



Legislative Post Audit Financial-Compliance Audit Report Highlights

State of Kansas:
Single Audit of Fiscal Year 2009

Highlights

Report Highlights

April 2010

Audit Concern

State law calls for an annual financial-compliance audit of the general purpose financial statements and “the financial affairs and transactions of a state agency required to comply with federal government audit requirements...” The results of the audit are presented in two parts. The first part, issued in March 2010, is the report on the Division of Accounts and Reports’ Comprehensive Annual Financial Report. This report, the Report on Federal Awards in Accordance with OMB Circular A-133, is the second part and is a report on State agencies’ compliance with federal awards requirements.

Key Facts & Findings

Federal expenditures for fiscal year 2009 are reported as \$5.14 billion. Of that, American Recovery and Reinvestment Act expenditures are reported as \$165.8 million.

Because material weaknesses were reported in 2007, 2008, and 2009, and because questioned costs exceeded 5% of the total Federal awards spent for a program in 2006, and because the State received a qualified opinion on one of the programs in the Schedule of Expenditures of Federal Awards in 2007, 2008 and 2009, the State has not met the conditions for a low-risk auditee for the past three years, nor will it meet the conditions for at least two more years. Therefore, 50% of federal funds expended must be audited rather than 25%. (continued)

AUDIT QUESTIONS: Financial audits done in accordance with government audit standards answer the following questions: (1) Are the entity’s reported financial condition, results, and use of resources presented fairly in accordance with recognized criteria? (2) Are there deficiencies in internal control? (3) Are there instances of non-compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes?

AUDIT ANSWERS:

- The federal government requires organizations that receive funding over a certain amount to undergo a “single audit.” A single audit is basically an organization-wide financial audit combined with an organization-wide risk-based audit of compliance with federal regulations and award agreements. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed to meet the needs of all federal agencies. The report related to the financial audit, the *Comprehensive Annual Financial Report* and related audit opinions were issued in March 2010 and answers the first two questions. This second report, the *Report on Federal Awards in Accordance with OMB Circular A-133*, relates to the compliance portion of the audit and answers the third question.
- The auditors reported that, except for requirements regarding reporting applicable to the Disaster Grants – Public Assistance Program, the State complied, in all material respects, with the requirements applicable to each of the federal programs audited.
 - 14 problem findings are reported. Of these 14, nine are repeated from prior year(s).
 - One material weakness (repeated). Internal controls are materially weak if they would not catch an error or fraud, or combination of errors and/or fraud that could result in the financial statements being substantially misleading.
 - Eight significant deficiencies (four repeated, six of the eight pertain to programs that received ARRA funds). A significant deficiency exists when the internal controls would not prevent or detect an error or fraud that is consequential.
 - Five control deficiencies (four repeated). A control deficiency exists when an error or fraud would not be detected by staff in carrying out their normal assigned duties.
 - Questioned costs were identified on finding #2009-4, #2008-5, #2008-7, and #2008-14. Although auditors initially identify a cost that is questioned because of an audit finding, the grantor agency ultimately determines if the State must reimburse the federal government and how much.

A table summarizing the problem findings for the past three years is shown inside this document.

Fiscal Year Originally Reported In	State Agency	Federal Agency	ARRA	Description of Problem Findings
2008	Adjutant General	US Department of Homeland Security		FEMA 20-10 report not submitted for quarter ended 03/31/08; errors in FEMA 20-10 and SF-272 reports; total receipts amounts provided by the Division of Payment Management not reconciled to the Agency's financial records. See pages 50 - 51 of the full report for potential questioned costs.
2005	Adjutant General	US Department of Homeland Security		2008 - 15 of 23 subrecipients tested (65%) had not submitted an independent audit report or a letter stating they were not required to have an A-133 audit. 2007 - 20 of 23 (87%). 2006 - 20 of 23 (87%). 2005 20 of 23 (87%).
2009	Kansas Department of Commerce	US Department of Housing and Urban Development		Agency did not check the "Excluded Parties List System" to verify that subrecipients were not suspended or debarred.
2009	Kansas Department of Commerce	US Department of Housing and Urban Development		Agency did not submit any HUD 60002 performance reports.
2009	Kansas Department of Commerce	US Department of Housing and Urban Development		Unallowable charges to the grant in one instance of 23 expenditures tested (4%) resulting in questioned costs of \$45.
2009	Kansas Department of Education	US Department of Education	X	Agency did not determine whether first-tier subrecipients had current Central Contractor Registration prior to making subawards.
2009	Kansas Department of Education	US Department of Education	X	Agency did not inform subrecipients of the Federal Award Number or the CFDA number or the requirement to properly include separate identification of ARRA award information in their Schedule of Expenditures of Federal Awards.
2008	Kansas Department of Education	US Department of Agriculture		Agency did not submit a revised report although changes to data caused the agency's level of funding to change by more than 0.5%.
2008	Kansas Department of Education	US Department of Agriculture		Agency did not maintain original supporting documents used to prepare various reports.
2008	Kansas Department of Education	US Department of Agriculture		One of 23 centers tested for eligibility (4%) did not have appropriate supporting documentation for their claims; claims did not contain required Medicaid information.
2008	Kansas Department of Education	US Department of Education		Agency did not maintain original supporting documentation for enrollment figures from the School Finance website used to prepare the Special Education allocations.
2007	Kansas Department of Health and Environment	US Department of Agriculture		Agency issued a monitoring report for a subrecipient 140 days after the completion of the review.
2007	Kansas Department of Health and Environment	US Department of Agriculture		Agency did not receive prior written approval for purchase of equipment exceeding \$25,000.
2008	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		Two of 23 individuals selected for testing were ineligible for assistance (9%).
2007	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services	X	2009 - one of 11 individuals tested (9%) was placed with ineligible providers at some point throughout the year. See page 43 of the full report for questioned costs. 2008 - one of 23 (4%). 2007 - seven of 23 (30%).
2007	Kansas Department of Social and Rehabilitation Services	US Department of Agriculture		Agency did not communicate the federal grant's CFDA number to either of the two subrecipients.
2007	Kansas Department of Social and Rehabilitation Services	US Department of Education		Grantor agency determined that Agency agreements with third parties in 2006 and 2005 were subgrants, not contracts, which are prohibited.
2007	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		"State MOE Expenditures - Other Non-assistance Expenditures" on ACF 196 report did not match supporting documentation.
2007	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		Adoption Assistance Payments and Federal share of Expenditures were overstated on the 06/30/07 quarterly financial report.
2006	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		Allegations made that a region may have diverted TANF funds to purchase contracted services to assist certain applicants and recipients to receive Social Security.
2006	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		Agency did not include the required wording on documents containing information on the program.
2006	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		Four of 23 cases tested for eligibility (17%) did not contain verification that there was a minor child in the household.
2006	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		Agency did not conduct the required independent peer reviews of the entities providing SAPT services.
2006	Kansas Department of Social and Rehabilitation Services	US Department of Health and Human Services		An October 2002 SSA OIG audit reported \$201,218 of unallowable costs and \$4,923,606 in questioned costs related to indirect costs inappropriately charged to the program.
2008	Kansas Health Policy Authority	US Department of Health and Human Services	X	Agency does not consistently request adequate supporting documentation from other State agencies prior to drawing down Medicaid funds on the other State agencies' behalf; no consistent review over the drawdown process.
2007	Kansas Health Policy Authority	US Department of Health and Human Services	X	No reconciliation between the CMS-64 and CMS-21 reports to the federal agency and the expenditures generated from the State's accounting system (STARS).
2006	Kansas Health Policy Authority	US Department of Health and Human Services		A complete review of the controls related to the eligibility determination process had not been performed by a third party and a SAS 70 report had not been received for the contractor who processes eligibility determinations for the SCHIP program.
2004	Kansas Health Policy Authority	US Department of Health and Human Services	X	Medicaid Management Information System (MMIS) contained no controls to limit the number of surface repairs paid per tooth to dentists.

* The opinion in 2007 was "qualified" due to the material weakness. In 2008 and 2009 it was "unqualified" because, although the deficiencies were not completely corrected, sufficient improvements were made such that it was classified as a significant deficiency in those two years

Summary of Recommendation	Current Opinion	Classification 2009	Classification 2008	Classification 2007
Formally document and maintain procedures for accurate report preparation and implement a review process for the reports. Compile written instructions on the steps involved in preparing the reports. Programming and accounting staff should communicate.	Qualified	Material Weakness	Material Weakness	
Implement formal monitoring process to track subrecipients who have received federal funding and determine whether or not they have provided the necessary audit documentation.	Unqualified		Significant Deficiency	Significant Deficiency
Implement controls that include checking the EPLS for all subrecipients and contractors prior to entering into a subaward or contract.	Unqualified	Significant Deficiency		
Develop appropriate internal control procedures over this reporting process. Since the issue was brought to their attention, the Agency has begun submitting the report.	Unqualified	Significant Deficiency		
Implement controls that would include follow-up on known errors in order to ensure that errors are corrected in a timely fashion.	Unqualified	Control Deficiency		
Implement a process to monitor whether subrecipients have registered with the CCR and are updating their information.	Unqualified	Significant Deficiency		
Implement a process that would consistently and timely inform subrecipients of the required information.	Unqualified	Significant Deficiency		
Become knowledgeable of and implement controls to address this reporting requirement.	Unqualified	Control Deficiency	Control Deficiency	
Maintain original supporting documentation for the information reported.	Unqualified	Control Deficiency	Control Deficiency	
Implement controls that would verify that the appropriate documentation is maintained for claims as support for eligibility determinations.	Unqualified		Control Deficiency	
Maintain original supporting documentation for the allocations calculated.	Unqualified		Control Deficiency	
Use one master monitoring review spreadsheet rather than three separate spreadsheets. Revise the Procedure Manual to conform to Federal Regulations 7 CFR 246.19(b)(4).	Unqualified			Control Deficiency
Implement procedures that would monitor the scope expenditures so that such expenditures exceeding the threshold for prior approval are not approved for payment until such approval has been obtained.	Unqualified			Control Deficiency
Provide training to those individuals making eligibility coding decisions.	Unqualified		Control Deficiency	
Refine procedures related to coding eligibility for foster care providers to prevent future instances of ineligible providers being paid federal funds, including providing additional training to those individuals making eligibility coding decisions.	Unqualified	Control Deficiency	Control Deficiency	Significant Deficiency
Implement procedures that include communicating the federal award information and compliance requirements to all subrecipients.	Unqualified			Control Deficiency
Cease subgranting Vocational Rehabilitation funds and develop alternate means for the disbursement of funds.	Unqualified			Control Deficiency
Implement procedures that would include a reconciliation of the final copy of the report to supporting documentation used to prepare the report prior to submitting the report to the federal grantor.	Unqualified			Control Deficiency
Reconcile the Federal Share of Expenditures reported to the general ledger prior to submitting the report.	Unqualified			Significant Deficiency
Continue to work with the federal agency to resolve this issue including implementing an appropriate corrective action plan.	Unqualified	Significant Deficiency	Significant Deficiency	Significant Deficiency
Review all documentation being released to the public to ensure that it contains the required wording. Ensure that all parties working with the program are aware of the additional terms and conditions listed on the grant award or compliance supplement.	Unqualified		Control Deficiency	Control Deficiency
Implement controls that would verify that the appropriate documentation is maintained in the case files as support for eligibility determinations.	Unqualified			Significant Deficiency
Reestablish an annual review process so that at least 5 percent of the entities providing services are reviewed each year.	Unqualified			Control Deficiency
Implement the procedures recommended by the Office of Inspector General to ensure future unallowable costs do not occur.	Unqualified			Control Deficiency
Consistently require adequate supporting documentation from other State agencies prior to completing drawdowns on behalf of the other agencies.	Unqualified	Significant Deficiency	Significant Deficiency	
Implement procedures that include periodically reconciling the CMS-64 and CMS-21 reports to STARS. The Agency contracted with a third party to complete the reconciliation process. Once this is done, the Agency will complete the reconciliations.	Unqualified*	Significant Deficiency	Significant Deficiency	Material Weakness
Require Maximus, the contractor, to provide a SAS 70 report.	Unqualified	Control Deficiency	Control Deficiency	Control Deficiency
Implement controls in MMIS that limit the number of surface repairs a dentist can claim on an individual tooth.	Unqualified	Significant Deficiency	Significant Deficiency	Significant Deficiency

The Auditors Recommended

- The auditors made recommendations to address the problem findings identified.

Agency Response:

- Each agency responded to its respective findings with a corrective action plan.

To qualify as a low-risk auditee in fiscal year 2012, the State must meet the following conditions for fiscal years 2010 and 2011:

- Undergo a Single Audit in accordance with OMB A-133
- Receive an unqualified opinion on both the financial statements and on the Schedule of Expenditures of Federal Awards
- Have no material weaknesses in internal control identified
- In Type A Federal programs, have no:
 - Material weaknesses
 - Instances of noncompliance that have a material effect
 - Known or likely questioned costs that exceed 5% of the total Federal awards spent for that program.

The Report on Federal Awards in Accordance with OMB Circular A-133 may be found on Legislative Post Audit's website at

http://www.kslegislature.org/postaudit/audits_fc/singleaudit09.pdf

This audit was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., under contract with the Legislative Division of Post Audit.

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