
FINDINGS AND RECOMMENDATIONS

FINDING 1: MAKING REQUESTS FOR REIMBURSEMENTS
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SYNOPSIS

Ineffective cash management practices at three of the four agencies examined resulted in a potential loss of as much as \$935,000 of interest revenue on grant expenditures. Also, because one agency had not timely requested reimbursement for expenditures made, the agency lost an additional \$14,000 because the period available to request reimbursements for grant funds had expired. These conditions occurred because these agencies were not fully complying with policies and procedures as to when they should have requested reimbursement for grant expenditures. Cash management policies require that agencies make requests for reimbursement within 2 weeks of making expenditures. DCPS generally requested timely reimbursement for grant expenditures. However, DHA, DOH, and DOES were not timely requesting reimbursement for grant expenditures after using their own appropriated funds. We noted that anywhere from 4 to 6 months lapsed before reimbursement was requested or after the last expenditure was made. Additionally, we found that DOES also made expenditures for prior year grants and had not requested reimbursement for grant expenditures for as long as 26 months.

AUDIT RESULTS

Part III of the Grants Policies and Procedures Manual requires that collections for grant reimbursement should occur as closely as possible to the actual occurrence of cash disbursement. When District agencies fail to timely request reimbursement for grant funds from the Federal Government the city has to advance the money to District agencies and wait to be reimbursed by the grantors. As a result, the city cannot earn interest on its own funds and thus potentially can lose hundreds of thousands of dollars in interest accumulation each year.”

Our audit disclosed that DHS, DOH, and DOES did not timely request reimbursement of federal funds after incurring expenditures from appropriated funds. Although DCPS generally requested timely reimbursement for grant expenditures, we found instances where it failed to request reimbursement for expenditures incurred. Based on financial accounting reports that identified outstanding receivable balances of approximately \$68 million, we calculated that the District may have lost as much as \$757,000 of potential interest on appropriated funds. Personnel from these agencies attributed untimely requests for reimbursements of grant funds to preparation of the audit for the annual citywide financial statements.

FINDINGS AND RECOMMENDATIONS

Additionally, DHS, DOH, and DOES incurred expenditures in prior fiscal years, which these agencies have yet to apply to obtain full reimbursement. An outside accounting firm has been reconciling outstanding grant receivables for DHS and DOH. This issue is addressed in the next finding. Further, at DOES, we found that as much as \$7 million of grant receivables may have been outstanding since FY 1996. DOES applied for reimbursement of these amounts beginning in January 1999. While DOES officials attribute untimely requests for reimbursements to poor employee performance, we believe that it is management’s responsibility to monitor the agencies’ financial condition to include ensuring that timely requests for reimbursement of federal grant expenditures is occurring. As a result, DOES may have lost as much as \$178,000 of potential interest because they used District appropriated funds to pay expenditures for federal grants instead of requesting timely reimbursements from the Federal Government for those fiscal years. Additionally, DOES lost the ability to collect \$14,000 because the period to request reimbursement of expenditures for federal grant funds had expired.

The following tables show the expenditures for which timely requests for reimbursements were not made and the interest revenues lost due to delays in seeking reimbursements for FY 1999 and earlier fiscal years.

Table 1. Interest Lost During FY 1999
For Uncollected Grant Expenditure Receivables
As of February 2000

Agency	Unreimbursed Expenditures ¹	Number of Grants	Range of Months Expenditure Outstanding	Interest Lost ²
DHS	\$39,339,783	34	5-6	\$437,516
DOH	19,868,726	71	5-6	174,785
DCPS	1,674,703	18	3-5	20,779
DOES	6,835,172	36	4-6	124,282
TOTAL	\$67,718,384	159	3-6	\$757,362

¹ Unreimbursed expenditures identified by the OIG represent the total “account receivable balances” of several grants for the period ending September 30, 2000.

² Interest was computed for the number of days each grant receivable had been outstanding at the annualized rate of 4.59 percent – the CMIA Rate for State FY 1000. We afforded each agency a 30-day grace period before calculating potential interest lost.

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**Table 2. Interest Lost by DOES During FY 1996, FY 1997 and FY 1998
 As of February 2000**

Fiscal Year	Unreimbursed Expenditures ³	Number of Grants	Range of Months Expenditure Outstanding	Interest Lost ⁴
1996	\$15,884	1	26	\$1,833
1997	53,551	6	15-17	2,289
1998	7,049,910	29	3-7	173,988
Total	\$7,119,345	36	3-26	\$178,110

We should point out that all of these agencies applied for reimbursement for FY 1999 expenditures during the second quarter of FY 2000 for expenditures that were incurred months ago. To illustrate, as of March 31, 2000, DHS had an outstanding FY 1999 receivable balance of \$6.9 million; DOH had \$16 million; and DOES had \$2.2 million. Expenditures for two DCPS grants incurred during July and September 1999 were still outstanding as of March 31, 2000. We believe that the OIG's presence in these agencies greatly influenced their request for reimbursement.

Should these agencies continue their current cash management practices of failing to request reimbursement in a timely fashion for expenditures made for grant programs, we strongly believe that millions of dollars in potential interest will continue to be lost. Moreover, demonstrating that District agencies effectively practice good cash management principles can only help restore the public's and the Federal Government's confidence in the District's ability to manage its finances.

³ See footnote number 1.

⁴ Interest lost was computed for the number of days each grant receivable had been outstanding at the respective annualized rate of 5.24 percent for FY 1996, 5.18 percent for FY 1997, and 5.13 percent for FY 1998.

FINDINGS AND RECOMMENDATIONS

FINDING 2: MAINTAINING PROPER ACCOUNTING RECORDS

SYNOPSIS

The District incurred an additional cost of \$161,950 to hire an independent accounting firm to reconcile the grant expenditures and collections records of DHS and DOH for FY 1994 through FY 1998. Outstanding expenditure receivables for these years amounted to \$2.3 million for DHS and \$1.9 million for DOH. Because these agencies had not maintained proper records or properly accounted for grant expenditures, the OIG could not calculate how much in potential interest might have been lost because DHS and DOH failed to obtain reimbursement for appropriated expenditures used on grant programs. Additionally, the District lost the ability to collect \$4.4 million and \$3.5 million at DHS and DOH, respectively, on grants because the expenditures that had been made were ineligible for reimbursement.

AUDIT RESULTS

DHS and DOH records showed that \$2.3 million and \$1.9 million, respectively, have yet to be collected for grant expenditures made during FY 1995 through FY 1998. When we questioned why these receivables had been outstanding for such a long period of time, DHS and DOH personnel informed the OIG that the amounts currently reflected in the financial records are incorrect due to erroneous postings of grant expenditures and collections, which might have been applied to the wrong grant accounts. A contract was issued to an independent accounting firm to assist in reconciling what the actual outstanding receivables balances are. It is unknown at this time whether these agencies have been reimbursed for the expenditures they incurred or whether they will be able to collect all, or a portion, of what may not have been reimbursed. According to the firm's progress reports, the reconciliation has been further complicated because of missing federal payment reports that DHS and DOH should have retained. In addition, we noted that for FY 1991 and FY 1989, respectively, the Federal Government did not reimburse costs of \$4.4 million and \$3.5 million because ineligible charges were made to the grants.

Part IV of the Grants Policies and Procedures Manual provides, in part, that:

- Record keeping systems should provide mechanisms that ensure costs do not exceed the budgeted amounts for each program or activity. Grantees must also keep records that illustrate effective cash management. In general, grantees should support their financial transaction with purchase orders, contracts, time and attendance records, receipts or invoices, approvals of travel advances, check requests, and other pertinent supporting financial documents. The overall record

keeping system should logically trace financial statement balances to produce an audit trail to be used for internal and external reviews.

- It is the policy of the Government of the District of Columbia that recipient agencies bear full responsibility for complying with the terms and conditions of their grants and for maintaining clear documentation on all grant activities and operations.

Clearly, the fact that an outside firm has to reconcile expenditure and collections records to determine whether all grant transactions were properly accounted for is sufficient evidence to conclude that both DHS and DOH failed to accurately account for grant program transactions and to maintain the proper accounting records that would have provided insight as to where and how the erroneous postings have taken place.

RECOMMENDATIONS

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We recommended that:

1. The Directors of DHS, DOH, and DOES, ensure compliance with the policy contained in the Grants Policies and Procedures Manual regarding requests for reimbursements and institute a quarterly reporting requirement that agency CFOs report to agency directors on the balance of any unreimbursed grant expenditures.
2. The Deputy Chief Financial Officer, OFT, increase its monitoring efforts over agencies' grant cash management practices to ensure that agencies comply with the requirement to request reimbursement within 2 weeks of making grant expenditures with appropriated funds.
3. The Directors of DHS, DOH, and DOES, ensure compliance with the requirements for proper record keeping as stated in the District's Grants Policies and Procedures Manual.
4. The Deputy Chief Financial Officer, OFT, report the outcome of the ongoing reconciliation to the OIG, specifically, identifying what the actual receivables are, the amounts that have been collected, the amounts that still could be collected, and the amounts that have been lost because the period to obtain reimbursement has expired.

Government of The District Of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

APR 9 2000

Charles C. Maddox, Esquire
Inspector General
Office of the Inspector General
717 14th Street, N.W., Fifth Floor
Washington, DC 20005

Dear Mr. Maddox:

The Office of the Chief Financial Officer (OCFO) has reviewed your draft audit report on Federal Grant Management Practices (OIG-16-99BQ) and offers the following response to your findings and recommendation.

The OIG found that three of the four District agencies examined had ineffective cash management practices during FY 1999 and prior years. The three agencies are the Department of Health, the Department of Human Development, and the Department of Employment Services. The fourth agency, the District of Columbia Public Schools, was found to have generally requested timely reimbursement for grant expenditures.

During FY 1999 technical difficulties with the implementation of the Comprehensive Automated Personnel and Payroll System (CAPPS) and the System of Accounting and Reporting (SOAR) systems adversely affected the timely reporting of financial activity. There were several instances in which payroll expenditures defaulted causing a delay in the time that expenditures in CAPPS were recorded in SOAR. This delay affected the timeliness of collections for personal service cost because agencies use SOAR reports to draw down on expenditures. An example of this situation is shown below, in which an expense occurred in FY 1999 but was not posted until January of 2000.

Agency	Grant Number	Amount posted in Month "13"	Date transaction Posted
Department of Health (HCO)	91EHWP/99	\$202,306.00	01/07/00
	91EHNI/99	\$153,035.01	01/07/00
Total		\$355,341.01	

The OCFO will continue to work to eliminate all problems that affect the timely and proper posting of payroll expenditures.

Upon reviewing the OIG supporting documentation to calculate the potential interest liability cited in the report, the OCFO discovered that the OIG included accrued expenditures and indirect costs in the receivable balances for FY 1999. Since the accrued expenses had not been paid at the time of the report, interest should not have been calculated on those amounts. Though some agencies process drawdowns based on cash and accrued expenditures, interest lost can only be calculated on cash expenditures because only at that point has the District disbursed funds

The schedule below shows the revised receivable balances for the four agencies as of the end of FY 1999. The revised numbers do not include accrued expenditures or indirect costs

Agency	Original Unreimbursed Expenditures	Revised Unreimbursed Expenditures	Number of Grants
Department of Human Development	\$39,339,783	\$20,095,499	34
Department of Health	\$19,868,726	\$11,904,018	71
District of Columbia Public Schools	\$1,674,703	\$1,953,585	18
Department of Employment Services	\$6,835,172	\$3,953,823	36
Total	\$67,718,384.00	\$37,906,925.00	159

The majority of the revised “Unreimbursed” expenditures have been collected by the four agencies in question. The small percentage of funds (8.89% totaling \$3,370,286.38) remaining as outstanding receivables will either be cancelled because they were incorrectly processed into the financial system or collected if still valid. OFT is following up with the agencies to ensure that these receivables are resolved.

The OIG found that the Department of Health (DOH) and the Department of Human Development (DHD) used \$162,000 to hire an independent accounting firm to reconcile accounts because prior year accounts (FY 1994 – FY 1998) were not properly maintained or recorded.

DOH and DHD, previously known as DHS, did use an outside accounting firm to reconcile prior year records. The drawdown function of DHS was transferred to the Office of Grants and Management and Development (OGMD) in FY 1997. The drawdown function was returned to DHS in March of FY 1998 when it was realized that drawdowns are best accomplished in the same area the expenditures are initiated, monitored, and controlled. The transfer of information was problematic and it was found that funds were recorded against incorrect accounts. Based on this and other reasons, DHS hired an outside accounting firm to aid in the resolution of these issues. Therefore, the \$162,000 should not be

included in the calculation of interest lost or considered mismanaged funds, because the funds were used to correct past problems that negatively impacted receivable balances, and such problems were not necessarily due to mismanagement by these agencies.

The OIG recommendation for the Office of Finance and Treasury (OFT) and the OCFO is as follows:

The Deputy Chief Financial Officer of the Office of Finance and Treasury (OFT) should increase its monitoring efforts over agencies' grant cash management practices to ensure that agencies comply with the requirement to draw down within two weeks of making grant expenditures with appropriated funds.

Since the oversight of the Cash Management Improvement Act (CMIA) was transferred to OFT at the end of fiscal year 1998, processes were put into effect to monitor all agencies covered by the Treasury State Agreement (TSA) which covers federal grants in the amount of \$3 million or greater. At the end of FY 2000, OFT expanded its review to include all agencies and grants regardless of the size of the annual expenditures. To that end, on a weekly basis OFT staff reviews the status of cash collections and works with agencies to make sure that cash is collected as cash expenditures are incurred. The goal of OFT is to ensure that as cash is disbursed from the pooled cash accounts, it is being drawn down so that there is no delay in reimbursement. OFT has trained agency personnel on the importance of the CMIA requirement and has created reports in the Executive Information System (EIS) that aid in the tracking and reporting of cash expenditures and revenues relating to federal grant programs.

Going forward, OFT will not only monitor the current collection status of all agencies that receive federal grant funding, but will also monitor prior-year receivables to verify that all the funds that are due to the District have been collected. OFT will also verify that the receivable balances that cannot be reimbursed are written off. Upon reviewing the schedules provided by the OIG it was found that some of the receivable balances were invalid and needed to be cancelled in the financial system.

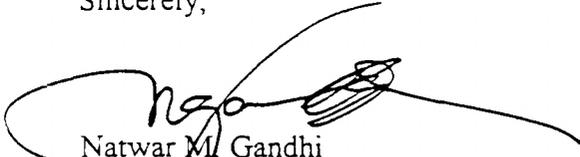
The OCFO also found that another reason for delays in requesting reimbursement for federal grants was cases where there was an intra-district agreement between agencies. The expense typically was not transferred to the granting agency until year-end. OFT will work with the Office of Budget and Planning (OBP) and Office of Research and Analysis (ORA) to create and enforce policies to ensure that intra-district expenses are recognized to the granting agency in a timely manner or as the expense is incurred.

In summary, although there have been problems in prior years in a timely drawdown of federal grants, the OCFO has taken steps to improve efficient cash management. Overall there has been improvement in the way that the larger agencies drawdown funds from the federal government. OFT will work with the Office of Research and Analysis (ORA) and OBP to enforce current policies on grant management and to facilitate the implementation of new processes that will aid in the improvement of grants management

citywide. The CFO will ensure that OFT continues to work with all agency Chief Financial Officers to ensure improved cash management and accounting for federal grants.

If you have further questions or concerns please contact me at (202) 727-2476, or your staff may contact Wilma G. Matthias, Director, Internal Audit and Internal Security, at (202) 442-6433

Sincerely,



Natwar M. Gandhi
Chief Financial Officer