



COMPLIANCE AND CONTROL AUDIT REPORT

Department on Aging

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 1997**



LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

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April 22, 1997

To: Members, Legislative Post Audit Committee

Representative Eugene Shore, Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

Senator Lana Oleen, Vice-Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

This report contains the findings and conclusions from our completed compliance and control audit of the Department on Aging.

The report concludes that the Department adequately ensures that its own spending, and spending by local agencies of moneys received from the Department, adheres to State and federal restrictions. The report includes one recommendation to make the Department activities for monitoring local agencies more cost-effective.

We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.


Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Did the Department on Aging's financial-management practices ensure that it complied with State and federal spending restrictions?

The Department has established adequate procedures to ensure that it complies with spending restrictions.page 2
These practices identify restrictions on the use of moneys, account for each type of restricted moneys separately, and provide for supervisory oversight to ensure proper spending. Further, our tests showed the Department effectively applied these procedures during fiscal year 1996.

Question 2: Did the Department on Aging's procedures ensure that local agencies spend moneys appropriately?

The Department's procedures adequately ensure that local agencies appropriately spend moneys they get from the Department.page 3
During fiscal year 1996, the Department transferred more than \$9.5 million to area agencies on aging and local nutrition programs for the elderly. The Department's practices for monitoring how those moneys are spent include reviewing and approving local spending plans, conducting on-site reviews of local agencies, requiring local agencies to obtain periodic audits, and reviewing and following up on the results of those audits.

The Department didn't fully implement its oversight procedures during fiscal year 1996.page 3
In September 1995, the Department placed a moratorium on its normal practice of conducting extensive on-site assessments of local agencies once every four years, so that it could reevaluate and update its procedures. That moratorium lasted beyond the end of fiscal year 1996. Although federal regulations call for periodic evaluations of local agency operations, those regulations don't require the kind of extensive assessments normally done by the Department. However, some type of periodic monitoring procedures are needed. The U.S. Department of Health and Human Services has suggested that the Department develop a more limited, but more frequent, monitoring effort.

Recommendation.page 4

Agency Response.page 5

This audit was conducted by Gayle Meierhoff of the Division's staff, under the direction of Randy Tongier. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (913) 296-3792, or contact us via the Internet at: LPA@mail.ksleg.state.ks.us.

DEPARTMENT ON AGING

The Legislative Division of Post Audit has conducted compliance and control audit work at the Department on Aging covering fiscal year 1996. Compliance and control audits identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Department ensures that restricted moneys are properly used, and on its oversight of grants to local agencies. The audit addresses the following specific questions:

- 1. Did the Department on Aging's financial-management practices ensure that it complied with State and federal spending restrictions?**
- 2. Did the Department on Aging's procedures ensure that local agencies spent moneys appropriately?**

To answer these questions, we identified applicable legal spending restrictions and standard financial-management practices that would help the Department on Aging ensure that it spends its own restricted moneys properly, and provides adequate oversight of local agencies' spending. We reviewed the Department's written procedures, interviewed appropriate Department personnel, and reviewed a sample of grants to local agencies to see if the Department's procedures were consistent with those practices. In conducting this audit work, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

The audit's findings are presented on the following pages.

Did the Department on Aging's Financial-Management Practices Ensure That It Complied with State and Federal Restrictions on Expenditures?

The Department's financial-management practices generally were well designed and being applied in a manner likely to ensure that its expenditures complied with State and federal restrictions. Among other things, the Department's procedures identified restrictions on the use of federal moneys, and allocated costs shared by different programs or funds on a logical and consistent basis. The basis for our conclusions is presented in the following sections.

The Department Generally Has Established Adequate Procedures to Ensure that It Complies with Spending Restrictions

During fiscal year 1996 the Department on Aging spent almost \$1.3 million—or approximately 15 percent of the federal funds it received under Title III of the Older Americans Act of 1965—to administer various programs provided for under the Act.

To comply with federal restrictions and to limit any potential liability the State could have in the future with regard to its administrative expenditures, the Department should take steps to ensure that these restricted moneys are properly spent. To do this, the Department should have put in place certain financial-management practices, including the following:

- identifying any restrictions on the use of its moneys, particularly those restrictions imposed by law or regulation
- accounting for each type of restricted money separately from other moneys, so that the Department knows how each type of restricted money is spent
- requiring supervisory oversight to ensure that costs charged to a program actually were incurred by that program
- requiring business office review of expenditure documents to ensure that supervisory oversight has taken place
- checking for consistency between program costs and the funds from which those costs are paid, to identify programs whose costs shouldn't be paid from certain funds
- allocating joint costs shared by several programs or funds on a logical, consistent basis, so that each program or fund pays only its proper share of those costs

To find out the Department's practices in this area, we interviewed Department officials, reviewed written procedures, and examined a sample of applicable documents. We found that the Department's practices generally were well designed and consistent with the "good practices" outlined above.

Did the Department on Aging's Procedures Ensure that Local Agencies Spent Moneys Appropriately?

The Department has established adequate procedures to oversee local agency spending. Those procedures include issuing technical memoranda to provide guidance, maintaining ongoing telephone contact, requiring and reviewing annual audits of local agencies, and conducting periodic on-site assessments. During fiscal year 1996, the Department did all these procedures except the on-site assessments. The impact of that omission was a slightly increased risk of improper spending by local agencies—primarily area aging agencies. We saw no evidence of any improper local spending. The basis for our conclusions is presented in the following sections.

The Department's Procedures Adequately Ensure That Local Agencies Appropriately Spend Moneys They Get from the Department

During fiscal year 1996, the Department on Aging transferred more than \$9.5 million in cash and commodities to area agencies on aging and nutrition programs for the elderly. The Department is responsible for ensuring that those agencies properly use the moneys they get. To do so, the Department should have put in place certain oversight practices. Those practices would include the following, as applicable:

- reviewing and approving local spending plans
- reviewing supporting documentation for the local expenditures
- conducting periodic on-site reviews to determine how the local agencies are using moneys they get from the Department
- requiring the local agencies to obtain periodic independent audits
- following up on and resolving any discrepancies noted by the reviews and audits

To find out the Department's practices in this area, we interviewed appropriate agency officials, reviewed written procedures, and examined a sample of applicable documents. Our review focused on whether oversight procedures existed, and their likely effectiveness in revealing any misspending.

We found the Department's procedures generally were well designed, incorporating the "good practices" outlined above, and were likely to reveal any misspending.

The Department Didn't Fully Implement Its Oversight Procedures During Fiscal Year 1996

The federal government places the management responsibility for federal financial assistance programs administered by the Department on Aging on the State. Federal law and regulations require the Department to ensure that its subgrantees are

aware of federal restrictions imposed upon federal moneys. They also require the Department to monitor each subgrant-supported program, function, or activity to assure compliance with applicable federal requirements. Although federal moneys are distributed to other entities, the State remains liable for repaying these moneys if funds are misspent.

To meet general monitoring requirements, the Department communicates periodically with subrecipients through technical memoranda and telephone calls. It also thoroughly reviews each subrecipient's annual audit and, once every four years, conducts an extensive, on-site assessment.

In September 1995, the Department announced that it was placing a moratorium on the on-site assessments so that it could re-evaluate and update its procedures. Although the moratorium initially was expected to last only four months, it continued throughout fiscal year 1996. As a result, while other monitoring activities were conducted during the period under review, the agency didn't complete any on-site assessments that year.

Federal regulations seem to call for periodic evaluations of local agency operations by the Department, but it's not clear that the extensive on-site assessments formerly conducted are needed to meet that requirement. The U.S. Department of Health and Human Services has indicated to the Department that, while extensive on-site assessments aren't required on an annual basis, some type of periodic monitoring procedures are needed. The federal agency suggested the Department develop a more limited monitoring effort that focuses on particular areas of concern. Such an effort would take less time and staff than the previous assessment process.

Recommendation

To ensure that its monitoring efforts meet federal requirements in a cost-effective manner, the Department on Aging should work with the U.S. Department of Health and Human Services to develop and implement a more limited monitoring process for local agencies.

APPENDIX A

Agency Response

On April 9, 1997, we provided a copy of the draft audit report to the Department on Aging. The Department's response is included as this Appendix.



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Bill Graves
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Secretary of Aging

April 16, 1997

Ms. Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
Mecantile Bank Tower
800 SW Jackson St., #1200
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Dear Ms. Hinton:

Thank you for the opportunity to review and respond to the draft copy of the Compliance and Control Audit of the Department on Aging.

We have reviewed the audit report and agree with the substance of the findings. In regards to the recommendation "To ensure that its monitoring efforts meet federal requirements in a cost-effective manner, the Department on Aging should work with the U.S. Department of Health and Human Services to develop and implement a more limited monitoring process for local agencies.", we agree with the recommendation. I have assigned the Commissioner of Executive Services, who has responsibility for quality assurance, to work with Mr. Larry Brewster, Director of Region VII, Administration on Aging, to ensure that our monitoring and assessment processes meet federal requirements.

Thank you again for the opportunity to respond to the report and recommendations.

Sincerely,

A handwritten signature in black ink that reads "Thelma Hunter Gordon".

Thelma Hunter Gordon

THG:AK:ms

