconciliations for the Fiscal Year Ended June 30, 2003 in a Timely Manner

Condition:

The State Treasurer’s Office did not effectively reconcile recorded cash balances to cash held in the bank during the fiscal year ended June 30, 2003. Differences noted, primarily related to receipts recorded versus deposits, were not adequately investigated so that appropriate adjustments could be made to the State’s accounting records. The State Treasurer’s Office spent considerable effort after year end to perform such reconciliations and substantially completed the process in January 2004.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Cause:

The current reconciliation format does not account for all cash activity. In addition, the State of Maryland had inadequate internal controls over the daily processing of banking transactions.

Effect:

The lack of timely and effective cash reconciliations during the fiscal year ended June 30, 2003 created a condition in which the State’s recorded cash balance and related revenues could have been misstated. It also caused the State to lose its low risk auditee status under OMB Circular A-133 and resulted in the auditors having to audit more federal programs to achieve the required percentage of coverage and spend significant additional time auditing cash.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2003-1 (continued)

Recommendation:

We recommend that the State Treasurer's Office implement procedures to effectively reconcile cash balances held by the State Treasurer's Office to cash held in the bank on a monthly basis. Implementation of such procedures will facilitate the preparation of accurate, complete and timely financial statements.

Auditee Response and Corrective Action Plan:

The daily processing of banking transactions has been restructured to include proper financial and operational controls. As the auditors and we agreed, a new reconciliation format has been developed, and is currently in use, that conf

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2003-1 (continued)

- We developed an analysis of the BAI file to break down components and prepare for conversion to TrinTech's automated reconciliation system.
- We have developed and now use a detailed spreadsheet to accurately track timing of bank adjustments charged back to agencies-timing issue important to accurate reconciliation.
- We have begun the re-examination of the unmatched book and bank deposit transactions in the June-August 2003 period in order to help identify the unreconciled balance. We will then resolve subsequent disparities.
- We have been working closely with State agencies, particularly the Comptroller's Office, to develop a reconciliation process that is accurate and reliable. The process requires close inter-agency coordination.

We have begun testing the deposit match process using TrinTech, the new automated reconciliation and processing system. As discussed at our legislative budget hearings, we believe that it might be prudent to postpone the implementation of the new system until after the beginning of the next fiscal year, in order to make the agency close-out procedures clear and uncomplicated.

It should be noted that throughout the restructuring process, we are continuing to define and document previously unknown processing issues that affect the reconciliation. The volume of these aberrations, unfortunately, has slowed our progress toward isolating the final balance discrepancy, but it has also enhanced the new reconciliation process and given us assurance that the final complete reconciliation will be comprehensive and accurate. We strongly believe our achievements will facilitate the preparation of accurate, complete, and timely financial statements.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-2 (continued)

Effect:

By not identifying new federal programs timely nor requesting reimbursements of federal funds timely, MSDE is creating undue burden on the State's cash position. MSDE does not have adequate internal controls over cash management, which includes, supervisory reviews.

Recommendation:

We recommend that MSDE review existing internal controls to ensure that the identification of new federal programs is not overlooked in regards to drawing down federal funding. We recommend that MSDE establish internal control procedures to incorporate supervisory review and approval of cash drawdowns for program expenditures. Supporting documentation to substantiate this review should be maintained for audit purposes.

Auditee Response and Corrective Action Plan:

MSDE concurs with this finding.

The Division of Business Services has implemented the following corrective action plan:

- Effective August 1, 2003, the Head of the General Accounts Section has run a report from the EGAPS system which reflects all executed Department of Education grants. This report will be obtained on a monthly basis and any new grants will be added to the query in R*STARS which provides eligible drawdown amounts.
- Effective April 1, 2004, supervisory reviews are performed by the Accounting Branch Chief prior to requesting any drawdown of federal funds.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-3

State Treasurer’s Office

CFDA No. 10.555 – National School Lunch Program (NSLP)

CFDA No. 10.558 – Child and Adult Care Food Program

CFDA No. 10.561 – State Administrative Matching Grants for Food Stamp Program

CFDA No. 17.225 – Unemployment Insurance

CFDA No. 20.500 – Federal Transit: Capital Investment Grants

CFDA No. 20.507 – Federal Transit: Formula Grants

CFDA No. 84.010 – Title I Grants to Local Education Agencies

CFDA No. 84.027 – Special Education: Grants to States

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-3 (continued)

The components that were used to develop the average clearance-vendor pattern include transit time, Comptroller of Maryland's General Accounting Division (GAD) processing time and check clearance time. The component that was used to develop the average clearance-payroll pattern was the check clearance time. The documentation provided by the State Treasurer of Maryland did not support the development of any of the time components used in the development of the average clearance vendor and average clearance payroll check clearance patterns as noted in the CMIA Agreement.

Criteria:

31 CFR 205.20 states in part:

§§ states use clearance patterns to project wh

State of Maryland

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-4

Department of Human Resources (DHR)

CFDA No. 93.659 – Adoption Assistance

CFDA No. 93.558 – Temporary Assistance for Needy Families

The Department of Human Resources (DHR) had inadequate controls in place to prevent expenditures from being transferred to another federal program due to incorrect interpretation of federal laws and budgetary shortfalls.

Condition:

During fiscal year ended June 30, 2002 the Adoption Assistance program had been incurring expenditures. This program is funded 50% by federal funds and 50% by state funds. These expenditures were being reported to the Department of Health and Human Services Administration for Children and Families (HHS ACF) on the quarterly Title IV-E Foster Care and Adoption Assistance Financial Report. The total amount of expenditures initially reported for the Adoption Assistance program was \$12,549,648 (\$12,481,264 of subsidy payments and \$68,384 of administration costs) for the fiscal year ended June 30, 2002. At fiscal year ended June 30, 2002, DHR charged \$12,481,264 of these expenditures to another federally funded

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-4 (continued)

Criteria:

OMB Circular A-133 Subpart C .300(c) states the auditee shall “Comply with laws, regulations and the provisions of contracts or agreements related to each of its Federal programs.”

Cause:

DHR’s management incorrectly interpreted federal laws governing allowable costs under the Adoption Assistance and TANF programs. DHR’s management indicated that this adjustment was recorded because there were larger shortfalls general funds for foster care programs, which includes Adoption Assistance.

Effect:

The reported expenditures of \$12,481,264 that were charged to the Adoption Assistance program in the fiscal year ended June 30, 2002 are considered to be questioned costs. HHS Administration for Children and Families has sanctioned DHR.

Recommendation:

DHR should pursue settlement of the questioned costs with the HHS Administration for Children and Families. DHR should develop internal controls to identify allowable costs and ensure that only those costs are properly reported and recorded. Adjustments when made should be fully documented and reviewed by individuals knowledgeable about program activities allowed and unallowed. DHR should maintain evidence supporting adjustments as well as reviews of adjustments.

Auditee Response and Corrective Action Plan:

All of the Fiscal Management staff who have interpreted federal law governing the TANF program have retired from State service. The Department has recently filled the Chief Financial Officer’s position and he is restructuring his organization to avert the type of problems identified in this audit.

The Department submitted a Corrective Action Plan to HHS that addresses misuse of federal funds. HHS has accepted the plan.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-4 (continued)

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-5

**Department of Human Resources (DHR)
CFDA No. 93.659 – Adoption Assistance Program**

Inadequate internal controls exist over reporting administration expenditures.

Condition:

The Department of Human Resources (DHR) is allowed to charge administrative costs associated with the Adoption Assistance program under Title IV-E. The State's cost allocation plan reports show the time incurred by the caseworkers during the random moment studies under the Adoption Assistance program. However, when the time studies are summarized, the time spent for Adoption Assistance CFDA 93.659 and Foster Care CFDA 93.658 programs, respectively are grouped together under a heading entitled Title IV-E. The results of the time studies are used to calculate administrative costs that are then charged back solely to the Foster Care program. DHR records these costs under the Foster Care program as noted on the quarterly expenditures reports submitted to U.S. Department of Health & Human Services –

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-5 (continued)

Effect:

DHR is not properly reporting Adoption Assistance State Administration costs to HHS ACF. The Foster Care Title IV-E State Administration costs are overstated while the Adoption Assistance State Administration costs are understated resulting in an indeterminable amount of questioned costs.

Recommendation:

We recommend that DHR review the federal regulations over Title IV-E and obtain an understanding of the allowable costs for the Adoption Assistance program. DHR should develop procedures to capture Adoption Assistance Administration costs and properly report these on the quarterly reports to HHS ACF. DHR should pursue resolution with HHS ACF as to resolving prior period reporting errors and settlement of any questioned costs.

Auditee Response and Corrective Action Plan:

The Department's Cost Allocation Plan (CAP) is approved for funding caseworkers administrative costs using a Time Study to determine benefiting programs. A review of the Time Study results revealed that the category "Adoption Subsidy" is being used. The Time Study data associated with Adoption Subsidy has been considered to be Title IV-E Foster Care based on an interpretation of the CAP that identifies Adoption Subsidy as "IV-E Administrative Costs."

45 CFR 1356.60(c) does specifically separate Administrative Costs, Foster Care and Adoption Assistance. Therefore, effective quarter ending September 30, 2004, the Department will amend its costs allocation methodology for funding the Administrative Costs of caseworkers to include adoption.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-6

**Department of Human Resources (DHR)
CFDA No. 93.659 – Adoption Assistance Program**

DHR did not report federal expenditures on a cash basis of accounting as required on the Title IV-E Foster Care and Adoption Assistance Financial Report.

Condition:

DHR is required to prepare the Title IV-E Foster Care and Adoption Assistance Financial Report, State Quarterly Report of Expenditures and Estimates, Form ACF-IV-E-1. The expenditures reported on form ACF-IV-E-1 under the current quarter expenditures are to be reported on a cash basis. We reviewed 2 of the 4 quarterly expenditure reports submitted for fiscal year 2003 expenditures and noted that the expenditures reported under the current quarter column, which are reported in columns a and b, for the June 30, 2003 quarter, were reported on an accrual basis.

Criteria:

The general instructions for completing Part 1 of the FORM ACF-IV-E-1 states that “All amounts reported in column (a), (b), (c), and (d) must be for actual expenditures made under the State’s approved IV-E plan and in accordance with all applicable statutes and regulations.”

Cause:

DHR management did not note the error in the Adoption Assistance program upon their initial submission of the 4th quarter ACF-IV-E-1 report.

Effect:

DHR did not comply with the ACF’s guidelines in reporting expenditures resulting in an indeterminable amount of questioned costs.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-6 (continued)

Recommendation:

We recommend that DHR determine the impact of this error and submit a revised report to ACF. We recommend that DHR review their current internal controls over report preparation and modify their procedures, if necessary, to ensure that these types of errors do not occur in the future.

Auditee Response and Corrective Action Plan: xpe90epartmW

The Department did report Adoption Assistance e

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-7

**Department of Health and Mental Hygiene
CFDA No. 93.775, 93.777 and 93.778 – Medicaid Cluster**

Internal control weakness over the eligibility determination process for medical assistance benefits.

Condition:

On July 1, 1985 the Maryland State Department of Health and Mental Hygiene (DHMH) entered into an agreement with the Maryland State Department of Human Resources (DHR). DHR agreed to determine eligibility for Medical Assistance on a uniform basis throughout the State for persons who are indigent or medically indigent according to regulations, guidelines and procedures established by DHMH.

The DHR Local Department of Social Service (LDSS) offices did not obtain the necessary documentation and perform the necessary verification (cafrim) 40:45 (ent R) in app R45 nsu pffices ce Find 105

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-7 (continued)

Auditee Response and Corrective Action Plan:

The Department of Human Resources, Family Investment Administration (FIA), is responsible for oversight of local departments of social services who determine eligibility and maintain case files per the MOU between DHMH and DHR. The Executive Director of the Office of Operations and Eligibility will send a letter to the Executive Director of FIA to advise him of the audit findings and request a corrective action plan. DHMH will investigate those ineligible cases and, if appropriate, refer them to the Division of Recovery and Finance for recovery of payments.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-8

**Department of Health and Mental Hygiene (DHMH)
CFDA No. 93.775, 93.777 and 93.778 – Medicaid Cluster**

Internal control weakness over the Federal cash draw down process.

Condition:

Each week, the Office of Planning and Finance prepares a cash draw down memorandum and sends it to General Accounting requesting them to draw down federal funds based on the amounts in the memorandum. We reviewed 6 cash draw down requests totaling \$425 million and noted no audit evidence that requests were reviewed and approved by management prior to submission to the Center for Medicare and Medicaid's Payment Management System (CMS) for reimbursement.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Cause:

Management's internal control procedures over cash reimbursement of medical assistance expenditures do not require formal documentation of reviews.

Effect:

There is no assurance that cash drawdowns of federal funds are reviewed and approved prior to submission to the CMS.

Recommendation:

We recommend that DHMH establish and document internal control procedures to review and approve cash drawdowns for medical assistance expenditures prior to submission. The review and approval of the cash drawdowns should be documented to substantiate that the review had been performed properly.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-8 (continued)

Auditee Response and Corrective Action Plan:

The Department of Health and Mental Hygiene, Office of Planning and Finance has always maintained internal control procedures which included a review and approval of cash drawdowns for medical assistance expenditures prior to submission. All cash drawdowns are prepared by a staff accountant and reviewed and approved by the Chief of Budgeting/Accounting/Revenue prior to submission to General Accounting.

To substantiate the review process and approval of the cash drawdown, a signature of the Chief of Budgeting/Accounting/Revenue or a supervisor will be included in the drawdown request when it is forwarded to the General Accounting Department.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-9 (continued)

Recommendation:

We recommend that DHMH reconcile the quarterly CMS-64 report to the underlying supporting documentation for the individual categories of service type.

Auditee Response and Corrective Action Plan:

The audit finding incorrectly associates the categorization of payments by service type (i.e., Inpatient, Physician, etc.) with appropriate percentages of FFP claims. They are two separate issues, and with regard to Maryland's claiming procedures, they are unrelated.

Maryland's regular FMAP rate is 50%. An enhanced rate of 90% is claimed for Family Planning, and 65% for expenditures related to Women's Breast and Cervical Cancer. By far, the most significant enhanced claim is for the 90% Family Planning expenditures. The majority of the 90% Family Planning dollars claimed are based on an allocation of a percentage of Managed Care Organization (MCO) expenditures to Family Planning. This allocation is done manually, based on net MCO expenditures taken directly from the MMIS reports. The claim is posted directly to the CMS-64 from the separate work papers used to calculate this allocation, and is unaffected by any miscategorization of service types on the CMS-64. This is clearly demonstrable from our workpapers.

Regarding the separate issue of categorization of expenditures, we are ready to work with CMS to present the information in the manner that they require.

There have been quarterly CMS reviews of the presentation of our expenditure data, and no exception has been brought to our attention. Therefore, we are under the impression that the current presentation meets their requirements.

The Federal Government requires the State of Maryland to report "total computable" expenditures for federal fund reimbursement. Total computable means only those expenditures eligible for some percentage of federal reimbursement; therefore, "State only" expenditures are

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-9 (continued)

The 64.9 Waiver portion of the report is stated in “net payments” after adjustments for Waiver-related TPL collections. Source reports MMIS II – HMF4546 – 4549. In recent conversations with CMS Headquarters Office, it was confirmed to us that the reporting of Waiver expenditures should be in terms of net expenditures in order to accurately track budget neutrality.

It would appear that this mix-and-match of gross and net expenditures on the forms 64.9 is the source of concern. We can certainly work with CM

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-10

CFDA No. 93.775, 93.777 and 93.778 – Medicaid Cluster

The Department of Health and Mental Hygiene and the State Treasurer’s Office did not maintain documentation supporting the Department of Health and Mental Hygiene’s Average Clearance Vendor Medical Assistance Program – Provider Payments clearance pattern referenced in the Cash Management Improvement Act Agreement between the State Treasurer of Maryland and the Secretary of the Treasury – United States Department of Treasury (CMIA Agreement).

Condition:

The Department of Health and Mental Hygiene and the State Treasurer’s Office did not maintain documentation to support the Department of Health and Mental Hygiene’s Average Clearance – Vendor Medical Assistance Program – Provider Payments referenced in the Cash Management Improvement Act Agreement between the State Treasurer of Maryland and the Secretary of the Treasury – United States Department of Treasury (CMIA Agreement). The clearance pattern consists of the General Accounting Division processing time and the check clearance time. The Department of Health and Mental Hygiene did not maintain documentation utilized to support this processing time as noted in the CMIA agreement. The State Treasurer’s Office did not provide documentation, which will support the check clearance time noted in the CMIA agreement. Finding number 2003-3 addresses the STO condition.

Criteria:

31 CFR 205.17C states, “Recordkeeping: A State shall maintain records supporting interest calculations, clearance patterns, direct costs, and other functions directly pertinent to the implementation and administration of the subpart.”

31 CFR 205.20 states in part:

“States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

- (a) A clearance pattern must be auditable.”

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-11

Department of Health and Mental HygieneestdtalMH

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-11 (continued)

Cause:

The interface between the CARES application and the MMIS-II application was not thoroughly tested prior to being put into production. As a result, system problems related to the inadequate processing of CARES records were not detected in a timely manner. Additionally, control reports were not utilized for the purposes of detecting such processing errors.

Effect:

Ineligible Medicaid recipients were extended coverage for extended periods of time. As a result, funds were paid to these recipients in error. The amount of questioned costs is undeterminable.

Recommendation:

DHMH should make the necessary system enhancements to ensure that the interface process is properly executed. Further, we recommend that reconciliation reports be developed, generated and reviewed on a daily basis. In doing so, there is greater assurance that all records will be received and processed as intended, and that processing errors will be detected and addressed in a timely manner. We recommend that DHMH identify the cost of the improper Medical Assistance payments and pursue resolution of the questioned costs with the U.S. Department of Health and Human Services.

Auditee Response and Corrective Action Plan:

An error existed in the automated interface between CARES and MMIS which prevented certain cancel transactions from being properly comm

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-11 (continued)

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-12

**Department of Health and Mental Hygiene (DHMH)
CFDA No. 93.775, 93.777 and 93.778 – Medicaid Cluster**

DHMH should develop and maintain adequate internal control over Medicaid

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-12 (continued)

Effect:

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-12 (continued)

Auditor's Conclusion:

The Administration agrees with the need for storing MMIS-II user IDs and passwords in a secure manner. On the issue of weak MMIS-II password controls, we still believe that because MMIS-II application IDs are not tied to ACF2 logon IDs, a valid ACF2 user could logon with any MMIS-II ID for which the ID/password combination is known. As a result, the

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-13

**Maryland State Department of Education Department (MSDE)
CFDA No. 10.553, 10.555, 10.556 and 10.559 – Child Nutrition Cluster**

Inadequate internal controls exist over cash management process.

Condition:

We noted 5 out of 7 federal cash drawdown transactions of a population of 7,000 transactions with a total amount of \$1,000,000.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-13 (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-14

Department of Health and Mental Hygiene

CFDA No. 93.283 Center for Disease Control and Prevention: Investigations and Technical Assistance

Internal control weaknesses over the Federal cash management process.

Condition:

We noted that one individual within the Department of Health and Mental Hygiene (DHMH) determines the drawdown amount, prepares the request for federal reimbursement and forwards the request to the State Treasurer's Office for processing. The supporting documentation used to determine amount of the drawdown is not maintained. DHMH's internal controls do not require a supervisor to review the drawdown for accuracy nor approve the drawdown request prior to requesting reimbursement from federal government.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

31 CFR 205 Subpart B: *Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement* states, "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purpose. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs."

Cause:

DHMH did not have internal controls in place to ensure that federal cash drawdowns are properly supported. DHMH internal controls do not require a supervisory review to occur prior to requesting reimbursement of federal funds.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-14 (continued)

Effect:

DHMH internal controls over the cash management process are not adequate to ensure accurate preparation and processing of federal cash drawdowns. We were unable to determine whether the timing of the federal cash drawdowns were in accordance with 31 CFR 205 Subpart B.

Recommendation:

We recommend that DHMH maintain supporting documentation to substantiate all federal cash drawdown requests. We recommend that DHMH establish and document internal control procedures over reviewing and approving federal cash drawdowns for the Center for Disease Control and Prevention: Investigations and Technical Assistance. The review and approval of the federal cash drawdowns should be documented to substantiate that the review had been performed properly.

Auditee Response and Corrective Action Plan:

The Department agrees with the auditor's finding and recommendation. The Division of General Accounting has instituted procedures which require a Supervisor's (Chief, Deputy Chief or Federal Fund Supervisor) approval of all draw down requests. Documentation to support draw requests will be reviewed before approval is given and retained for audit purposes. Documentation includes R*STARS reports, worksheets, correspondence with Treasurer's Office (when applicable), courtesy deposits and journal entries to distribute funds to the correct PCA. DHMH will institute an automated draw process in fiscal year 2005 and will ensure maintenance of proper documentation.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-15

Department of Health and Mental Hygiene (DHMH)

CFDA No. 93.283 Center for Disease Control and Prevention: Investigations and Technical Assistance

Internal control weaknesses related to accurate preparation of the Schedule of Expenditures of Federal Awards and periodic revenue and expenditure reports.

Condition:

For the fiscal year ended June 30, 2003, the Department of Health and Mental Hygiene (DHMH) personnel submitted revenue and expenditure reports to the federal grantor agency that reported revenues and expenditures by CFDA number. The accuracy and completeness of these expenditure reports with respect to the expenditure amounts reported by CFDA number are required to be tested as part of the OMB Circular A-133 audit. DHMH prepares the federal periodic reports based on activity recorded in the State’s general ledger, R*STARS. Additionally, DHMH personnel report these revenues and expenditures to the State of Maryland Comptroller’s Office via submission of the Schedule G. The Schedule G is utilized to prepare the State’s Schedule of Expenditures of Federal Awards. We noted that DHMH did not reconcile fiscal year revenue nor expenditure amounts reported on the periodic reports submitted to the federal grantor agency to the fiscal year revenue and expenditure amounts reported on their Schedule G nor the revenue and expenditures reported in R*STARS. The following shows a summary of the fiscal year amounts reported by DHMH:

	<u>Schedule G</u>	<u>R*STARS</u>	<u>Federal Periodic Revenue Reports – PSC 272</u>
Revenue	\$ 16,458,808	\$ 16,458,808	\$ 17,511,597

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-15 (continued)

Recommendation:

For each fiscal year, DHMH should reconcile fiscal year revenues and expenditures reported by CFDA number per the federal periodic reports to R*STARS and DHMH's Schedule G.

Auditee Response and Correction Action Plan:

The Department does not totally agree with the auditor's findings and recommendation.

Revenue

The auditors compared the information contained in the R*STARS reports and Schedule G to the PSC 272-B (Statement of Cash Accountability). The PSC 272 report series does not reflect revenue by CFDA number but by Letter of Credit, which includes numerous grants associated with various CFDA numbers. For each Letter of Credit, the PSC 272-B reflects revenue draw downs by date, amount and sometimes the specific grant/subaccount but not the CFDA. To determine the amount of revenue for CFDA 93.283, the auditors reviewed the journal adjustments associated with distribution of each draw down. However, subsequent adjustments involving the amounts drawn down were not considered and they account for the difference noted.

The Department will reconcile the amount drawn by Letter of Credit per PSC 272-B to the revenue recorded in R*STARS and the Schedule G. If the PSC 272-B reflects a subaccount within a Letter of Credit, we will reconcile to that lower level. Since the PSC 272 does not reflect CFDA number, we will not be performing a reconciliation at that level.

Expenditures

The Department has found some discrepancies in the computation of the SF-269 amount and feels it could isolate the \$200,000 difference, if necessary.

SF-269 is not based on CFDA but federal grant identification number. The Department fails to find value in just reconciling the SF-269 to the Schedule G corresponding to the fiscal year in which it was filed. The Schedule G is based on the State's fiscal year and the SF-269 is based on the grant's budget period and both are seldom the same. As a result, the expenditures reported on the SF-269 usually encompass at least two fiscal years and Schedules G, accordingly. Given the

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-15 (continued)

annually the expenditures, it appears that there is more value in ensuring that the cumulative expenditures for a specific grant per R*STARS agrees with the SF-269c-0.TAIs ms mour pratioce. In adituone,

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State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-16

Department of Human Resources

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-16 (continued)

Auditee Response and Corrective Action Plan:

The Department conducts quarterly management reviews of Child Support federal fund draws after submitting the quarterly federal financial report. The review is an independent analysis of funds drawn compared to actual reported expenditures to determine the adjusting draw that must be made within 45 days of a quarter's end, per the Treasury State Agreement (TSA). Management's determination of the quarterly cash adjustment is supported by an analysis of our award balance and adjusting awards to be received to cover actual reported expenditures.

The individuals responsible for drawing Child Support federal funds also generate a quarterly adjusting figure. Only when management's adjusting figure and the individual who prepares the quarterly adjusting draw reconcile is a request processed.

The finding that management is not reviewing each federal fund request is correct. To state that this creates an internal control weakness over the federal cash draw down process is debatable. However, human error is possible; therefore, the Department will institute a process by which ~~management will~~ review draw requests on a te

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-17

**Department of Human Resources
CFDA No 93.563 – Child Support Enforcement**

Inadequate oversight over service provider operations.

Condition:

We noted that Tier Technologies, Inc., a third-party service provider, processes 95% of all Child Support Enforcement (CSE) collections. We noted that the Department of Human Resource (DHR) does not have any procedures in place to ensure that the internal controls at this service provider are adequately functioning for CSE collection processing.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Cause:

The DHR does not have procedures in place to review and assess the internal controls at the service provider.

Effect:

We cannot determine whether the internal controls at the third party service provider are functioning adequately to ensure proper reporting of CSE collections.

Recommendation:

We recommend that the DHR develop procedures to ensure that the third party service provider maintains sufficient internal controls over the CSE collection process. A commonly accepted way for this to occur is to obtain and review the third party provider’s Statement on Auditing Standards No. 70 report, *Service Organizations*. This type of report is generally used to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-17 (continued)

Another acceptable way is for DHR to obtain an understanding of the internal controls, determine sufficiency of internal controls and perform testing of controls to ensure CSE collection process performed by the third party

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-18

**Department of Human Resources
CFDA No 93.563 – Child Support Enforcement**

Internal controls over the administration of Interstate Cases are inadequate.

Condition:

When a Child Support Enforcement Interstate Case is received from an initiating State, the responding State, Maryland, should reply within 10 working days of receipt to the initiating State. We noted 12 out of 26 or 46% responding cases tested did not comply with this requirement for the following reasons:

- 3 of the 26 did not note any reasons for not complying with the 10 day requirement
- 9 of the 26 had insufficient evidence

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-18 (continued)

Criteria:

45 CFR 303.7 (a) (2) (i-iv) states, “Within 10 working days of receipt of an interstate IV-D case from an initiating State, the central registry must:

- (i) Ensure that the documentation submitted with the case has been reviewed to determine completeness;
- (ii) Forward the case for necessary action either to the State PLS for location services or to the appropriate agency for processing;
- (iii) Acknowledge receipt of the case and ensure that any missing documentation has been requested from the initiating State; and
- (iv) Inform the IV-D agency in the initiating State where the case was sent for action.”

45 CFR 302.33(c) states, “Application fee. (1) Beginning October 1, 1985, the State plan must provide that an application fee will be charged for each individual who applies for services under this section. Under this paragraph:

- (i) The State shall collect the application fee from the individual applying for IV-D services or pay the application fee out of State funds.
- (iv) Any application fee charged must be uniformly applied on a statewide basis and must be:
 - (A) A flat dollar amount not to exceed \$25 (or such higher or lower amount as the Secretary may determine to be appropriate for any fiscal year to reflect increases or decreases in administrative costs); or
 - (B) An amount based on a fee schedule not to exceed the flat dollar amount specified in paragraph (c)(2)(iv)(A) of this section. The fee schedule must be based on the applicant’s income.”

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-18 (continued)

Per 45 CFR 303.7 (b) (2) states, “Initiating State IV-D agency responsibilities. The IV-D agency must:(2) Except as provided in paragraph (b)(1) of this section, within 20 calendar days of determining that the non-custodial parent is in another State, and, if appropriate, receipt of any necessary information needed to process the case, refer any interstate IV-D case to the responding State’s interstate central registry for action, including requests for location, document verification, administrative reviews in Federal income tax refund offset cases, wage withholding, and State income tax refund offset in IV-D cases.”

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Cause:

DHR management has indicated that the staff level could not support the existing caseload to ensure compliance with federal regulations.

Effect:

The existing policies, procedures and internal controls that DHR had in place during the program administration of the Child Support Enforcement Program are inadequate to ensure compliance with the above stated federal regulations.

Recommendation:

We recommend that DHR revisit their current procedures over receiving and processing interstate cases. A formal procedure for processing these cases within the timeframes and documentation of all actions regarding the case should be developed and followed. Supervisory reviews should be incorporated to ensure compliance with the federal regulations.

Auditee Response and Corrective Action Plan:

New procedures are being established and will be implemented to address the receiving and processing of Interstate Cases. A supervisory review process will be implemented and copies of the signed-off review would be kept in the case folder at the Local Child Support Offices.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-18 (continued)

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-19

**Department of Human Resources
CFDA No 93.563 – Child Support Enforcement**

Internal controls over the preparation of the Child Support Enforcement Program Quarterly Report, OCSE 34A, are inadequate.

Condition:

We selected two of the Child Support Enforcement Program Quarterly Reports, OCSE 34A, for testing and noted that they were not supportable. The Department of Human Resources (DHR) was unable to provide adequate supporting documentation to support the OCSE 34A reports. We noted that DHR could not verify how the data for several line items was obtained. These line items include total collections received during the quarter, the net amount of increasing/decreasing adjustments, collections forwarded to other States, and distributed to family.

We noted that DHR maintains a manual general ledger, Child Support Enforcement Agency (CSEA) collection and distribution general ledger, which tracks all of the collection and distribution activity. We noted that DHR does not d

g

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-19 (continued)

Effect:

We are unable to determine whether the total collections received during the quarter, the net amount of increasing/decreasing adjustments, collections forwarded to other States, and distributed to family amounts reported on the OCSE 34A report are accurately stated.

Recommendation:

We recommend that DHR review existing controls over the OCSE 34A report preparation process. The existing controls should be enhanced to ensure that amounts reported which include total collections received during the quarter, the net amount of increasing/decreasing adjustments, collections forwarded to other States, and distributed to family amounts are properly supported. The supporting documentation should be maintained and should be auditable.

Additionally, we recommend that DHR reconcile the amounts reported on the OCSE 34A report to the Child Support Enforcement Agency (CSEA) collection and distribution general ledger.

Auditee Response and Corrective Action Plan:

The OCSE 34A report is generated from our automated Child Support Enforcement System (CSES). As this is a system generated report that was programmed based on federal instructions, CSEA will determine the feasibility of enhancing our processes to provide supporting documentation for amounts contained in this report.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-20

Department of Human Resources CFDA No 93.563 – Child Support Enforcement

Internal control over eligibility determinations including processing of case files and supervisory reviews should be enhanced.

Condition:

The Department of Human Resources (DHR) Child Support Enforcement (CSE) is responsible for establishing paternity, enforcing support orders, collections of payments and distribution of payments. We noted that 3 of 30 cases tested, 10%, did not comply with the one or more of the federal regulations over the administration of the eligibility requirements as follows:

- 1 of the 30 case files tested showed that the DHR CSE did not take appropriate action taken for the failure of the noncustodial parent’s compliance with court order.
- 1 of the 30 case files tested showed that the DHR CSE did not close the case upon parental rights being terminated.
- 1 of the 30 case files tested showed that DHR CSE did not properly remove an incarcerated noncustodial parent from the Child Support Enforcement System.

We also noted that the eligibility case determination supervisory review logs were disposed of or inadequate to determine whether a review occurred.

Criteria:

45 CFR 303.6 states, “For all cases referred to the IV-D agency or applying for services under Section 302.33 in which the obligation to support and the amount of the obligation have been established, the IV-D agency must maintain and use an effective system for:

- (a) Monitoring compliance with the support obligation;
- (b) Identifying on the date the parent fails to make payments in an amount equal to the support payable for one month, or on an earlier date in accordance with State law, those cases in which there is a failure to comply with the support obligation;
and

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-20 (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-20 (continued)

Cause:

The caseworkers did not properly follow up on the issues that were identified by the Child Support Enforcement System. DHR employees disposed of several of the documents showing the supervisory reviews.

Effect:

DHR did not comply with federal regulations over processing cases. We are unable to determine if the internal controls over supervisory reviews are being performed.

Recommendation:

We recommend that the DHR implement procedures to ensure follow up of issues noted by the Child Support Enforcement System. We recommend that a formal process of internal supervisory reviews be established. These reviews should be documented and evidence of the reviews should be auditable. All records should be maintained in accordance with the federal regulations.

Auditee Response and Corrective Action Plan:

We will reinforce our policy that requires completion of Case Maintenance Worksheet for

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2003-21 (continued)

Effect:

Insufficient documentation on internal control prevents the users of the report from formulating an opinion on the operating environment and effectiveness of the CARES application. As such, DHR does not have adequate assurance that the internal controls over CARES is operating as designed throughout the audit period.

Recommendation:

DHR should make the necessary arrangement to have the report prepared in accordance with AICPA guidelines, cover a minimum of six months. In doing so, there is greater assurance to DHR that the internal controls are operating as designed throughout the audit period.

Auditee Response and Corrective Action Plan:

DHR concurs with the recommendation and will take the necessary steps to comply.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Summary Schedule of Prior Audit Findings

As of July 30, 2004

Single Audit Findings for Fiscal Year Ended June 30, 2002

Department Health and Mental Hygiene
Program Special Supplemental Nutrition Program for Women, Infants and Children
CFDA Number 10.557
Finding Number 2002-1
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** Although WIC Program staff conducted sight visits to local agencies within the federal fiscal year, operational reports were not reviewed until October and November due to the staff constraints. Letters with findings were sent to the two local agencies in November 2002.

Since the new management information system, WIC WINS, has been implemented statewide, State WIC staff has the time to conduct the evaluations according to the schedule. The 2003 management evaluation schedule is being monitored to ensure the completion as specified in the federal regulations.

Auditee Updated Response: Management evaluations continue to be conducted according to the schedule that has been developed.

Department Health and Mental Hygiene
Program Special Supplemental Nutrition Program for Women, Infants and Children
CFDA Number 10.557
Finding Number 2002-2
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** The WIC Program does not recall being asked for a reconciliation of food instruments. Although the Program was in the process of implementing a new information system in February 2002, it was able to reconcile food instruments under both the old and new system. Food instruments continue to be reconciled on a monthly basis.

Auditee Updated Response: Food instruments continue to be reconciled on a monthly basis.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Health and Mental Hygiene
Program Substance Abuse Prevention and Treatment Block Grant
CFDA Number 93.959
Finding Number 2002-3
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** ADAA agrees with the audit finding. The agency will take the necessary steps to implement a tracking system that will ensure better compliance with federal regulations. ADAA is currently developing a new grants management data collection system. The agency also has approval to hire a federally funded SAPT Block Grant Coordinator. The grants data system and the SAPT coordinator will further enable ADAA to meet all federal Block Grant tracking requirements.

This action plan applies to necessary actions relative to 45 CFR section 96.128(f) for HIV, 45 CFR section 96.127(c) for tuberculosis, and 45 CFR section 96.124(c) for pregnant women and women with dependent children.

Auditee Updated Response: The SAPT federally funded Block Grant Coordinator position is integral part of making the necessary improvements as cited in this audit. A Coordinator was hired in late May 2003. Immediate improvements were made to the development of the SAPT Block Grant application. Specific conveyances were developed for transmission to recipients of Block Grant funds regarding the regulations and conditions attendant to receiving those funds. These conditions were submitted to the technical assistance contractor for SAMSHA for review and comment. Federal recommendations for improvements are being incorporated into the revised conditions that will be sent to grant recipients in fiscal year 2005. This position became vacant in late September. Following a successful request for a freeze exemption, the hiring of a new SAPT Block Grant Coordinator is anticipated by March 2004.

A programmer from the ADAA Management Information Services has been assigned to complete work on the implementation of the grants data system.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Finding Number 2002-4 (continued)

The Center for Substance Abuse Prevention (CSAP) has provided research based model programs and strategies that have been identified by CSAP during years of implementation and evaluation. These programs and strategies are being implemented throughout the State to age groups rangi

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department	Human Resources
Program	Temporary Assistance to Needy Families, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care Development fund, and Social Services Block Grant
CFDA Number	93.558, 93.575, 93.596, and 93.667
Finding Number	2002-6
Comment	<p>Unresolved by the Federal Government – Original Response and Corrective Action Plan: The Department agrees with the above audit findings in that the Schedule of Expenditures of Federal Awards (SEFA) for the above-referenced grants were not accurately reported by CFDA numbers. However, the Department emphasizes that it accurately reported the expenditures related to the funds transferred from Temporary Assistance for Needy Families (TANF) into the Social Services Block Grant (SSBG) and the Child Care Development Fund (CCDF). The expenditures were reported as expenditures of those respective programs in both their federal reports and in the State books.</p> <p>In order to implement the audit recommendation, the Department has taken the following two steps:</p> <ol style="list-style-type: none">1. In order to minimize the possibility of this problem recurring, the CFDA numbers will be entered as an additional identifying number in the Department's records for all the federal grants.2. The CFDA numbers will be independently reviewed by a staff member other than the person who completed the SEFA. <p>Auditee Updated Response: The Department had implemented the steps outlined in the Auditee Response and Corrective Action Plan.</p> <p>In State fiscal year 2003, funds were transferred from the Temporary Assistance for Needy Families (TANF) grant into the Social Services Block Grant (SSBG) and the Child Care Development Fund (CCDF).</p> <p>The expenditures incurred against those transferred funds were reported properly in the Schedule of Expenditures of Federal Awards (SEFA) under CFDA Nos. 93.667 and 93.575, respectively. The same procedure will be followed in future years.</p>

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Human Resources
<i>Program</i>	Low Income Home Energy Assistance
<i>CFDA Number</i>	93.568
<i>Finding Number</i>	2002-7
<i>Comment</i>	<p>Unresolved by the Federal Government – Original Response and Corrective Action Plan: In the case of Neighborhood Service Center: In response to DHR's request for a corrective action plan, the Neighborhood Service Center submitted a corrective action plan for July 12, 2002. This plan responded to the findings in this agency's fiscal year 2001 single audit. Before local Maryland Energy Assistance Program (MEAP) monthly financial reports are submitted, the executive director, the fiscal accountant, and the manager of the MEAP program conduct a thorough review to assure the report is reconciled with the general ledger. Two signatures are required on the report. These procedures were implemented.</p> <p>A site visit on March 2003 by State Office Home Energy Programs (OHEP) staff is scheduled after receipt of the agency's 2002 single audit. An earlier site visit to confirm the reconciliation was determined to be unnecessary because this agency was within its contract budget and no monetary consequences were evident.</p> <p>In the case of Anne Arundel County Economic Opportunity Committee, Inc.: The local agency's corrective action plan in 2001 identified internal control procedures that prevented the temporary transfer of MEAP funds.</p> <p>The agency's single audit for 2002 by an independent audit disclosed no repeat finding. Since the final recommendation of Anne Arundel's MEAP funds in fiscal year 2001 matched state records, there was proper accounting of all local MEAP funds.</p> <p>Two site visits scheduled in fiscal year 2003 were postponed due to weather. A third date has been scheduled during March 2003 to confirm compliance.</p> <p>In summary, DHR has policies to ensure corrective action. By the end of March, site monitoring visits will be completed to confirm the corrective actions for problems identified in these two subrecipient audits.</p> <p>Auditee Updated Response: DHR through its OHEP management can ensure that adequate documentation is available for auditor's observation that corrective action was successful and subsequent reviews show no reoccurrence.</p>

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Human Resources
<i>Program</i>	Low Income Home Energy Assistance
<i>CFDA Number</i>	93.568
<i>Finding Number</i>	2002-8

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department	Human Resources
Program	Child Care and Development Fund Block Grant, and Child Care Mandatory and Matching Funds of the Child Care Development Fund
CFDA Number	93.575 and 93.596
Finding Number	2002-9
Comment	<p>Unresolved by the Federal Government – Original Response and Corrective Action Plan: The Department agrees with the above finding that the expenditures reported in the Child Care Development Fund (CCDF) reports as of June 30, 2002 were not in compliance with the earmarking requirements. An analysis of those expenditures revealed that some of the expenditures were not properly reported on the appropriate lines in the CCDF reports. This prompted the Department to revise the expenditures reported for the quarter ended September 30, 2003, to reflect the proper expenditures for each line item in the CCDF reports. The revised expenditures reported are now in line with the earmarking requirements.</p> <p>To ensure that future quality and earmarking expenditures are met and properly reported, staff from the Child Care Administration and Grants Management met and prepared a list of the project codes, to clarify which codes capture the cost of specific activities.</p> <p>The appropriate lines in the ACF 696 federal reports have been identified to report those expenditures. The quality and earmarking expenditures will be monitored by both staff, on a quarterly basis, to ensure compliance with federal requirements.</p> <p>Auditee Updated Response: This finding dealt with Child Care Development Funds (CCDF) expenditures which were not accurately reported on the appropriate lines in the CCDF reports. As a result, the reported expenditures for earmarks as of June 30, 2002 were not in compliance with the earmarking federal regulation requirements.</p> <p>The Department stated in the Auditee Response and Corrective Action Plan that the expenditures in question were revised in the quarter ended September 30, 2003 to reflect the proper expenditures for each line in the CCDF reports. The Department also instituted a procedure whereby staff from both the Child Care Administration and the Grants Management meet on a quarterly basis, prior to the submission of the CCDF reports, to ensure that the expenditures are reported properly for each line of the CCDF reports.</p> <p>The Department will continue to monitor the reported earmark expenditures to ensure compliance with the earmarking requirements specified in the federal regulations.</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Housing and Community Development
<i>Program</i>	Section 8 New Construction and Substantial Rehabilitation
<i>CFDA Number</i>	14.182
<i>Finding Number</i>	2002-11
<i>Comment</i>	<p>Unresolved by the Federal Government – Original Response and Corrective Action Plan: DHCD agrees with the finding and recommendation. Documentation for the check clearance pattern for fiscal year 1996 was misplaced due to staff turnover. Although we were not able to find the necessary documentation, we were able to recalculate the 1996 check clearance pattern using a similar process and we arrived at the same clearance pattern. Our check clearance pattern for fiscal year 2003 is substantially the same as the pattern for 1996 (2-day clearance), so there was no impact on the federal calculation. DHCD was not aware that the check clearance pattern was due to be recertified for fiscal year 2002. Once the State Treasurer's Office notified us that the recertification was due, we recertified the check clearance pattern for fiscal year 2003, based on fiscal year 2002 expenditures. Also, the documentation for the fiscal year 2003 recertification was given to the auditors during their visit to DHCD. DHCD is now aware that the recertification is due at least once every five years and will comply with the federal requirements.</p> <p>Auditee Updated Response: The recertification of DHCD's check clearance pattern will take place in the future in accordance with the requirements contained in the Cash Management Improvement Act Agreement between the Maryland State Treasurer and the Secretary of the United States Department of the Treasury.</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Housing and Community Development
<i>Program</i>	Section 8 New Construction and Substantial Rehabilitation
<i>CFDA Number</i>	14.182
<i>Finding Number</i>	2002-12
<i>Comment Co</i>	

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Labor, Licensing and Regulation
Program Unemployment Insurance Program
CFDA Number 17.225
Finding Number 2002-14
Comment **Unresolved by the Federal Government – Auditee Response and Corrective Action Plan:** The Department agrees with this recommendation and will continue to maintain all documentation supporting the basis for the development of the check clearance patterns for benefit payments. DLLR also agrees that the methodology defined in the CMIA Agreement, Sections 7.11 to 7.11.4, is not currently being used to develop the actual clearance pattern.

DLLR retains documentation to support the methodology currently being used to ensure an acceptable clearance pattern. This documentation has been provided to the State Treasurer and they did not request any changes or clarifications to the clearance patterns. We believe that this methodology provides a very accurate clearance pattern. It is also important to note that DLLR has not incurred any interest liability because the UI Trust Fund banking fees have always exceeded the amount of interest earned on any excess balances.

If the documentation provided is acceptable, the Department shall begin to work with the State Treasurer and the U.S. Department of the Treasury to ensure that the clearance pattern methodology currently being utilized is properly defined in the CMIA Agreement.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Labor, Licensing and Regulation
<i>Program</i>	Unemployment Insurance Program
<i>CFDA Number</i>	17.225
<i>Finding Number</i>	2002-15
<i>Comment</i>	<p>Unresolved by the Federal Government – Original Response and Corrective Action Plan: The agency concurs with this finding. Current grant accounting systems within DLLR do not allow for a complete reconciliation of costs between the R*STARS system and the system used for grant accounting (the FARS system). Secretary Fielder has directed DLLR to establish a working group that will find the methods needed to identify and reconcile R*STARS and FARS differences down to the employee and grant level. The Secretary has stated that should these efforts prove unsuccessful, he will direct the group to seek out an alternative time distribution system that will reconcile with R*STARS. Projected timetables have not yet been determined.</p> <p>Auditee Updated Response: The agency has made significant progress in this area. Beginning in fiscal year 2003 and prospectively from that point forward, the Department of Labor, Licensing and Regulation (DLLR) has developed and implemented a method to annually reconcile grant accounting within the R*STARS and FARS systems. Additional work is currently underway to develop a quarterly grant reconciliation process. This reconciliation process will ensure that the R*STARS original books and records agree with the amounts recorded on the SF-269 reports. Management believes this will eliminate such findings in the future.</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Labor, Licensing and Regulation
<i>Program</i>	Unemployment Insurance Program
<i>CFDA Number</i>	17.225
<i>Finding Number</i>	2002-16
<i>Comment</i>	Unresolved by the Federal Government – Original Response and Corrective Action Plan: The agency does not fully concur with this finding. DLLR complies with Circular No. A-87, “Cost Principles for State, Local, and Indian Tribal Governments” sections a through e as stated above. All grant reports submitted

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Maryland State Department of Education
Program Rehabilitation Services: Vocational Rehabilitation Grants to States
CFDA Number 84.126
Finding Number 2002-17
Comment **Unresolved by the Federal Government – Auditee Response and Corrective Action Plan:** The Division of Rehabilitation Services has implemented the following corrective action plan:

- Administrative Instruction 03-06, “60-Day Eligibility Determination” was disseminated on March 31, 2003, to clarify and reinforce the requirement to make eligibility decisions within the 60-day time frame. It also included procedures to be used in the new case management system, AWARE, when making eligibility decisions and when there is a need for an extension: <http://intranet/issuances/Intranet/AI03Folder/ai0306.htm>
- Statewide staff training was held March 26, April 1, April 9 and April 15, 2003 related to implementation of AWARE. “Timely Eligibility Decisions” was a main agenda item and was presented by the Special Assistant to the Assistant State Superintendent. The presentation included the finding of noncompliance; the importance of making timely eligibility decisions; AWARE procedures to assure appropriate documentation; and required actions.

Additionally, DORS MIS branch has developed a 60-day eligibility report and it is currently being tested by field staff. In the interim, offices having problems with this necessary activity are being prompted to devise an internal system to avoid delayed decisions of this nature. A suggestion is being made to have support staff in these offices routinely “red flag” the files in advance to alert the specialists of those cases nearing the required 60-day requirement.

Anticipated Implementation Date: Plan has been implemented.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Maryland State Department of Education
<i>Program</i>	Title I Grants to Local Educational Agencies and Rehabilitation Services: Vocational Rehabilitation Grants to States
<i>CFDA Number</i>	84.010 and 84.126
<i>Finding Number</i>	2002-18
<i>Comment</i>	<p>Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan: MSDE has adopted the following procedures to segregate duties for authorization, execution, recording, and reporting the federal funds:</p> <ul style="list-style-type: none">• The General Accounting Supervisor will run reports to draw in funds for the following:<ul style="list-style-type: none">– Cash Management Improvement Act Grants (weekly)– Non-Cash Management Improvement Act Grants (monthly)– Payroll Distributions for all grants (one day after funds are expended)• The General Accounting Supervisor will forward the information to the Accounts Payable Supervisor who will access GAPS system and draw in the funds for grants at the appropriate time and forward the drawdown to the General Accounting Supervisor. The General Accounting Supervisor will prepare a journal to redistribute the funds in R*STARS.• At year end, the Schedule G is prepared from efforts of the accounting managers and accounting supervisors. Revenues are derived from a FOCUS program in R*STARS. Expenditures are from a DAFR Report.

Anticipated Implementation Date: Plan has been implemented.

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Summary Schedule of Prior Audit Findings (continued)

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Department of Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2002-22
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** The Department of Health and Mental Hygiene, Office of Planning and Finance has always maintained internal control procedures which included a review and approval of cash drawdowns for medical assistance expenditures prior to submission. All cash drawdowns are prepared by a staff accountant and reviewed and approved by the Chief of Budgeting/Accounting/Revenue prior to submission to General Accounting.

To substantiate the review process and approval of cash drawdowns, a signature of the Chief of Budgeting/Accounting/Revenue or a supervisor will be included on the drawdown request when it is forwarded to the General Accounting Department.

Department Department of Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2002-23
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** The audit finding incorrectly associates the categorization of payments by service type (i.e., Inpatient, Physician, etc.) with appropriate percentages of FFP claims. They are two separate issues, and with regard to Maryland's claiming procedures, they are unrelated.

Maryland's regular FMAP rate is 50%. An enhanced rate of 90% is claimed for Family Planning, and 65% for expenditures related to Women's Breast and Cervical Cancer. By far, the most significant enhanced claim is for the 90% Family Planning expenditures. The majority of the 90% Family Planning dollars claimed are based on an allocation of a percentage of Managed Care Organization (MCO) expenditures to Family Planning. This allocation is done manually, based on net MCO expenditures taken directly from the MMIS reports. The claim is posted directly to the CMS-64 from the separate work papers used to calculate this allocation, and is unaffected by any miscategorization of service types on the CMS-64. This is clearly demonstrable from our workpapers.

Regarding the separate issue of categorization of expenditures, we are ready to work with CMS to present the information in the manner that they require.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Department of Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2002-25
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** An error existed in the automated interface between CARES and MMIS which prevented certain cancel transactions from being properly communicated. This error has been corrected. MMIS produces error reports which are reviewed and resolved by staff daily. The monthly reconciliation report has been modified to ensure that the reports capture all data which identify cases closed on CARES but active on MMIS. These reconciliation reports are reviewed and resolved each month. As indicated, on February 28, 2003, DHMH closed approximately 12,000 cases. However, as of August 6, 2004, approximately 2,700 have been reopened by the local Departments of Social Services as a result of the recipient reapplying and being determined eligible in other coverage groups, resulting in no loss of Medical Assistance eligibility. In addition, regulations do not permit recovery of funds from providers under these circumstances. Therefore, recoupment from providers should not be pursued.

Department Department of Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2002-26
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** The Administration does not concur with the recommendation. The MMIS has two (2) levels of security. First, users must have a valid ACF2 logon and password to gain access to the MMIS region. The password cannot be the same as the user ID, must be eight (8) characters, must contain alpha and numeric characters, and cannot have more than two (2) consecutive identical characters. Once access has been granted through ACF2, the user will be prompted to enter his/her MMIS user ID and password (second level) after entering the transaction ID for MMIS. Most online applications allow users to access online regions after ACF2 or RACF validation. The MMIS was certified by the Centers for Medicare and Medicaid (CMS) formerly known as Health Care Finance Administration (HCFA). To re-engineer the Security subsystem within MMIS would require a major rewrite of the entire MMIS. The Administration will work with the Information Resource Management Administration (IRMA) to store UserIDs and password information electronically and in a secured manner.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001

Department Labor, Licensing and Rep2

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

<i>Department</i>	Transportation State Highway Administration
<i>Program</i>	Highway Planning and Construction Cluster
<i>CFDA Number</i>	20.205 and 23.003
<i>Finding Number</i>	2001-5
<i>Comment</i>	<p>Unresolved by the Federal Government – The State Highway Administration has received the single audit reports for all subrecipients that had \$300,000 or more in federal funds for the 2001 fiscal year. Also, as stated in the original response, the log maintained by the State Highway Administration was modified to include the federal dollar amounts passed through to the subrecipients. Additionally, the subrecipients have been contacted to ensure timely submittal of the required audit reports.</p> <p>Auditee Updated Response and Corrective Action Plan: The State Highway Administration does adequately monitor subrecipients to ensure those that have expended more than \$300,000 in federal funds have met the audit requirements of OMB Circular A-133. As noted before, the Administration maintains a log that includes the subrecipient's name, amount of federal funds received, date of the audit report, the date the report is reviewed, any findings noted and follow-up action needed. The log is reviewed on a monthly basis to identify audit reports not received. Those entities that have not submitted required reports are contacted to submit the reports. Additionally, the Administration has received all required reports for the past years. These reports are available for review.</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

Department Education
Program Class Size Reduction
CFDA Number 84.340
Finding Number 2001-6
Comment **Unresolved by the Federal Government – Updated Corrective Action Plan:**
MSDE’s staff has adopted the following procedures for federal draw down and cash management activities. These procedures incorporate the following:

- As stipulated in the agreement between the U.S. Government and the State Comptroller, MSDE shall draw down funds for grants nine days after the funds are transmitted, the draw down for payroll will occur the day after the funds are expended, and all operating expenses will be drawn down by the 16th of the month.
- The Department shall request an applicable DAFR Report and reconcile the Schedule G expenditures and revenues to the GAPS Report and R*STARS Reports.
- Any and all adjustments shall be prepared for the reconciliation and reviewed by the chief of the accounting branch.

Anticipated Implementation Date: Plan has been implemented.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

<i>Department</i>	Human Resources
<i>Program</i>	Empowerment Zones Program
<i>CFDA Number</i>	93.585
<i>Finding Number</i>	2001-7
<i>Comment</i>	<p>Unresolved by the Federal Government – Previous Response and Corrective Action: The Department concurred with the finding and the Department’s project director sent notification to the subrecipient reminding them of the annual audit requirements under the Single Audit Act of 1984 and the OMB Circular A-133. The Department immediately requested and received a copy of the A-133 audit for 2000 and subsequently requested and received the 2001 audit from the subrecipient. Grants Management staff and the project director have implemented procedures to insure that annual audits are requested and received from the subrecipient.</p> <p>Auditee Updated Response: Previously the Department stated it would obtain a copy of the 2002 audit from the subrecipient when it was completed. The audit report was obtained and it disclosed “no instances of noncompliance that are required to be reported under Government Auditing Standards.” The audit also noted that “no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.”</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

Department Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777, and 93.778
Finding Number 2001-8
Comment **Unresolved by the Federal Government – Auditee Response and Corrective Action Plan:** The DHMH Audit Division will ensure compliance of human services vendors with the audit requirements of OMB Circular A-133.

The Audit Division is establishing procedures to adequately monitor subrecipients' compliance with the audit requirements of OMB Circular A-133 and has already taken the following steps to correct the condition cited:

- Assigned an auditor to examine all relevant regulations and policies to become the Division's expert on OMB Circular A-133.
- Identified all subrecipients who have expended more than \$300,000 in federal funds and will request that they submit an A-133 audit report, if they have not already done so.
- Developed a Desk Review Form that will facilitate our review of single audit reports and our dissemination of the results to Program Directors. Our procedures will document the auditor's review and notification of management.

Auditee Updated Response: Procedures have been established to monitor subrecipient compliance with the audit requirements of OMB Circular A-133.

The fiscal years 1999, 2000, 2001 and 2002 Single Audit Reports for all human services subrecipients have been received and reviewed by the Audit Division. In addition, the Audit Division has determined which human services subrecipients should submit a fiscal year 2003 Single Audit Report and they have been notified, accordingly. A tracking system and audit

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

<i>Department</i>	State Treasurer's Office
<i>Program</i>	Various
<i>CFDA Number</i>	10.553, 10.555, 10.558, 10.561, 17.207, 17.225, 17.250, 17.253, 17.255, 20.106, 20.500, 20.507, 84.010, 84.027, 84.048, 84.126, 84.338, 84.340, 93.558, 93.563, 93.568, 93.658, 93.767, 93.778, 93.917, 93.959, 93.994, and 96.001
<i>Finding Number</i>	2001-10
<i>Comment</i>	Unresolved by the Federal Government – Auditee Response: The State Treasurer's Office in conjunction with the General A

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

Department University System of Maryland; Towson Un

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

Department University System of Maryland; Coppin State College; University of Maryland, Baltimore County; University of Maryland, College Park
Program Student Financial Assistance Cluster
CFDA Number Various
Finding Number 2001-4 (USM)
Comment **Unresolved by the Federal Government – Auditee Response and Corrective Action Plan:**

Coppin State College – Coppin State College signed on with the National Student Loan Clearinghouse (NSLC) to be its designated Destination Point for the National Student Loan Data System (NSLDS) in March 1998. At the beginning, middle, and end of each semester, we send an electronic file to the Clearinghouse that updates our student enrollment. Every other month, NSLDS sends a roster to the NSLC to process. We have been in compliance since 1998.

On July 12, 2000, the College signed an agreement with the Department of Education to allow the transmitting of Perkins Loan data to and from NSLDS in this Office. This agreement was executed on July 25, 2000.

However, in applying for Perkins Loans services through NSLDS the participation agreement was prepared inaccurately causing Coppin to be dropped from the Clearinghouse. This problem was resolved immediately upon notification.

University of Maryland, Baltimore County – UMBC had two students whose student status changes were reported in 73 days rather than the 60 days required in the student status reporting timeline. Since we report our changes through the National Student Clearinghouse (NSLC), we are modifying our NSLC submission cycle to comply with the 60 day student status reporting timeline. During the spring 2002 term we will submit our last transmission 19 days earlier on June 2, 2002 rather than June 21, 2002. This will allow us to report the students who drop on the last official day to drop a class (April 8, 2002) within the 60-day window.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

Department

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2001 (continued)

Department University System of Maryland; University of Maryland, College Park
Program Cooperative Extension Service
CFDA Number 10.500
Finding Number 2001-6 (USM)
Comment **Unresolved by the Federal Government – Current Status:** The institution scrutinizes the use of funds to ensure that outlays are made only for allowable activities. As noted in the original comment, the institution has already reversed the charge to the Cooperative Extension Service.

Department Morgan State University
Program Student Financial Aid Cluster
CFDA Number 84.268
Finding Number 2001-1 (MSU)
Comment **Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan:** In the past, the University processed the main student status confirmation reports (SSCR) and the ERROR reports utilizing the University's computer legacy system. As a result, some of the students on the ERROR reports were not properly updated, due to a technical computer issue. However, since last July, the University returns all SSCR and ERROR reports using the National Student Loan Data System software. Additionally, the University's usual schedule for SSCR reports is every two months. Beginning with the March report, however, the University will initiate using ad-hoc reports so that the data can be reviewed more often, thereby, ensuring increased accuracy.

Update: The University is reporting to the National Student Loan Data System the change in a student's status in a timely and accurate manner. This process is done at least once per month and is no longer a problem and financial aid is being returned in a timely manner.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal