

**Memorandum**

Date **JAN 30 1998**

From **Deputy Inspector General  
for Audit Services**

Subject **Report on Department of Health and Human Services, Program Support Center,  
Division of Payment Management's Policies and Procedures in Operation and Tests of  
Operating Effectiveness (A-17-97-00011)**

To

**Distribution List**

The Department of Health and Human Services' (HHS) Division of Payment Management (DPM) serves as the fiscal intermediary between awarding agencies and grant or contract recipients. The DPM's Payment Management System (PMS) processes approximately \$170 billion in payments to recipient organizations per year. The attached report presents the results of Ernst & Young's (E&Y), Certified Public Accountants, review of DPM's policies and procedures placed in operation to fulfill this responsibility. The E&Y made the review under a HHS Office of Inspector General contract. During our technical oversight and quality control of the examination, we found nothing to indicate that E&Y's work was inappropriate or that the report cannot be relied upon.

Specifically, the objectives of E&Y's examination were to obtain reasonable assurance regarding whether: (1) the description of the PMS application presents fairly, in all material respects, the aspects of DPM's policies and procedures that may be relevant to a user organization's internal control structure; (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the descriptions; and (3) such policies and procedures had been placed in operation as of July 31, 1997.

The E&Y concluded that the description of PMS applications present fairly, in all material respects, the relevant aspects of DPM's policies and procedures placed in operation as of July 31, 1997. Also, E&Y concluded that the control structure policies and procedures are suitably designed to provide reasonable assurance that the specified control objectives would be achieved. Lastly, E&Y concluded that the control policies and procedures tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified were achieved during the specified period.

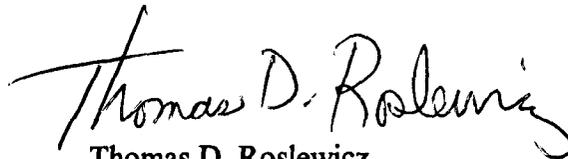
The relative effectiveness and significance of specific policies and procedures at DPM and their effect on assessment of control risk at user organizations are dependent upon their interaction with policies and procedures present at individual user organizations. The PMS application was designed with the assumption that certain internal control

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structure policies and procedures would be implemented by user organizations. To ensure that the control structure policies and procedures included in this report are achieved, users of DPM need to implement their own control structure policies and procedures that achieve the control objectives listed on pages 17, 35, 46, 77, and 84.

For Fiscal Year 1998 audit planning purposes, we plan to retain certified public accountants to perform a similar review covering Fiscal Year 1998 activity. We estimate that the results of the review will be available in December 1998.

Should you wish to discuss this report, please call me or have your staff contact Joseph E. Vengrin, Assistant Inspector General for Audit Operations and Financial Statement Activities, at (202) 619-1157. Please refer to the Common Identification Number A-17-97-00011 in all correspondence relating to this report.

  
Thomas D. Roslewicz

Attachment



# **Department of Health and Human Services**

## **Program Support Center**

### **Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness for the Payment Management System (PMS)**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES  
DIVISION OF PAYMENT MANAGEMENT**

**REPORT ON POLICIES AND PROCEDURES PLACED IN OPERATION AND  
TESTS OF OPERATING EFFECTIVENESS FOR THE  
PAYMENT MANAGEMENT SYSTEM (PMS)**

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## ***Section I - INDEPENDENT SERVICE AUDITOR'S REPORT***

Department of Health and Human Services,  
Division of Payment Management  
Rockville, Maryland

We have examined the accompanying description of the Payment Management System (PMS) application of the Department of Health and Human Services (HHS), Division of Payment Management (DPM). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of DPM's policies and procedures that may be relevant to a user organization's internal control structure, (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily and user organizations applied the internal control structure policies and procedures contemplated in the design of DPM's policies and procedures, and (3) such policies and procedures had been placed in operation as of July 31, 1997. DPM uses a computer processing service organization maintained by the National Institutes of Health's (NIH) Division of Computer Research and Technology (DCRT) for all of its computer processing. The accompanying description includes only those policies and procedures and related control objectives of DPM, and does not include the policies and procedures and related control objectives of the computer processing service organization. Our examination did not extend to the computer processing service organization's policies and procedures. The control objectives were specified by the management of DPM. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of DPM's policies and procedures that had been placed in operation as of July 31, 1997. Also, in our opinion, the control structure policies and procedures as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described control structure policies and procedures were complied with satisfactorily and user organizations applied the internal control structure policies and procedures contemplated in the design of DPM's policies and procedures as described in its description.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific policies and procedures, listed in our description of the tests of operating effectiveness, to obtain evidence about their effectiveness in meeting the control objectives described in our description of those tests during the period from December 1, 1996 to July 31, 1997. The specific policies and

procedures and the nature, timing, extent, and results of the tests are listed in our description of the tests of operating effectiveness. This information has been provided to user organizations of DPM and to their auditors to be taken into consideration, along with information about the internal control structure at user organizations, when making assessments of control risk for user organizations. In our opinion the control structure policies and procedures that were tested, as described in Section III of this report, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from December 1, 1996 to July 31, 1997.

The relative effectiveness and significance of specific policies and procedures at DPM and their effect on assessments of control risk at user organizations are dependent upon their interaction with the policies, procedures, and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of the policies and procedures placed in operation at individual user organizations.

The description of the policies and procedures at DPM is as of July 31, 1997, and the information about tests of the operating effectiveness of specified control structure policies and procedures covers the period from December 1, 1996 to July 31, 1997. Any projection of such information to the future is subject to the risk that, because of changes, the description may no longer portray the system in existence. The potential effectiveness of the specified policies and procedures at the service organization is subject to inherent limitations, and accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

The information included in Section IV of this report is presented by DPM to provide additional information to user organizations and is not part of DPM's description of policies and procedures placed in operation. The information in Section IV has not been subjected to the procedures applied in the examination of the description of policies and procedures, and accordingly, we express no opinion on it.

This report is intended solely for use by the management of DPM, its users, and the independent auditors of its users.

*Ernst + Young*

October 17, 1997

**Section II – DEPARTMENT OF HEALTH AND HUMAN SERVICES  
DEPARTMENT OF PAYMENT MANAGEMENT  
DESCRIPTION OF POLICIES AND PROCEDURES**

**OVERVIEW OF OPERATIONS**

The Department of Health and Human Services (HHS), Division of Payment Management (DPM) is located in Rockville, Maryland and administers and operates the Payment Management System (PMS).

PMS was developed for the purpose of creating a central point system which is capable of paying most Federal assistance grants, block grants, and contracts. The main purpose of this system is to serve as the fiscal intermediary between awarding agencies and the recipients of grants and contracts, with particular emphasis on: (1) expediting the flow of cash between the Federal government and recipients; (2) transmitting recipient disbursement data back to the awarding agencies; and (3) managing cash advances to recipients. PMS is used to process payments for 44 Federal agencies and processes approximately \$170 billion per year. The PMS application is run on an IBM mainframe using IMS DB/DC databases at the National Institutes of Health's (NIH) Division of Computer Research and Technology (DCRT). PMS is a mature application that has existed for the past 20 years and now requires only minor maintenance activity. However, to provide more robust functionality in the future DPM is currently in the process of developing a client/server replacement system for PMS.

***Role of DCRT***

DPM has a time sharing agreement with DCRT whereby DCRT provides and maintains the computer system on which PMS is processed. DCRT provides similar services for other customers. Considering that DCRT owns and operates the computer system on which PMS is run, DCRT has ownership and responsibility for certain general controls at their computer facility. While these control areas are part of the overall PMS environment, they are not under the control of DPM. The general control areas that are at the discretion of DCRT are:

- maintenance of system software;
- system parameter settings available within IBM's Resource Access Control Facility (RACF) which is used to provide logical access control;
- access violation monitoring;
- physical access to the DCRT computer room; and
- back-up and contingency planning.

There is a separate Service Auditor's Report for DCRT that should be obtained and considered by the independent auditors for the user organizations of DPM.

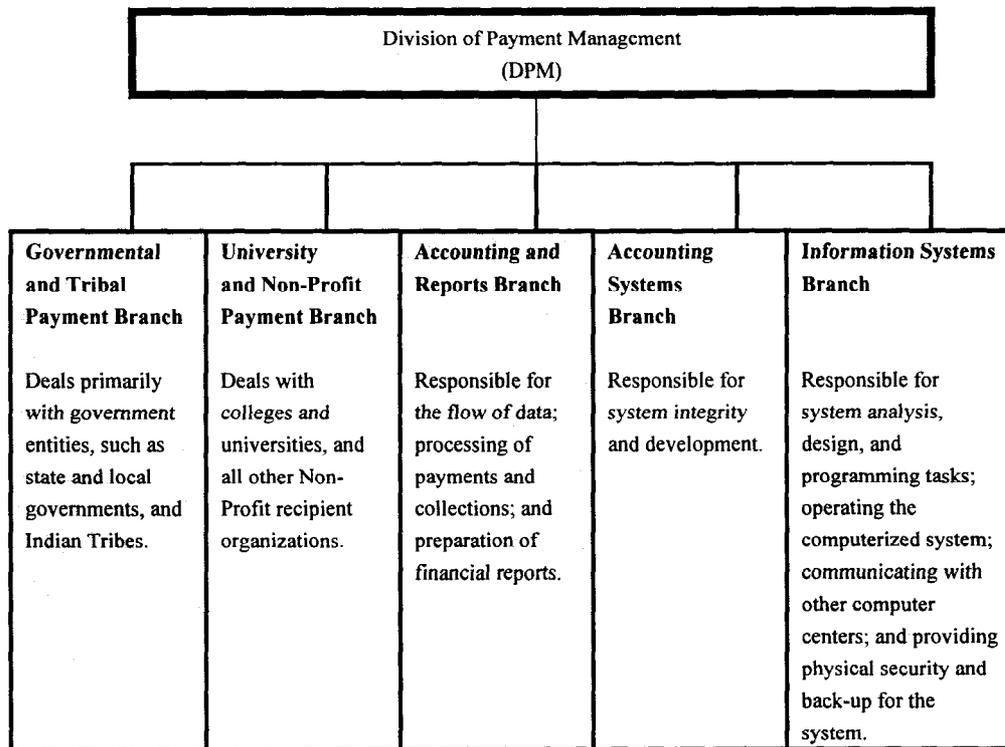
## OVERVIEW OF THE CONTROL ENVIRONMENT

An organization's control environment reflects the overall attitude, awareness, and actions of management and others concerning the importance of controls and the emphasis given to controls in the organization's policies, procedures, methods, and organizational structure. The following is a description of the key policies and procedures that are generally considered to be part of the control environment.

### *Organizational Structure*

The organizational structure of DPM, which provides the overall framework for planning, directing, and controlling operations, uses an approach whereby personnel and business functions are segregated into departments according to job responsibilities. This approach allows the organization to clearly define responsibilities, lines of authority for reporting and communication purposes, and allows employees to focus on the specific business issues impacting the users of PMS.

DPM, which operates PMS, is divided into five branches to provide for segregation of duties in the following manner:



The organizational structure of DPM provides segregated job functions according to departmental responsibilities. This approach allows the organization to clearly define

responsibilities, lines of reporting, and communication so that no individual has incompatible job duties. In addition, data center operations are performed by a separate organization, DCRT, which is a division of NIH. Listed below is a description of each DPM operational area and specific segregation controls provided as a result of assigned roles and responsibilities.

#### Governmental and Tribal Payment Branch

This branch deals primarily with government entities, such as state and local governments and Indian Tribes. It provides a Liaison function between PMS and recipients for payments and reports; monitors Federal cash balances held by recipients; and, on a quarterly basis, coordinates and analyzes cash flow and disbursement data received from recipients. In addition, the branch serves as a liaison between the recipient and the awarding agencies for the resolution of grant authorization problems.

#### University and Non-Profit Payment Branch

This branch functions in the same manner as the Governmental and Tribal Payment Branch except that it deals with colleges and universities and all other non-profit recipient organizations. Both the University and Non-Profit Payment Branch and the Governmental and Tribal Payment Branches may be referred to as Liaison Branches.

#### Accounting and Reports Branch (A&R)

The A&R branch is responsible for the flow of payment data by maintaining the integrity of PMS through controls over the input/output of data. PMS processes payments and charges agencies for payments made to their recipients. The branch also acts as a liaison between PMS and the grant agencies for electronic data. The branch prepares financial reports for the Department of Treasury as well as other budgetary reports.

#### Accounting Systems Branch (ASB)

This branch is responsible for system integrity and development. The Accounting Systems Branch is responsible for evaluating changes and enhancements to PMS and is also responsible for developing operating procedures and system documentation. On a daily basis, the branch oversees the resolution of system problems and monitors production activity for accuracy.

#### Information Systems Branch (ISB)

This branch is responsible for system analysis, design, and programming tasks; operating the computerized system; communicating with other computer centers; and providing physical security and back-up for the system. They provide software and hardware support to the automated processes of PMS which includes microcomputer and local area network support. The IS Branch designs software to support modifications and enhancements of PMS activities. The branch also provides operational support to insure

the successful execution of automated PMS procedures. It is responsible for information security and coordination of system issues with users, agencies, vendors, and recipients.

Within the Information Systems Branch, the four staff members can perform program changes. Two senior staff members have access that enable them to perform production implementation and Resource Access Control Facility (RACF) administration. In addition, these two individuals have access that allow them to perform program development, production implementation, RACF administration, and database administration functions.

### DCRT

DCRT is responsible for all PMS computer operations activities performed in the NIH data center. It is also responsible for security violation monitoring and physical security over the hardware and computer facility. DCRT also coordinates disaster recovery planning efforts with DPM.

### Segregation Standards

As part of the overall DPM organization, separate individuals are responsible for performing the following functions:

- DCRT DASD and Processor Resource Management;
- DPM/PMS System Analysis, Design and Programming;
- DPM System Software Maintenance;
- DCRT Computer Operations;
- DPM RACF and PMS Information Security Administration;
- DPM IMS Administration; and
- DPM Network Administration.

In addition, operational functions are separated such that:

- Awarding agencies/Cross-Serviced agencies are responsible for registering a PMS entity (recipient) and authorizing the grant award, but cannot process payment requests.
- Recipients are responsible for requesting payments, but cannot register themselves as an authorized entity or authorize a grant award.
- DPM is responsible for processing payment requests and reconciling financial activity for the Department of Treasury.
- The awarding agency, recipient, and the Department of Treasury also balance and reconcile their respective transactions with the appropriate entities.

Detailed policy and procedures manuals are in place for most sensitive functions to guide and instruct personnel on routine activities. Employees are required to sign an employee confidentiality agreement and a code of conduct agreement at their date of hire.

### ***Policies and Procedures***

HHS and DPM have developed formal policies and procedures covering various financial and operational matters and all critical aspects of employment services applicable to management personnel, including: hiring, training/development, performance appraisals, and terminations. In addition, all new employees are issued an employee information kit that documents various procedural and administrative matters.

When it becomes necessary to fill a vacant job position, the Director of DPM submits a request for hire along with a position description to the Human Resource Service of the Program Support Center. PSC's Human Resource Service then completes a formal job announcement and recruits candidates who are qualified for the position in accordance with the Federal government's affirmative action program. All applicants are evaluated and the qualified candidates are referred back to DPM and interviewed by appropriate DPM management. All final hiring decisions are the responsibility of the Director of DPM.

Performance appraisals are required for all employees of the organization by their immediate supervisor every 6 to 12 months; more frequent progress appraisals are performed for new employees. DPM uses formal classroom instruction and on-the-job employee training programs for all departments and functions.

### ***Insurance Coverage***

DPM carries insurance policies that address different risk exposures for its business units. Policies in force include comprehensive crime (i.e., fidelity bond coverage), all risk property, casualty, and umbrella liability.

### ***Backup and Contingency Planning***

#### **Backups**

The PMS batch procedures back up all PMS libraries to tape once a week. Off-site backups are created weekly and maintained at the NIH campus. In addition, every two weeks, DCRT sends backup tapes of all direct access storage device (DASD) packs in the DCRT data center (which includes the PMS programs, databases, and files) to an off-site vendor.

## Contingency Planning

DPM has a general Disaster Contingency Plan which addresses three scenarios:

- PMS physical site is unavailable;
- DCRT is unavailable; and
- Both PMS site and DCRT are unavailable.

Each of these three conditions have procedures to be followed by employees of DPM.

DCRT currently schedules testing exercises twice a year. It is also DCRT's policy to meet all of the objectives set for each test. Furthermore, it is DPM policy to participate in as many exercises as possible, to completely restore PMS on-line, to run a subset of its production batch jobs against the production databases, and to establish connectivity from the NIH campus to the hot-site.

## OVERVIEW OF THE FLOW OF TRANSACTIONS

### *Identification and Registration of the Recipient in PMS*

It is necessary to define authorized recipients to PMS before payments can be made to grant recipients. This function is processed through the Central Registry System (CRS).

CRS uses a standard identification number of twelve characters to identify recipients. This number is called the Entity Identification Number (EIN). The EIN is composed of the nine digit tax identification number used for tax reports or Social Security number, a one digit prefix, and a two digit suffix. All recipients of Federal assistance funds must have a unique EIN recorded in CRS.

CRS maintains an automated file with identification data on all recipients paid through PMS. These records contain data elements that identify the organization, its mailing and/or location address, and geo-political codes (e.g., congressional district, county, and city codes) for geographic fund distribution. The data elements also classify the organization into an entity coding structure.

Normally, initial payee registrations for PMS paid entities are initiated by the awarding agency. Changes to payee-related entities are held for review by the HHS, Division of Payment Management - Central Registry that is operationally responsible for the administration of CRS registration related data.

### *Methods of Cash Advances*

Recipients receive funds primarily via one of two financing (payment) mechanisms: (1) ACH and (2) FEDWIREs. The funds are advanced for immediate disbursement needs, or to reimburse expenses previously incurred. The determination of advance or reimbursement basis is dependent on the recipient's grant agreement or cash management practices.

ACH and FEDWIREs are electronic payment methods and are expected to be used to the "maximum extent practical" in making grant payments. Funds are directly deposited into the recipient's account the next business day for ACH payments and the same day for FEDWIRE payments. The Direct Deposit Sign-up Form (SF 1199a) information is necessary for DPM to have Federal funds electronically deposited into the recipient's bank account. FEDWIRE payments are generally reserved for Cash Management Improvement Act (CMIA) recipients, but are also used for emergency payments. The intent of the Act is to minimize the time grantees hold Federal funds by requiring the grantee to only request funds for immediate needs.

## ***Methods of Cash Request***

Recipients may request funds via one of three cash request methods: (1) SMARTLINK II, (2) CASHLINE, and (3) telephone (I-27) request. DPM encourages recipients to use SMARTLINK II or CASHLINE request methods when feasible. These methods allow for frequent requests that are more closely related to the recipient's outlays.

### **SMARTLINK II**

Recipients with access to a PC and modem, are eligible for the SMARTLINK II method of drawing down funds. Recipients assigned to SMARTLINK II use a PC to dial into a computer system at the NIH. The application permits the data entry of account and draw-down information (i.e., account number and amount requested), and then generates a message indicating the outcome of the transaction. In a short period of time, the paper-free transaction is completed, and funds are direct deposited into the recipient's account on the next business day.

### **CASHLINE**

Recipients who have access to a touch-tone phone, but not a PC, may be eligible for CASHLINE, a voice-response application. The recipient simply dials the CASHLINE number, which is answered by a voice response computer system. The voice instructs the recipient, step by step, when to enter information (i.e., account number and amount requested) with the keypad on their phone. The voice indicates the outcome of the transactions and the requested funds are direct deposited into the recipient's bank account. Currently, this payment method is only available to recipients who do not have sub-accounts.

### **Telephone (I-27) Requests**

On an emergency basis, DPM accepts telephone requests for funds. For ACH payments, an I-27 or "dial-up" request is prepared by an accountant who enters the information into PMS for the recipient.

## ***Cash Disbursement Reporting***

PMS recipient reporting requirements are consistent with Office of Management and Budget (OMB) policies and the standards for government-wide reporting. DPM uses an automated PMS 272 as approved by OMB. These computer-generated reports are furnished to all recipients with active PMS accounts. A PMS 272 and its appropriate schedules (PMS 272-A, B, C, E, F, and G) are produced for each recipient (payee) account, if applicable. Payees that have more than one account in PMS receive more than one PMS 272. The following table provides a brief description for each PMS 272 report.

**COMPUTER-GENERATED REPORTS**

<b>FORM#</b>	<b>FORM/REPORT NAME</b>	<b>DESCRIPTION</b>
N/A	<b>Transmittal letter</b>	Acts as a cover letter containing instructions regarding the attached reports.
PMS 272	<b>Federal Cash Transactions Report, Status of Federal Cash</b>	Provides an overview of the status of the account that contains data provided by PMS to the recipient.
PMS 272-A	<b>Federal Cash Transactions Report</b>	Shows the award authorization and prior cumulative disbursements reported against individual awards. The recipient reports cumulative disbursements through the current reporting period and indicates any documents that are missing from this report (PMS 272-A). In addition, PMS includes resolution of previously reported award problems.
PMS 272-B	<b>Statement of Cash Accountability</b>	Shows the detail of total cash accountability reflected in PMS and a reconciliation report whereby the recipient can indicate advance payment problems to PMS.
PMS 272-C	<b>Error Correction Document</b>	Provides an optional mechanism for the recipient to report problems with PMS data systematically and know that follow-up action is taken.
PMS 272-E	<b>Major Program Statement</b>	Shows advances and cash accountability by program. This can include programs such as Medical Assistance Payments, Medicaid Administration and Training, TANF Benefits Payments, Block Grants, etc.
PMS 272-F	<b>Authorizations for Future Periods</b>	Lists authorizations that have been posted to the PMS database, but for which the starting date has not yet arrived.

PMS 272-G

**Inactive Documents  
Report**

Lists all awards posted in the PMS database that are fully disbursed or have become inactive during the current period or during a prior period.

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***Remittances to PMS***

Recipients submit funds to DPM for posting to grant awards as a result of the following:

- Unexpended Funds;
- Duplicate Payments;
- Audit Disallowances; and
- Interest Payments (OMB Circular A-110).

***Notes Receivable Statement***

On occasion, it may be necessary for DPM to enter into a repayment agreement with a recipient. This may result from an over advanced award document, Final Report of Expenditure (FROE) adjustment, or audit finding involving a certain sum owed to the government for which the recipient is unable either to pay the full amount owed or to make an offset adjustment to finance other open awards. The key components of these situations are:

- An extended payment plan (Promissory Note) is negotiated between the awarding agency, the recipient, and DPM, with a copy provided to the awarding agency.
- Installment payments are sufficient in size and frequency to liquidate the amount owed generally within a three-year period, and interest is charged on the uncollected amount.
- In addition, interest charges on late payments are computed at the prevailing rate prescribed by the Department of Treasury Fiscal Requirements Manual for each thirty day period, or portion thereof, that the payment is late.

***Reconciliation Requirements***

In its role as a fiscal intermediary, DPM also monitors its synchronization with the recipient's accounting records to ensure that any differences that may arise are resolved promptly. The primary vehicle for accomplishing this is the PMS 272 Federal Cash Transactions Report which the recipient completes and returns to DPM. Reconciliation requires full cooperation and close liaison between the awarding agencies and DPM.

## ***Overview of Responsibilities***

- DPM does not issue awards to recipients. DPM serves as the disbursing (paying) agent for agencies that award/issue grants.
- To ensure a smooth working relationship between the awarding agencies and DPM, a PMS contact point has been established within each awarding agency's accounting office. Individuals designated as contacts are expected to have an in-depth knowledge of the system interfaces and are able to obtain needed information from accounting or program records. The PMS database has an on-line inquiry capability that allows contact personnel access to the most current fiscal data available on recipients. Contact individuals are responsible for responding to DPM questions and resolving differences quickly.
- DPM cannot initiate correction of authorization reporting errors; it can only notify and follow-up with the awarding agency to ensure that data is submitted through PMS to correct reporting errors. The responsibility for resolving award authorization discrepancies rests with the awarding organization.
- Responsibility for resolving advances and recipient disbursement discrepancies rests with DPM.

On an ongoing basis, DPM reconciles all payments with the Department of Treasury. The recipient must work closely with DPM personnel to reconcile any differences. The PMS 272 reports contain data essential to the recipient's reconciliation effort with PMS.

The award records of PMS must be maintained in agreement with the records of the awarding agency's fiscal office. The process is called synchronization and is required for all awards funded through PMS. Recipients receive information on individual awards through the PMS 272. Significant importance is attached to the award amounts which, added together, represent a ceiling against which a recipient may obtain cash through PMS. If the authorization is too low or not present, the recipient is not permitted to obtain the funds necessary for the task required by the terms and conditions of the awards. Conversely, if the authorization is too high, the recipient may try to reduce excess funds by reporting higher disbursements and subsequently be required to refund cash immediately.

Synchronization of disbursements is as important as synchronization of authorizations. Cash disbursements reported by the recipients to PMS are used to control cash held by the recipient and to monitor future cash advances. These cash disbursements are also transmitted to the fiscal offices of the awarding agencies so that they can liquidate their advances to recipients paid through PMS. DPM provides a synchronization report (PMS 817) and magnetic tape containing data as of the end of the month by the fifteenth of the following month to each awarding agency. If a recipient has reported data incorrectly, the recipient is obligated to make the corrections on the next submission of the PMS 272 to DPM.

DPM serves as a communication link between recipients and awarding agencies. The awarding agency organization has control over obligation of award amounts. Whereas, DPM initiates actions to resolve discrepancies in which reported cash disbursements on individual awards exceed the award authority or in which final recipient cash disbursements reported to PMS differ from the recipient's final expenditures reported to the awarding organization. The awarding agency, in conjunction with DPM, is responsible for resolving any differences with a recipient when that agency closes an award. The recipient must cooperate and work with both agencies until all problems with Final Reports of Expenditures (FROE) submitted to the awarding agency are resolved.

### ***Assistance in Reconciliation of Financial Reports***

It is essential that the recipient's financial data agree with that contained in PMS. Such mutual agreement is necessary for effective management of Federal cash and maintenance of acceptable recipient accountability. Recipients are encouraged to seek assistance from the appropriate staff in DPM (as indicated on their PMS 272) if their records cannot be reconciled to the PMS 272.

DPM Liaison staff may be able to furnish the recipient with relevant additional data regarding the details of awards and advances posted to the PMS files. This information can be made available to assist recipients in reconciling with data maintained in PMS.

### ***Block Grant Financing***

The block grant programs currently covered are:

- Community Mental Health Services;
- Preventive Health and Health Services;
- Substance Abuse and Preventive Treatment
- Maternal and Child Health Services;
- Social Services;
- Low Income Housing Energy Assistance; and
- Community Services.

The following procedures are applicable only to block grants issued to states, territories, and Indian tribes. They are not applicable to formula or discretionary grants.

### ***Establishing Block Grant Accounts***

DPM establishes and maintains separate accounts for the block grant funds to be drawn by each recipient. For the purpose of managing these accounts, recipients are assumed to have a cash needs pattern similar to that which prevailed historically under the various programs that have been incorporated into the block grant. Undrawn authority remaining at the end of each year continues to be available to the recipient through the account in

subsequent years until the obligation/expenditure period has expired. Cash management edits take into account the following information:

- Historical draw-down patterns for the previous programs that have been incorporated into the block grant;
- Available (undrawn) award authority; and
- Information provided by recipient organization officials.
- Legislation

The following Federal requirements applicable to other PMS awards are also applicable to block grants:

- Funds are drawn only after the recipient has received the program authorization, and then only to meet current disbursement needs;
- The recipient organization must be aware of its cash needs continually to assure that minimal Federal cash balances are kept;
- The amount of Federal cash on hand is as close to daily needs as is administratively feasible. Withdrawals should correlate with the recipient's disbursement pattern (i.e., with vouched expenditures or warrants being processed for payment); and
- Recipients that finance secondary recipients (monies flowing from the state to local units of government) must establish controls to assure that state advances correlate with actual disbursement needs of the secondary recipients.

### ***PMS Block Grant Status Report***

Reporting requirements (PMS 272) do not apply to block grant programs. As a convenience, PMS provides block grant recipients with a Major Program Statement PMS 272-E report on a quarterly basis. This computer-generated report is provided to recipients solely to aid them in comparing records. It is analogous to a bank statement.

Part I of the report shows the payments made during the period covered by the report and provides a breakdown by block grant program. Part II of the report provides the cash accountability by block grant as of the end of the period covered by the report.

### ***Withholding of Payments***

Payments of funds may be withheld when the responsible awarding agency notifies PMS that the recipient has not complied with program regulations, when it appears to PMS

staff that a recipient is drawing funds in excess of immediate program disbursement needs, and when reporting requirements have not been fulfilled.

### *Expiration of Payments and Payment Close-out*

Unlike other grant programs, recipients of block grants are not required to file financial disbursement reports (PMS 272 Reports, program expenditure reports), or otherwise notify DPM that a grant has been completed.

- Block grant statutes govern the period in which states or tribal organizations may obligate and expend funds. These statutes do not establish a time limit for drawing funds for legitimate expenditures.
- In addition to the above, block grants may also be closed informally. The informal closing procedures do not affect a recipient's right to claim reimbursement for grant expenditures. However, due to the M year legislation, a recipient has five years from the end of the statutory period to claim reimbursement for block grant expenditures made during the statutory period.

DPM, as a paying office, initiates the block grant close-out process whenever the recipient's draw-downs equal the award amount by:

- Notifying the recipient that the total has been drawn, requesting verification, and informing that the grant will be removed from its records on the next reporting cycle; and
- Providing the awarding agency finance office with the necessary information to prepare a closing transaction to PMS.

DPM also initiates the grant close-out process when its records show that undrawn authorizations exist for the grant in the third quarter (i.e., April 1) of the second fiscal year following the close of the statutory obligation or expenditure period. This is done by:

- Notifying the recipient of the intention to close-out the grant by the end of the fiscal year;
- Asking the recipient to advise DPM staff of any plans for further draw-downs;
- Collecting any unused funds; and
- Providing the awarding agency with the necessary information to prepare a closing transaction to PMS.

## **CONTROL OBJECTIVES AND RELATED POLICIES AND PROCEDURES**

DPM's control objectives and related policies and procedures are included in Section III of this report, "Information Provided by Ernst and Young LLP," to eliminate the redundancy that would result from listing them here in Section II and repeating them in Section III. Although the control objectives and related policies and procedures are included in Section III, they are, nevertheless, an integral part of DPM's Description of Policies and Procedures.

### **USER CONTROL CONSIDERATIONS**

DPM's PMS application was designed with the assumption that certain internal control structure policies and procedures would be implemented by user organizations. In certain situations, the application of specified internal control structure policies and procedures at user organizations is necessary to achieve certain control objectives included in this report. In such instances, the required user organization internal control structure policies and procedures are indicated under the related control objective in Section III of this report.

This section describes other internal control structure policies and procedures that should be in operation at user organizations to complement the control structure policies and procedures at DPM. User auditors should consider whether the following policies and procedures have been placed in operation at user organizations:

- Procedures should be established to perform a monthly synchronization process to ensure that user records are complete, accurate, and in agreement with information maintained in PMS.
- Procedures should be established to ensure that users promptly return certification letters to DPM certifying that the users' records agree with PMS or that corrections to PMS records, as described, are required.
- Procedures should be established to ensure the grant close-outs are performed timely, accurately, and completely.
- Responsibility for resolving award authorization and disbursement discrepancies rests with, and is between, the recipient and the awarding organization. DPM is only responsible for correcting PMS payment problems.
- Responsibility for reviewing the holding file for award authorizations and correcting and resolving transactions contained therein belongs to the awarding agency.
- Responsibility for maintaining the integrity of Common Account Number (CAN) tables rests with the awarding agencies.

The list of user control considerations presented above is not a comprehensive list of all internal control structure policies and procedures that should be employed by user organizations. Other internal control structure policies and procedures may be required at user organizations.

## **Section III - INFORMATION PROVIDED BY ERNST & YOUNG LLP**

### **TESTS OF CONTROL ENVIRONMENT ELEMENTS**

In addition to the tests of operating effectiveness of specified control structure policies and procedures described below, our procedures included consideration and testing of the following relevant elements of DPM's control environment:

- Organizational structure;
- Personnel policies and practices; and
- Management's control methods.

Such tests included inquiry of appropriate management, supervisory, and staff personnel; inspection of DPM's documents and records; and observation of DPM's activities and operations. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified control structure policies and procedures related to the control objectives described below.

### **CONTROL OBJECTIVES, RELATED POLICIES AND PROCEDURES, AND TESTS OF OPERATING EFFECTIVENESS**

DPM has specified its control objectives and has identified control policies and procedures designed to achieve those objectives. The objectives have been determined by the management of DPM. For each control objective, DPM control policies and procedures that are designed to achieve the stated control objectives are described.

#### **Organization and Administration**

##### *Control Objective*

Control structure policies and procedures provide reasonable assurance that the organizational and administrative structure limits vulnerability to fraud, waste, and mismanagement.

##### *Description of Policies and Procedures*

The Division of Payment Management (DPM) maintains documented descriptions for each PMS job function performed.

#### **PMS Application Maintenance Roles and Responsibilities**

The Accounting Systems Branch (ASB) identifies the need for changes to the PMS system based on user requests, policy and regulation changes, and quality control reviews. An ASB accountant is responsible for reviewing change requests, preparing a request form, signing it, and forwarding the request to the ASB Chief for review and

approval. The ASB Chief is responsible for authorizing the request and forwarding it to the Information Systems Branch (ISB) Chief for processing. The ISB Chief and Computer Specialist are responsible for moving copies of production modules into the development environment.

The programmer is responsible for performing unit testing to ensure that the program module performs properly based on the test data usually provided by the ASB. In certain instances the ASB accountant is also involved in unit testing. However, the ASB accountant usually performs acceptance testing of the changed program unit integrated with the entire PMS system. The program is moved from the development library into the acceptance environment by the ISB Chief or the Computer Specialist.

The ASB accountant is responsible for notifying the programmer and requesting that the program be migrated from acceptance to production. A production form is signed by the ASB accountant and programmer and is submitted to the ISB Chief to review for necessary approvals. The actual movement to production is performed by the ISB Chief or Computer Specialist.

To ensure that production program changes are properly authorized, Accounting and Reports (A&R) periodically reviews production changes. Each week the A&R Lead Accountant reviews the creation dates on the production programs to determine if changes have occurred. If changes are detected, move requests are reviewed to determine what changes were made and, if appropriate approvals were obtained.

#### The Security Administrator's Job Duties

PMS resources are protected on several levels. The first level of security is access to the DCRT mainframe where PMS resides. RACF is the security resource used to protect PMS program and database libraries. RACF is provided by DCRT.

The PMS registration process requires that the user request access by providing information such as their name, employer, phone number, and PMS requirements. User registration (access requests) are reviewed by both the ISB and A&R Branches. The following information describes the roles and responsibilities used to control the user registration process.

#### RACF

RACF security is administered by the DCRT and the PMS Information Systems Branch (ISB) for resources related to PMS. The user is responsible for establishing an account directly through the DCRT computer center. The ISB Chief and Computer Specialist are responsible for authorizing user access to all PMS libraries (program and database).

## PMS

The Lead Accountant in the A&R Branch is responsible for entering users into the security tables for PMS which define the transactions users can access via their user profile. The ISB Chief is responsible for entering logical terminal (LTERM) information into the PMS system which is also used to allow user access to PMS resources.

The Information Systems Branch Chief and Computer Specialist have dual responsibilities for security administration and application development. As a result, the same individuals have complete access to PMS production programs, production data, and security logs. To provide a compensating control, the A&R Branch is responsible for performing an audit of production program changes, on a weekly basis, in order to verify proper authorization. This provides a reasonable management control that is used to reduce the risk of unauthorized changes to production programs which may otherwise be undetected as a result of the overlapping duties of the ISB Chief and Computer Specialist.

### PMS User Input Segregation

The responsibilities for origination, approval, input/entry, processing, verifying, and reconciling PMS data are segregated as described below.

#### Grant Award Authorizations

Grant award information is initiated by awarding agencies or HHS Operating Divisions (OPDIVs). They are responsible for the origination, approval, and processing of grant awards into PMS. Most grant awards are entered into PMS by transmitting a file or online entry. Both methods create a batch file that is processed by PMS during the nightly production job run. However, in emergency situations which require immediate posting of grant awards, authorizations can be processed through In-Transit Authorizations (ITAs). ITAs are temporary authorizations to make funds available to recipients when the original authorization has not been received by DPM, but the OPDIV has otherwise communicated its intent to DPM. DPM is responsible for entering ITAs into PMS based on the appropriate source document. The ITA must be approved by the Liaison Branch Chief and A&R Branch Chief.

All input is edited for appropriate award authority and data validity. If errors occur, the authorizations are put in a holding file. Corrections can only be made by the OPDIV.

#### Payment Requests

Grant recipients are responsible for requesting payment advances. There are various methods by which the recipients can enter payment requests into PMS: SMARTLINK

II (computer link to PMS) and CASHLINE (telephone Voice Response Unit). However, when a recipient is unable to access either SMARTLINK or CASHLINE, they can request DPM staff to enter advances through the PMS I-27 "dial-up" process on their behalf. Recipients generate payment requests within their own organization. Only authorized recipient personnel are allowed to enter payment information directly into PMS based on predefined system access standards. The Liaison Branch Operating Accountants review the holding file several times throughout the day for invalid payment requests. The accountant either approves or disapproves the request.

### Recipient Disbursements

Recipients are responsible for reporting the disbursement of payment advances to DPM on a quarterly basis. There are three methods for entering recipient disbursement data into PMS: manual entry by the appropriate Liaison Branch Accountant, file transfer by an external data entry service, and electronic file transmission by the recipient.

Each quarter, a PMS 272 report is produced which contains the recipient's grant award amounts and quarterly payment record. The recipient is responsible for verifying the amounts and documenting the total amount of disbursement activity for the quarter. After the recipient signs and returns the report to DPM, the Liaison Branch Accountant is responsible for ensuring that the data is properly entered into PMS. Items that fail the edit process are resolved by the appropriate Liaison Branch Accountant.

### Remittance Processing

Recipients are responsible for remitting cash to DPM as a result of: unexpended funds, duplicate payments, audit disallowances, and interest earned on Federal funds.

The source documents used to remit funds are: checks with supporting documentation, ACH, and FEDWIRE. Checks are received in DPM mail room and distributed to the Collection Desk. The Collection Desk logs the check, distributes a copy to the Liaison Branch Operating Accountant, and locks the original in a safe maintained by the A&R Branch Chief. After the Liaison Branch reviews and approves the remittance, a disposition of check form is prepared and forwarded to A&R. The A&R Branch is responsible for entering the transaction into PMS.

### Postings

Payments are automatically posted to PMS through the interface of SMARTLINK and CASHLINE. Manual entry is performed by the A&R Branch based on an authorized form provided by the Liaison Branch Operating Accountant. Once a month, DPM is responsible for sending grant information, including payment advances, to the Department of Treasury via form SF 224. The detail information reported in the SF 224 report is generated by PMS as a result of payments made

during the month. Postings are also reported to the awarding agencies twice a month during a PMS synchronization process.

#### *Tests of Operating Effectiveness*

- Reviewed documented policies used to control the payment management process.
- Reviewed documented job descriptions and roles and responsibilities for PMS staff.
- Determined whether there is a reasonably adequate segregation of duties between software modification request, approval, development, and production implementation.
- Determined whether the job functions of the security administrators are properly segregated.
- Identified individuals responsible for data entry for each area and verified that there is adequate separation of duties for the following:
  - origination;
  - approval;
  - input/entry;
  - processing; and
  - verification and control totals.

#### *Results of Tests*

No exceptions noted.

### **Application Development, Maintenance, and Documentation**

#### *Control Objective*

Control structure policies and procedures provide reasonable assurance that application development and maintenance activities are authorized, and both new and changed applications are properly documented, tested, reviewed, and approved prior to implementation.

#### *Description of Policies and Procedures*

DPM has formal documentation of its policies and procedures for the application development life cycle. The Department of Health and Human Services (DHHS) also provides policies and procedures that are documented in the DHHS Information Systems Life Cycle Management Guide. The following information describes the process performed by DPM.

## Development/Maintenance Requests

The ASB identifies the need for a task based on written requests from users, policy and regulation changes, or quality control reviews. If a task order is appropriate, the Systems Accountant documents a written justification for the task on a program change request form. The ISB also identifies the need for tasks based upon changes to standards required by the NIH/DCRT Computer Center in addition to technical changes required by the vendor to upgrade software or hardware.

The ASB task order (change request form) describes the modification based on why it is appropriate to proceed and also states expected completion date. The second part of the task order describes the task. It includes what the change, modification, or enhancement is and how it will be addressed. If the task order is for an enhancement, all phases of the enhancement are described. All technical or standard changes are discussed with the ASB for application impact and testing requirements prior to implementation.

The documentation includes all inputs, outputs, edits, and the impact on the databases. If reports or new data screens are required, they are designed and included with the task order. The second area includes information on whether or not formal testing of the change is required, and also the inclusion of test data.

Task orders are approved by the Systems Accountant requesting the change and by the ASB Chief. The ASB Chief then adds the task order to the ASB control log. The log identifies the task, the accountant responsible, the programmer assigned, and a brief description.

Once the task order is complete, the Chief of the ISB assigns the new task order an IS control number and a programmer. The assignment of the change control numbers is maintained in a Task Log by the ISB Chief. This log is maintained in a WYLBUR file at DCRT. In addition, the ISB Task Log is the tool which can be used by DPM to follow the status of outstanding change requests. Periodically, the ASB and ISB meet with the development contractors to review the progress of all tasks and determine when there is a need to change priorities. The new status is updated in the ISB Task Log.

All development activity is performed by ISB employees or the contract programmers who report directly to the ISB Chief.

The programmer uses a move form to request specific programs for modification. These programs are kept in a RACF controlled library that allows controlled update. The contract programmers do not have access to the program libraries. Upon receipt of the move request, a copy of the module is put in the programmer's development library by the ISB Chief or Computer Specialist. The production version of the program is tagged with a PMS control number, data, and name of programmer to indicate that development activity is in process. This insures that if another individual requests the source code,

appropriate steps are taken to reconcile the two modified versions prior to updating production.

All changes made to the program module are annotated with a brief narrative in the comments section of the program. Each modified line has the PMS control number as a comment documented directly on the line.

The ISB maintains access control to the production source libraries and production databases. The ISB Chief and the Computer Specialist are the only individuals who have access to the production libraries.

### Testing

Unit testing of the changed module is normally performed by the programmer, occasionally the Systems Accountant is involved. System testing, where the module is permitted to operate in the acceptance environment within the sub-system, is also performed by the programmer or System Accountant. When the programmer has completed the change, modification, or enhancement, he/she performs unit testing based upon test data provided by the assigned Systems Accountant. Unit testing includes using the test library and providing test data or assisting in establishing test conditions. Whenever possible, the ISB requires that test data be provided to the programmer for unit testing to be performed independent of the ASB. The test data also provides a means for the programmer to define processing limitations of the task.

Three testing databases are available for unit testing. Prior to performing unit testing, the data in the test database is either refreshed or regenerated often by the ASB. When data is refreshed, it is recreated using the same criteria against the current production data as for the previous test database. When data is regenerated, it is created using new criteria against the current production data.

At this point the programs are moved into the acceptance libraries where the Systems Accountant performs acceptance testing. The move of all the necessary data elements from development (unit testing) to the acceptance test area is performed by ISB Chief or Computer Specialist. Formal test plans are not always used, this depends on:

- the complexity of the task;
- the impact the task will have on the entire system;
- database updates;
- introduction of new data;
- significant calculations performed; and
- the introduction of new processes.

Standard testing forms are used if a formal test plan is deemed necessary by the ASB Chief. Each test listed has a description of the prerequisite transactions required for each test, anticipated test results and the actual test results. Any problems found are documented and a written explanation is provided by the programmer. Formal testing

documentation is stored for approximately five years. Other testing documentation is kept for less than one year or until the change has functioned properly several times. Purchased software is subject to the same procedures described above.

### Production Implementation

Upon completion of acceptance testing, the Systems Accountant notifies the programmer that the task is completed. A "move" sheet is completed by the programmer listing all programs to be moved from the acceptance libraries into production. The move sheet is signed by the programmer and the Systems Accountant. The ASB Chief only signs the move sheet if he was involved in the acceptance testing. The signed move sheet is forwarded to the ISB Chief for his approval and for the actual move from acceptance to production by the ISB Chief or Computer Specialist.

Prior to production implementation, the ISB Chief or Computer Specialist verifies whether all necessary approvals are on the move sheet, the person who signed out the source code is the one requesting the final move, and the narrative portion of the code has been updated.

Source and load modules are moved together from the development environment to the acceptance testing environment to the production environment. The program(s) in the production library that are being replaced are backed-up prior to being replaced with the modified version(s).

If a change is particularly complex or affects many modules, both the source and load versions of the program are backed up. If there is a problem when moving the revised files into the production environment, the load version can be re-installed with minimal effort.

Any change to the PMS is reflected in the appropriate documentation. In addition to the documentation changes, a memorandum noting the procedural changes is sent to the affected user community. Once production libraries are updated appropriately, the move sheet is filed in the ISB.

### Emergency Program Changes

Emergency program changes are not performed in the PMS processing environment. When a problem occurs, the on-call person uses the Job Control Language (JCL) to go around the problem area and performs the remaining processes without emergency intervention. When this situation occurs, PMS is restarted and processing is resumed around the offending module until a fix can be prepared through the normal program change control procedures. This insures that proper testing occurs to completely assess the full impact of the program change on the system as a whole prior to implementation.

## Production Program and Library Validation

To ensure that production program changes are properly authorized, the Accounting and Reports Branch (A&R) periodically reviews all program changes. Each week an A&R Lead Accountant compares the current program creation date against the previous week's creation date. If both creation dates are the same, no program modifications have been made. If the dates are different, the A&R Branch Lead Accountant knows that programs have been modified and will then research the change to ensure the change was properly authorized, tested, and approved prior to being merged to production.

### *Tests of Operating Effectiveness*

- Determined whether procedures have been documented regarding performance of application modifications which include provisions for requesting, documenting, approving, designing, coding, testing, training, and implementing.
- Reviewed change control procedures based on the following:
  - maintenance, implementation and documentation standards;
  - how programs are placed into production status;
  - financial management monitoring/user involvement;
- Ensured that the system is able to generate a record that contains the most recent date production programs were changed;
- Reviewed a sample of program modifications performed during the entire review period based on system generated information. Traced to the source documentation and verify that:
  - the task order sheet was filled out accurately and completely; and
  - appropriate management approved the task order.
- Using the same selected sample, determined whether the production move request was documented and approved by an appropriate level of ISB and ASB management.
- Identified critical production tables (e.g., CANs, Award Amounts, etc.) used in PMS processing and determined the propriety of individuals responsible for ongoing maintenance.
- Evaluated table maintenance procedures and determined whether they are documented and include authorization and verification controls.
- Selected a sample of table changes that occurred during the audit period and test for compliance with DPM policies and procedures.

### *Results of Tests*

Three of fifteen program modifications sampled were moved directly from a programmer's library into production. These modifications were not moved from the programmer's library into acceptance and then from acceptance into production.

One of fifteen program modification task orders sampled was not signed by the ASB Chief.

One of fifteen program modification move request forms sampled was not signed by the ISB Chief.

No other exceptions were noted.

### **Access to Data Files and Programs**

#### *Control Objective*

Control structure policies and procedures provide reasonable assurance that access to data files and programs is restricted to properly authorized individuals.

#### *Description of Policies and Procedures*

The primary data security is provided using IBM's RACF, which is made available to DPM by DCRT. In addition, logical security is implemented at the IMS and the PMS application levels. The following describes security provided by each of these facilities.

#### **RACF**

IBM's RACF software is used to control access and what functions can be performed. The PMS application is under the basic RACF security which is administered by the ISB in conjunction with DCRT.

RACF security is applicable to PMS when its databases and files are accessed via TSO, WYLBUR, or batch jobs. PMS source programs, Program Specification Blocks (PSBs), Data Base Definitions (DBDs), copy libraries, load modules, format libraries, control libraries, and procedure libraries are maintained in separate production and acceptance libraries. Access to these libraries is limited since they are RACF protected.

DCRT requires the account/initials as a prefix on data set names. Each data set that is protected begins with an account/initials combination that has been registered as a RACF group.

## IMS Security

On-line PMS access security is provided by IMS through the assignment of LTERMs. The assignment of an LTERM is dependent upon the access path to DCRT. For DPM Banyan users, the LTERM is based on the node that a terminal is using on the server. Dial-in access users are assigned a logical terminal based on their account and initials.

If an awarding agency user has access to the DIMES network, DCRT must perform an IMS Terminal GEN. The Terminal GEN relates the awarding agency's terminals or nodes to an LTERM. DCRT also performs an IMS Security GEN that relates an authorized series of IMS PMS transactions to the LTERM assignment as per the request of DPM.

If an awarding agency user desires to access PMS through the protocol converter (IMSGATE) via dial-up lines, an LTERM is assigned based on the sign-on account and initials. This association was established during an IMS Security GEN in which LTERMs were related to authorized IMS PMS transactions and specific user IDs; the IMS security is at a user level.

## PMS Security

After registering users with NIH/DCRT, the agency must register, in writing, with DPM for PMS access. For DPM users, the requesting Branch Chief requests access from the ISB Chief or the Computer Specialist. For OPDIVs and Cross-Serviced agencies, an authorized manager contacts the ISB Chief directly. Access is approved by either the ISB Chief or the Computer Specialist. Access requests should include the following information:

- Agency codes that staff need, since the PMS inquiry function will not show documents other than those with the authorized agency codes.
- For each user: the DCRT account and initials; employee name, area code and telephone number; and indication of what functions the employee will perform (i.e., registration or authorization transaction correction). All PMS users are given access for inquiry. This data is currently maintained in the User Profile segment of the miscellaneous database.

## *Logging on to PMS*

To log-on to PMS, IMSGATE users from the awarding agencies must first log-on to DCRT, using the appropriate RACF accounts, initials and passwords. The user then enters IMS for the PMS production environment. Communication with PMS is through a series of formatted screens that are selected from a menu screen. The user enters his/her account/initials on the menu and the PMS password in the "old password" field. To change the PMS password, the user may enter a "new password" as well.

While SMARTLINK II grant recipients also access PMS through IMSGATE, they do not need a DCRT RACF account and initials. However, they are required to submit an access code or password which automatically connects them to a SMARTLINK/PMS security screen. At this point, the recipient enters the correct PMS account and identification number. After three failed attempts, the line is automatically disconnected.

DPM users access IMS through the Banyan network only after entering the correct Banyan Vines user ID and password. Communication with PMS is through a series of formatted screens that are selected from a menu screen.

For all PMS screens, if the code, account/initials, and/or password are incorrect, or the user is not authorized to use the menu accessed, an error message is displayed. The user must correct the error to continue processing. All on-line processing is subject to the above validation.

### *PMS User Profile Maintenance*

In addition to establishing an account, initials, and password at DCRT, DPM requires a new user to establish a PMS User Profile ID. This process adds another level of security by using PMS software applications to further control access to PMS application programs and information. An account, initials, password, user codes, level codes, and transaction category authorizations are assigned to an individual. The following sections further define the application of these functions.

### *User Codes*

The functional application for the user codes varies depending upon if the user is a HHS OPDIV user, Cross-Serviced user, or an internal user within DPM. The schema for both OPDIVs and Cross-Serviced users are based on an agency (e.g., Food & Drug Administration) or an agency/organization within a department (e.g., Department of Labor/Mine Safety). The user codes restrict the agency or organization from viewing or accessing grant awards that are not under their purview. The schema for user codes within the two Liaison Branches are based on grant type (e.g., block and public assistance grants versus cash pooling grants) for the Governmental and Tribal Payment Branch and on the recipient type (e.g., nonprofit or university) and geographic area for the University and Non-profit Payment Branch. The schema for user codes for the Operating Accountants responsible for Cross-Serviced accounts are based upon an agency or an agency/organization within a department (e.g., Department of Labor/Mine Safety). The Accounting and Reports Branch staff user codes are defined by payment or control/account maintenance functions.

### *Level Codes*

The functional application for the level code varies depending on whether the user is a member of DPM or outside DPM. Level codes, which may have values of "1 through 9", are intended to represent increased functionality for the users at each level. Thus, level

"1", agency users, have the lowest level, to "9" the highest, ASB Chief. Level code "C" is defined as the Central Registry unit. The schema for level codes within DPM, codes "2" through "9" were intended for functionality restrictions for each of the DPM branches.

### *Transaction Category Authorizations*

The functional application for transaction category authorizations varies depending on the level code, (i.e., OPDIV or DPM user), and what type of functions the user is authorized to perform. There are 16 transaction authorization categories each of which is intended to relate to a series of transactions. Each IMS on-line transaction is associated with a transaction authorization category, and each user has associated transaction authorization categories. It is the account and initials that determine user access. Thus, while a user can access a menu, he/she is permitted to perform only certain processes, or IMS transactions.

### DCRT Computer Center

This section summarizes the following aspects of PMS security at the NIH/DCRT Computer Center: user registration, the RACF and IMS access security.

### Registration for OPDIV (Operating Division) Users Accessing PMS via IMSGATE

PMS resides on the DCRT mainframe and, therefore, to access PMS, OPDIV users must first have access to DCRT resources. Appropriate OPDIV personnel make a request to DCRT and complete a DCRT Account Authorization form available from the Technical Assistance and Support Center (TASC). The form requires information about the user including: name, address, email address, phone number, and accounts the user wants to access. The form must be signed by an Account Sponsor for the OPDIV. The Account Sponsor can add users, remove users, and change user information to their own account. Account Sponsors and users are responsible for the proper use of the accounts under their control.

DCRT issues the new user a four character account number after the authorization form is approved. The user chooses a three character set of initials, and a three character keyword plus a RACF password during the first access session with the DCRT system. The account is used to access DCRT resources and for accounting purposes since OPDIVs are charged for their use of system resources. The account represents a user group while the initials are for individual users (users may have more than one set of initials if they have access through more than one account).

### DPM Access Through the Banyan Local Area Network (LAN)

DPM users gain access to the PMS application through direct connectivity to DCRT via the Banyan LAN located in the DPM office. The DPM Banyan LAN file server acts as a 3270 cluster controller to DCRT, allowing each workstation to appear as a 3270 terminal. DCRT assigns a group of LTERMs to a cluster controller (file server) and the LTERMs

are assigned based on the Banyan Logical Units. The Banyan profile ties the user name to the Logical Unit.

Users requesting or changing their Banyan access must complete a DPM Local Area Network Registration/Change Request Form. The form requires personal information including user name, address, phone, branch, and PMS functions to be performed and must be approved by DPM Security Officer and the Database Administrator before the user is granted access. Access to the Banyan LAN is controlled by the issuance of a user name consisting of the user's first name plus the initial of the last name, and a password of between 5 and 32 characters.

#### Protection of IMS Resources

Protection of some IMS/VS resources is provided through RACF. Databases are also secured by careful definition of the Program Specification Block (PSB) of the application programs that access data. Appropriate PSB definition prohibits a PMS program from accessing any data except that which it needs. Updating of the databases is also controlled via the PSB.

Within IMS, all data communications (DC) resources must be defined. These include physical terminals and logical terminals, both of which must be defined to IMS/DC.

#### Telecommunications Hardware Security

Telecommunications linking the Department of Treasury are equipped with Department of Treasury-supplied data encryption hardware devices. These devices have been approved by the Federal Reserve Bank for use on the Federal electronic funds transfer network.

SMARTLINK II is used by certain recipients to request payments under PMS. Under SMARTLINK II, the user enters an access password that presents a security screen. The user then enters his or her identification number and is given the option to change the identification number. The user has three opportunities to enter the correct security information or is disconnected. The PMS Payment Request screen is displayed if the security information was entered correctly.

#### Security and Violation Monitoring

The DCRT Computer Center monitors the RACF system security information and takes immediate action when it appears that an attempt to breach security has occurred. When logging in to the system, if the user does not enter the correct RACF password for his/her user ID, the screen displays a security violation message, and after three unsuccessful attempts the system logs the user off and forces the user to start the log-in procedure again. Use of the account/initials related to any security violation is suspended by the DCRT's Computing Facilities Branch (CFB) Security Investigator after a daily

examination of the audit logs is performed to determine if a user has exceeded the threshold of attempts.

The Security Investigators contact the Account Sponsor or alternate by telephone and send a confirming memorandum detailing the specific circumstances of the security violation. In such a situation, it is the responsibility of the Account Sponsor to investigate the violation to determine the cause of the problem. The Account Sponsor then returns a written explanation of the violation to the CFB including what steps have been taken to avoid such violations in the future. The CFB staff works with the Account Sponsor as needed.

When the written explanation is received and accepted, the security investigators reinstate the suspended account/initials. A folder of the details of each case, along with all pertinent documentation, is stored in a locking file cabinet.

### Physical Security

DPM uses a magnetically encoded card-key system at its Rockwall facility in Rockville, Maryland to control access to authorized personnel. The card-key system is used to control access to all doors of the facility as well as sensitive areas within the facility. DPM also uses a security service to control access to the facility after normal business hours. The installation of sprinklers in the ceiling and fire extinguishers throughout the floor provide adequate environmental controls. The computer (Fox Room), LAN, and processor rooms all have additional security features which restrict access. These include reinforced glass, motion detectors, enforced structural barriers within the walls (Fox Room only), and the card-key system.

### *Tests of Operating Effectiveness*

- Reviewed security administration for RACF and PMS focusing on:
  - request documentation;
  - authorization requirements;
  - periodic access verification with management;
  - access attempts and violation reporting;
  - maintaining and updating of policies and procedures; and
  - promoting security awareness.
  
- Reviewed security administration procedures used by the PMS database administrator to restrict access to the database and determined whether procedures have been adequately documented.

- Reviewed a sample of users from the PMS security profile and traced the specific access rights to account authorization documentation for evidence of:
  - DCRT account;
  - Initials; and
  - Account Sponsor written approval.
- Reviewed an access listing for PMS and RACF that includes users, programmers, and technical support and determined whether access to sensitive transactions, production data tables, and programs is appropriate based on job function.
- Determined whether ongoing access to the PMS database includes reasonable preventative and detective control procedures.
- Reviewed the RACF Class Descriptor Table Report and verified that TSO and WYLBUR are included as general resources and the class is active for each.
- Reviewed RACF profiles for the PMS on-line production datasets (load libraries, data files, and tables) to verify that access is properly restricted.
- Reviewed a listing of all PMS production data sets and verified that all begin with the naming convention that is protected under RACF.
- Reviewed the application security matrix for each level of PMS security and selected security (level) codes associated with sensitive transactions. Reviewed a PMS system-generated access report for each sensitive transaction identified, and determined whether access is appropriate based on job function and does not compromise proper segregation of duties.
- Reviewed a sample of user profiles and verified that level codes, user codes, and transaction authorization categories are consistent with each user's job responsibilities.
- Reviewed a system generated printout and noted LTERMs are associated with each RACF account/initials combination.
- Attempted to log-on to PMS with an invalid user ID and password and noted the error message displayed and determined whether the error must be corrected prior to further access.
- Attempted to log-on to PMS creating three unauthorized attempts and determined whether a security violation message appears and access was suspended.
- Verified through physical inspection that the card key system was consistently used at DPM and access was limited to appropriate personnel.
- Verified through physical inspection that adequate environmental controls existed at DPM and periodic checks were performed in a timely manner.

### *Results of Tests*

One of twenty PMS access requests sampled could not be located.

The PMS application security matrix includes one individual with access rights that compromise proper segregation of duties.

No other exceptions were noted.

### *User Control Consideration*

Procedures should be established to periodically review users' access needs and report changes, additions, and deletions to DPM and DCRT.

### **Job Scheduling**

#### *Control Objective*

Control structure policies and procedures provide reasonable assurance that production jobs are appropriately scheduled and any deviations are identified and resolved.

#### *Description of Policies and Procedures*

##### **DCRT Job Scheduling Procedures**

The PMS application support staff provide the DCRT Computer Facilities Branch (CFB) IMS support group with a one year production schedule. Deviations from the schedule are arranged by telephone calls and follow-up electronic mail from the ISB Chief or the Computer Specialist.

Each night at 8:00 PM the PMS application is taken off-line and batches are processed. The IMS support staff verifies the successful completion of nightly processing. The PMS application support staff provides the CFB staff with an on-call list. If necessary, the CFB staff at DCRT contacts PMS personnel to resolve problems. If a PMS batch job abends, the IMS on-call person is notified. The IMS staff member then fixes the job and resubmits it or contacts the PMS on-call person for further assistance in resolving the problem.

Nightly PMS runs are reviewed each morning by IMS staff to determine if any technical problems or errors occurred. If problems are found, the IMS support staff contacts PMS staff and appropriate action is taken to resolve the problem. If all jobs are processed successfully the PMS application is brought back on-line at 7:00 AM, otherwise the application is left off-line until processing is complete. If PMS is not on-line during normal hours, DCRT verbally notifies DPM.

## DPM Job Scheduling Responsibilities

A program called FAF400 is a front-end edit program which ensures that award authorization batches are being sent by authorized individuals. All batch jobs must have a valid user ID and account to process successfully.

Each night batches are run according to the annual schedule described above. Exceptions to the normal batch runs are appropriately scheduled by the ISB Chief. Changes to normal schedules are communicated first by phone to DCRT Production Control personnel, then by e-mail with a follow-up memo. The ISB Chief and the ASB Chief share responsibility for ensuring that all necessary jobs are scheduled through the use of the annual schedule and exception runs.

The ASB Chief reviews all batch job results to ensure production jobs were successfully completed. This is done on-line by reviewing the FAFDAILY report which shows condition codes and control totals. Later, a printed copy of the report is created by DCRT and sent to DPM. The ASB Chief also scans JCL for errors using the WYLBUR text editor. If errors are found, the PMS application is taken off-line and batches are rerun correctly.

### *Tests of Operating Effectiveness*

- Reviewed a copy of the most recent one year production schedule to verify changes to the schedule are adequately explained.
- Reviewed the IMS support staff checklist or log to determine that nightly PMS jobs are being verified each morning.
- Determined whether controls are adequate to verify that the modification to the job schedule is properly approved by IS and user management.
- Reviewed a sample of batch jobs, and reviewed the CLIST output generated by the Chief of the Accounting Systems to verify that all jobs have been properly authorized.
- Determined whether the user ID is associated with the job name and reviewed the appropriate RACF report to verify this control.
- Reviewed the program code for the FAF400 program to ensure that the code is checking for account and initials.
- Determined whether a problem management system is used to report production problems to management.

### *Results of Tests*

No exceptions noted.

## **Data Input and Account Maintenance**

### *Control Objective*

Control structure policies and procedures provide reasonable assurance that grant and recipient information is received only from authorized sources, recipient disbursement information is correctly input into the PMS application, and grant awards are validated prior to processing.

### *Description of Policies and Procedures*

#### **Grant and Recipient Information Authorization**

There are two methods in which authorization to the PMS databases is verified. Both initial and follow-on authorizations require that a payee exists in the PMS database before the authorization is processed. If no EIN exists, the authorization is not processed by PMS.

The initial authorization requires a specific, predefined modifier code, representing the establishment of a new authorization for the particular Fiscal Year Common Accounting Number Object Class Code (FY-CAN-OC) within a document. If the document does not exist in DPM, a new document is created.

The follow-on authorization occurs when an amendment or correction is made to an existing grant. A specific modifier code from a predefined set is required. The modifier code can be any authorization transaction code that is not an initial authorization. This type of authorization must have been preceded by an initial authorization transaction having the same FY-CAN-OC and Authorization Document Number.

Grant award information can be transmitted one of three ways to the PMS system:

- Batch File Transmissions;
- Cross-Serviced Menu (agencies with no batch capability); and
- In Transit Authorization (ITA) transactions.

The following sections describe the authorization process for these grant award transmission types.

## Batch File Transmissions

The first method is for the awarding agency to construct a batch file containing the award authorization information. The data transmitted to DPM must be in a standard format. All batches consist of the following records:

- Batch Header Record;
- Detail Authorization Transactions; and
- Batch Trailer Record.

The batch header record for the authorization format contains a four-character batch ID number that is used as the initial form of authorization.

The process used by the OPDIVs for transmitting grant award authentication contain the following authorization edit checks:

- No OPDIV can transmit a transaction that cites another OPDIV code. Any batch which cites another OPDIV's code is rejected entirely. Likewise, any single transaction which cites another OPDIV's code is rejected.
- The transmission JOB must be run under the DCRT account and initials in the PMS security table for that OPDIV or the entire transmission is rejected. If an attempt is made to transmit using an account/initials combination that is not in the PMS security table, DPM records the event. The next time a valid transaction occurs, the following message is displayed with real data filled in as follows: "\*\*\*\*Unauthorized transmission of your authorization data has been attempted, as follows: DCRT ACCT: AAAA, initials: III, Date: YY/MM/DD, Time: HH:MM:SS."
- The first three digits of the CAN are edited to determine that it is the appropriate agency for the assigned PMS account and initials. If they do not match, the message "USER NOT AUTHORIZED TO ENTER DATA FOR THIS AGENCY" is displayed on the screen. The user is not allowed to enter any data if this message is received, however, the user can correct the CAN and proceed.

## Cross-Serviced Menu

Some agencies do not have the capability to send batch transmissions for award authorizations to DCRT, thus a file building screen is provided within PMS to capture these transactions to an authorization data collector database.

To prevent users from entering award authorizations for any agency other than their own, the first three digits of the CAN are edited to determine that it is the appropriate agency for the assigned PMS account and initials. If the digits do not match, the message "USER

NOT AUTHORIZED TO ENTER DATA FOR THIS AGENCY” is displayed on the screen. The user is not allowed to enter any data if this message is received.

At the end of the day, IMS is brought down and a batch job is submitted which builds the equivalent transaction file (as if the user had submitted it via batch) with the same header, detail authorization transactions, and trailer records. In turn, these transaction files are submitted via another batch job to update the PMS database. The resulting batch file is also subject to the same authorization controls described in the previous batch transmission section.

### ITA Transactions

ITA transactions are emergency authorization transactions that are submitted upon approval of the appropriate Liaison Branch on behalf of the awarding agency. These situations occur when a payment request needs to be paid to the award recipient, but the awarding agency has not yet submitted the authorization data to PMS.

In order for the Liaison Branch to initiate an ITA transaction via PMS, there must be a notice of grant award and the corresponding awarding agency letter requesting the ITA process and an emergency same day payment to the recipient. The input screen is printed and a Liaison Branch Chief must sign the printed copy.

The Award information is written to a holding file that only the Accounting and Reports Branch can access. The A&R Branch reviews the holding file, the hard copy of the input screen and the notice of the grant award for propriety. If the awarding agency does not give official grant authorization via the batch file transmission or via the Cross-Serviced Menu within 30 days of the ITA transaction, the transaction can be reversed and collection efforts started.

When the actual authorization transaction (the award authorization, received through the normal submission process) is received, it must match the ITA transaction or the actual award authorization transaction is written to the holding file. If the award authorization matches the ITA, the transaction is posted to the PMS database and the ITA is reversed.

### Recipient Registration

Before an authorization can be processed the grant recipient must be added to the PMS database. This process is initiated by the awarding entity or OPDIV who query the PMS system to determine whether the entity already exists. If the entity does not already exist on the PMS system, the OPDIV supplies the Central Registry unit the following recipient information:

- Entity Identification Number (EIN);
- Entity Name;

- Entity Type;
- Location;
- County Code; and
- City Code.

This information can either be transmitted on-line, or by submitting form HHS 558, whereby the data is input by CRS. Central Registry reviews and approves the data for HHS accounts and routes it to a hold file in the A&R Branch. The A&R Branch distributes a hard copy of the data to the Liaison Branch. The Liaison Branch reviews the hard copy to ensure that the EIN does not already exist, or that it exists under a slightly different variation. Once the request is reviewed and approved, it is signed by the accountant and either the team leader or the Branch Chief. The request is then forwarded to the A&R Branch.

Alternatively, Cross-Serviced agencies submit a form SF 1199A Direct Deposit form originated by the recipient. The form is forwarded to the ASB. The ASB reviews submissions for data integrity. When the ASB Chief has reviewed and approved the request, the 1199A is forwarded to the A&R Branch while the data is routed to a holding file in the Accounting and Reports Branch. The A&R Branch reviews the holding file and the approved SF 1199A, releases new PINs and EINs, and forwards the SF 1199A to the appropriate Liaison Branch.

#### Payment Methods

The following sections describe the two primary methods by which grant recipients can request payments from their awards: SMARTLINK II and CASHLINE.

#### SMARTLINK II

SMARTLINK II processes payment requests via a computer link to PMS. To access SMARTLINK II, a recipient must use the password, PMS account number, and identification number issued to them by DPM. Account numbers must be five alphanumeric characters with the fifth character specifying the type of account (G-General, B-Block, P-Public Assistance). SMARTLINK II requires users to change their identification number the first time they access SMARTLINK II. After three consecutive failed access attempts a user are automatically disconnected from SMARTLINK II.

#### CASHLINE

Recipients may request payments by touch-tone telephone using CASHLINE. This method is only allowed for General (G) accounts with no sub-accounts. Users must enter the appropriate PMS account number, password, and identification number. The account number has at least one alphabetical character which is converted for touch-

tone based on a table in the CASHLINE User's Guide. The account number is five characters long and converted to a longer alpha-numeric sequence for "touch tone" telephone users. The password consists of four numbers. The identification number is 6 digits. All three items are required to use the CASHLINE system.

## **Recipient Disbursements**

On a quarterly basis, recipients are required to account for the disbursements made from the payment requests received during the quarter. Prior disbursements are pre-printed on the PMS 272 Report. This report is distributed to the recipients to be completed and returned. There are three methods for inputting disbursement information to PMS: electronic file transfer by the recipient, entry by the Liaison Branch Operating Accountant, and electronic file transfer from keypunch entry performed by an outside service provider based on hardcopy PMS 272 Reports returned by recipients.

### On-line Data Entry

In some instances, recipient disbursement data is manually entered into PMS by the Liaison Branch Operating Accountant. Prior to entry, the accountant verifies that the recipient has signed the form as an indication of authentication. However, no list of authorized recipient signatures exists. If transactions are not in agreement with recipients' records, recipients are notified in writing of any differences.

### External Service Provider File Transfer

Completed PMS 272 reports are returned to DPM by recipients. The mailroom distributes the PMS reports to the appropriate Liaison Branch. The Operating Accountant reviews the reports for completeness. The PMS 272 Reports are batched, delivered to the A&R Branch, and from there, sent to an external service provider with an attached batch control log. The external service provider keys the information from the batches and returns the results to DPM via electronic file transfer. When the data is returned to DPM, the batches are loaded into PMS. The batch header records must be completed before PMS begins posting the transactions to the recipient account.

### Electronic File Transmission

DPM has implemented a process that allows recipients to transmit a batch file into their PMS account that is processed as input into PMS. The recipient must obtain proper authorization prior to using the batch file transmission method.

## **Payment Methods**

### FEDWIRE Payment Advances

For same day payment requests sent by recipients, DPM uses FEDWIRE to process the payment with the Department of Treasury. An authorized A&R Branch Accountant uses the Electronic Cash System (ECS) to submit a request. The accountant must enter their PIN in order to gain access to the software, otherwise they are disallowed from making a payment request. All ECS submissions are reviewed for agreement between PMS and ECS records by a Certifying Officer before they can be released to the Department of Treasury. All FEDWIRE payments are made only to direct deposit accounts certified by the recipient and their bank.

### Automated Clearing House (ACH) Payment Advances

Electronic payment requests that are submitted and pass all edit checks are placed on a schedule. Schedules are periodically transmitted throughout the day to the Treasury Payment System using FEDLINE. Authorization for this payment method was verified when the request was made to DPM. Requests are verified by reconciling daily control totals and faxing a debit voucher to the Department of Treasury. The Department of Treasury creates a matching debit voucher and mails it as a response verifying the totals.

### **On-line Payment and Collection System (OPAC) Data Entry**

OPAC is used for several activities including:

- check cancellations - the process of rendering a Department of Treasury issued check non-negotiable and repaying the amount to an appropriation fund or account;
- check recoveries - the process of returning a check to the administrative agency after an Unavailable Check Cancellation SF 1184 action has been taken;
- interest collections;
- third party drafts; and
- interagency billing and collection.

OPAC charges and credits affecting the Grant Management Fund (GMF) are reviewed by the Liaison Branches to determine if sufficient authorization exists to process the request. They are then forwarded to the A&R Branch for reversal or entry into PMS. The OPAC charges the GMF then it is reimbursed from the appropriate PMS account and sub-account as designated by the Liaison Branch. Each month, an accountant reconciles OPAC transactions comparing source documents, PMS subsidiary ledgers, and Department of Treasury records to further verify all transactions are authorized and correctly entered.

## **Recipient Disbursement Information Integrity**

The PMS 272-A, Federal Cash Transactions Report, contains the following information:

- Line number;
- Grant identification number;
- Recipient document number;
- Authorized amount; and
- Cumulative disbursements from the prior period report.

The recipient fills in the cumulative disbursement for the current period, calculates net disbursement, and returns the form to DPM. Information sent to DPM is entered into the appropriate fields based on a standard electronic format used by the external service provider. Recipients who submit the file electronically use the same basic format with specific field layouts to simplify processing. On-line information entered by a Liaison Branch Operating Accountant is updated to a batch file in the same format as well. All disbursement batch files are subject to the same batch edit routines described previously. Edits of the batch information ensures the validity of the information contained in the disbursement detail records.

## **Grant Award Input Validation**

The vast majority of the authorization data provided by the awarding agency has been previously posted by the awarding agency's automated accounting systems. As such, they were judged valid by those systems. However, there are two primary reasons why DPM performs additional automated validation of the data before it is posted: DPM cannot be assured the awarding agency systems performed all the necessary edit checks in a compatible manner; and, particularly adverse consequences could flow from erroneous data going into PMS, including the loss of Federal cash. Accordingly, DPM serves as a secondary check used to further validate obligation data.

The criteria that is applied by DPM to ensure only valid data is entered into the system falls into two categories: generic and logical. Generic edit checks verify the information in the transaction itself. These checks consist primarily of determining that the correct type of data is present (i.e., numeric, alpha or blank). They also involve checking the coding for one set of the valid codes (i.e., reverse code = 1 or 2). Before any award authorization transaction can successfully update the PMS databases the recipient must be verified as a registered recipient in the PMS database.

Logical edit checks, or database edit checks, validate the action represented by the transaction in light of those transactions which have been previously posted. This type of edit check is performed by DPM for every transaction. The specific logical edit checks performed by DPM on awarding agency authorization data are either cautionary (i.e.,

duplicate transaction) or explain a data condition which does not permit the transaction to be posted (i.e., insufficient funds). With each of these error messages it is necessary to correct the transaction or verify the condition of the database via the on-line inquiry before proceeding with the transaction.

To prevent grant award authorization duplication, DPM maintains a detailed history of the prior 79 transmissions by OPDIVs. If an OPDIV transmits an exact duplicate of a prior transmissions, the job is aborted. However, OPDIVs may need to make duplicate award transactions (uniform quarterly awards) and can do so using the FORCE command allowing the transaction to bypass the duplicate payment edit. Use of the FORCE command for other transactions causes the job to abort.

Corrected batch and on-line transactions are re-edited through the same procedure as described above. Once completed, re-posting is attempted immediately. If there are no problems, the database is updated. If the transaction is still in error, the user is notified and the erroneous transaction is returned to the holding file.

#### *Tests of Operating Effectiveness*

- Reviewed a flowchart/diagram illustrating all forms of input to PMS.
- Reviewed documentation procedures and/or manuals that contain the following control areas:
  - system calculation descriptions;
  - transaction and screen descriptions;
  - edits used during initial input;
  - error messages for each area;
  - establishment of control logs;
  - error correction and error code descriptions;
  - communicating the loss of missing data;
  - return routing to the originator for approval or correction;
  - balancing and reconciliation;
  - description of transactions and processing cycles; and
  - explanation of output and control reports.
- Determined whether controls are in place for each area of input including:
  - transmittal documents for transmissions (sending and receiving);
  - predetermined transaction documents for tape processing;
  - batch balancing techniques;
  - reconciliation (sending and receiving systems); and
  - logging techniques, etc.
- Identified source documents and specific data entry requirements for each area and observed data entry to verify presence of screen edits.

- Determined whether source documents are pre-numbered or the existence of procedures used to verify all source documents have been entered and can be accounted for.
- Reviewed a sample of source documents from each area of data entry and determined whether:
  - appropriate approvals were obtained prior to processing,
  - each contains evidence of being entered into the system, and
  - specific data requirements are included.
- Determined whether the following techniques were used to control PMS on-line processing:
  - terminals are located in physically secured rooms;
  - access is denied after a predetermined number of unsuccessful attempts;
  - passwords are not printed and not displayed;
  - individual IDs are used to provide accountability; and
  - security features prevent access to unauthorized transactions.
- Reviewed a sample of ITA transactions and verified that the appropriate grant award and a corresponding awarding agency letter existed.
- Using the sample selected, verified that a copy of the ITA screen input was printed and approved by the appropriate Liaison Branch Chief.
- Using the sample selected, verified that the:
  - ITA was properly entered into PMS;
  - Grant Award was received from the OPDIV; and
  - ITA was promptly removed.
- Attempted to process an entity that has not been registered in CRS and verified that the entity does not exist.
- Attempted to add a record without all necessary fields completed and verified that the system rejects the transaction.
- Attempted to add a record without both the Payee PIN and EIN and verified that the system rejected the transaction.
- Attempted to delete an entity with an unauthorized user ID and verified the transaction failed.
- Reviewed a sample of OPDIV changes and verified that the change was properly reviewed and approved prior to processing.
- Reviewed a sample of recipients and verified that the Direct Deposit forms contain evidence of the review for completeness and accuracy.
- Using the sample selected, verified that the appropriate Liaison Branch signatures were included.

- Reviewed a sample of new EINs and verified that the appropriate approvals were obtained.
- Performed the following edit and validation tests on-line:
  - Input improper data (non-numeric versus numeric data);
  - Attempted to perform an action not currently defined in a user's access;
  - Attempted to make a change to an OPDIV EIN other than the one being used to access CRS;
  - Attempted to create a duplicate entity;
  - Attempted to input invalid data in a payment request to test the following logical edit checks: EIN (non-registered or Non-PMS EIN number), Account type (not A, B, D, F, G, P or V), Account number (one that does not exist under a cited PIN);
  - Attempted to perform an action not currently defined in one's access rights;
  - While updating an account attempted to locate a sub-account that exists under another account all within one payee;
  - Attempted to close an award segment where the issue date has not arrived;
  - Attempted to close an In-Transit Authorization which has not been resolved; and
  - Attempted to create a sub-account for a vouched account.

#### *Results of Tests*

Of the eleven ITA transactions that occurred during the period of this review, four did not have letters from the awarding agencies confirming the transactions.

No other exceptions were noted.

#### *User Control Consideration*

User organizations need to ensure that all input (e.g., grant information) in to PMS is performed only by authorized individuals and is entered accurately and completely.

### **Batch Processing**

#### *Control Objective*

Control structure policies and procedures provide reasonable assurance that batch balancing procedures ensure that all transactions have been included in the transmission of the batch.

## *Description of Policies and Procedures*

### Grant Award Authorizations

Awarding agencies send grant award authorizations to DPM in the form of an electronic file transmission on a daily basis. Award authorizations are captured in a data file assigned to each individual awarding agency. Each night, a PMS batch job is executed that reviews the files and extracts grant award authorizations based on the data file name.

Each batch is validated to verify that all records are included in the batch by counting the number of records read and verifying the total dollar amount through the calculation of the total dollar value or hash value. These control totals are compared to the trailer record supplied by the awarding agency for the batch. Batches that do not balance are identified as erroneous and placed in a holding file for correction by the awarding agency. If the batch header record is missing, the batch is also sent to the holding file. If the batch does contain a header record and the batch totals (amounts and dollars) agree with the system-generated totals, the batch is accepted for processing by PMS.

If a batch is out-of-balance, the awarding agency is responsible for investigating the cause of the error and correcting it. Failed batches force all detail transactions into the holding file until the batch is balanced. DPM tags the failed batch in a manner that allows the awarding agency to recognize a particular out-of-balance condition on the holding file. After the awarding agency makes any necessary corrections and the batch agrees with the system-generated totals, the transactions and batch are released from their respective holding files for further processing.

There is the possibility of having an error that is caused by an imbalance between the individual transactions and the batch totals. In that case, the batches are placed in their entirety into a special section of the holding file under the proper team and section. The batch trailer information is presented to the OPDIV along with informational fields that enables the awarding agency to correct the problem. Once the problem is corrected, the entire batch is placed in the pending section of the Daily Activity File for batch processing in the daily job run.

### Payment Requests

In addition to on-line edit and validation checks, PMS performs batch edit and validation checks, such as verifying the fund ceiling amount for each payment request. Batch edits apply only to warehouse payments. Payment requests that pass both the on-line and batch edit checks are sent through a PMS batch file to the Federal Reserve Bank (FRB) in Richmond as an ACH transmission. Those that fail the edit checks are forwarded to the holding file for follow up. DPM performs a reconciliation of ACH transactions on a daily basis.

If payment requests fail the PMS editing process, the Operating Accountant must initiate action to remove the payment from the payment request holding file. Payment requests on the holding file can be reprocessed and paid to the recipient or canceled. The Operating Accountant must annotate payment or cancellation instructions on a copy of the individual payment request printed from the holding file record. The Operating Accountant must then obtain written approval of the holding file action from a Liaison Branch Team Leader or Branch Chief prior to forwarding the printed copy of the holding file payment disposition to the A&R Branch for action. The A&R Branch then reprocesses the payment request or cancels the request based on the instructions annotated on the payment disposition. The approved payment requests are corrected and moved from the holding file to the open transaction schedule. The open transaction schedule is then transmitted to the FRB in Richmond which accepts or rejects batch transmissions sent by PMS based on the edit process that occurs within the FRB production system.

DPM uses the Electronic Certification System (ECS) to submit a batch of same day payment requests (FEDWIRE) to the Department of Treasury. ECS was developed to provide Federal program agencies with a secure automated mechanism for voucher preparation, certification, transmission, and verification of payment data. ECS allows data entry, electronic certification, batch transmission, and verification of payment data transmitted by PMS. All batch payment transmissions are verified using Message Authentication Code Technology before being accepted and processed.

The A&R Branch accountant prepares a reconciliation form to document a comparison of the PMS payment requests to the ESC transaction report. Differences are indicated directly on the reconciliation form with an error notation. All errors are corrected by the end of the day unless a change in the system is required. The A&R Branch Chief reviews the reconciliation for reasonableness, then date stamps and initials the ECS report as indication of his approval.

#### Payment Requests Warehousing

The warehousing process allows a recipient to request funds up to thirty days before they must be deposited into the recipient's bank account. Recipients require prior approval before becoming eligible for payment requests warehousing.

Payment requests that are eligible for warehousing are placed in the PMS Pending File Activity Database. Five days prior to the payment request date, PMS automatically creates an ACH payment advance transaction which moves the payment request from the Pending File into an In-transit File. Payment is held by the Federal Reserve Bank and transmitted to the recipient's bank on the settlement date.

As part of the nightly batch process, an analysis is conducted of items currently in the warehouse file that identifies problems such as insufficient funds or account payment restrictions. All accounts in the warehouse are edited, including those which were edited

previously. Payments are re-edited nightly until they are released for payment or fail an edit.

### CAN Table Updates

Common Account Number (CAN) tables are primarily updated at the beginning of the fiscal year. A batch file is transmitted to PMS by the awarding agency and transferred into a specific dataset at the DCRT computer center. The OPDIV contacts DPM when a CAN file has been transmitted for processing.

Prior to being accepted into PMS, a pre-edit process occurs that compares the new CAN file with the prior year's file. Items that pass the pre-edit process are then edited for proper format and completion. Items that do not pass the edit process are sent to an error file which is used to produce a printed report during the PMS nightly batch process. DPM is responsible for contacting the awarding agency for resolution.

### Recipient Disbursements (Expenditures)

Once a quarter, PMS generates a PMS 272 report for each recipient. Each report contains grant award amounts, prior cumulative disbursements, and the total amount of advances made. DPM requires that the recipient verify these amounts, and report the current quarter disbursements. Once the report is verified and completed, the recipient must sign, date, and return the report to DPM.

Upon receipt, Liaison Branch Operating Accountants review and batch the reports. The PMS 272 reports are delivered to the A&R Branch to be sent to an external service provider with an attached batch control log. The external service provider converts the hardcopy reports to an electronic format by data entry. When the data is returned to DPM via electronic file transfer, the batches are loaded into PMS. The batch header records must be complete before PMS begins posting the transactions to the recipient account.

DPM has implemented a production process that allows recipients to transmit a batch file to a file server at DPM, where it is reviewed and input into PMS.

Batch balancing issues are resolved by the Operating Accountant through the Information Systems Branch. Once the tape has been processed and the disbursement transactions have been posted to PMS, the Operating Accountant uses PMS on-line inquiry to verify production results. In the end, the recipient has the ultimate responsibility for ensuring that transactions have been correctly posted to their grant award accounts.

### *Tests of Operating Effectiveness*

- To validate the on-line edits, simulated an awarding agency and attempted to process transactions with the following conditions:
  - Change the batch count in the trailer record so that it does not reconcile to the actual number of transactions in the detail records.
  - Change the Batch Dollar Total in the trailer record so that it does not match the net sum of the incremental dollar amounts; these all need to be completed to ensure that each of the transactions are posted to the holding file.
- Reviewed the transaction code TC 951 for the current and previous process runs and determined whether errors are being promptly resolved and removed from the holding file.

### *Results of Tests*

No exceptions noted.

### **Federal Outlays**

#### *Control Objective*

Control structure policies and procedures should provide reasonable assurance that: all payment requests are validated; funds in excess of fund ceiling are not advanced; holding file transactions are identified, resolved, and approved prior to further processing; warehouse transactions are properly stored, edited, and accounted for; and advances to recipients are timely.

#### *Description of Policies and Procedures*

##### **Payment Request Validation**

Payment requests from grant recipients can be entered into PMS under three different methods, CASHLINE, SMARTLINK II and the I-27 “dial-ups” which are based on telephone calls received from recipients. There are two primary payment methods used: ACH and FEDWIRE. ACH (Automated Clearing House) covers approximately 98% of requests, the second is FEDWIRE that covers nearly 2%. ACH payments are processed through a system provided by the Federal Reserve Bank known as FEDLINE. The Division of Payment Management (DPM) uses the Electronic Certification System to submit FEDWIRES (same day payment requests).

## CASHLINE

CASHLINE is an electronic payment request method that allows a grant recipient organization to use a touch-tone telephone to dial directly into DPM's voice-response application. Recipients generally can only request ACH payments through CASHLINE. A FEDWIRE could be processed through CASHLINE if the recipient account was placed on manual review and the request posted to the holding file. Then the FEDWIRE payment is processed in PMS by an Operating Accountant.

The recipient dials the CASHLINE number which is answered by a voice response computer system. The voice automation instructions assist the recipient in entering the account number and dollar amount information with the keypad on the telephone. The voice indicates a verification of the transaction as entered. Depending on the payment method the recipient is assigned, the funds are directly deposited into the recipient's bank account. The payment is made available the following business day via ACH, or the same day if FEDWIRE. CASHLINE can only be used to request payments for general accounts with no sub-accounts.

Various edit and validation checks are performed by CASHLINE. The correct 6-digit Identification Number provided by DPM must be entered to allow a user to request funds via CASHLINE. The identification number relates to a recipient's specific PMS account number and can be changed as frequently as necessary. Recipients are required to change their IDs the first time they use the CASHLINE system.

The amount requested, cash balance on hand, and the expected disbursement amount are fields that must be entered. The CASHLINE Voice Response Unit allows a limited amount of time to pass when making an entry. Failure to respond to a system prompt in the amount of time allowed is considered an error. After three errors, the user is disconnected from the system.

## SMARTLINK II

Recipients with access to a personal computer (PC) and modem are eligible for the use of SMARTLINK II. SMARTLINK II allows recipients direct access to PMS. Recipients dial in to the mainframe at NIH and authenticate themselves SMARTLINK II enables recipients to connect their PCs into PMS which allows the PCs to be used for data input into PMS. Recipients can establish SMARTLINK II connections by using commercial communications software capable of VT100 emulation, Telnet applications, Windows terminal applications, or DOS-based Kermit software supplied by DPM.

The application permits the recipient to enter the account and draw-down information. The application then generates a message indicating the outcome of the transaction. Within seconds, the transaction is complete. The funds then are directly deposited into the recipient's bank account on the following business day as described in the previous section. Recipients using this method receive complete documentation of the request

procedures. This is the only cash request method for recipients whose accounts contain sub-accounts; however, I-27 procedures may be used on a short-term basis until the recipient can enter their requests using their own computer systems.

SMARTLINK II requires the recipient to enter the correct account number and associated identification number. The fifth character of the account number must be an alpha character representing the account type (G = General, B = Block and P = Public Assistance). After the payment request screen is selected, the payment due date must be entered with a YYMMDD format. The payment due date must be greater than the current date. If the system is not tagged as a warehouse transaction, then the due date defaults to the next business day. Only accounts that are authorized for warehousing are allowed to have payment due dates up to thirty days in the future.

The total amount requested, the Federal cash balance on hand, and the expected disbursement amount must all be entered. The estimated disbursement amount must equal the total amount requested plus (or minus, if cash balance is a negative amount) the Federal cash balance on hand. If an account has sub-accounts, the recipient must indicate the programs (sub-accounts) for which he/she is requesting funds. SMARTLINK II requires that a payment amount is entered for each sub-account. If a sub-account exists, at least one sub-account must be entered. The sum of all sub-account amounts must equal the total amount requested prior to the request being accepted into PMS for processing.

#### I-27s

This method is also known as "dial-ups." It is used internally at DPM by Liaison Branch Operating Accountants to process requests for recipients who cannot access SMARTLINK II or CASHLINE. The request is placed on an I-27 form which is approved by a Liaison Branch Chief, Team Leader, or Senior Accountant. The request is entered into PMS by the Operating Accountant. The data is routed to the Hold file and the form is forwarded to the A&R Branch which releases the payment. I-27 payment requests are deposited directly into the recipient's bank account using the ACH payment method.

#### FEDLINE

If an electronic request passes all programmed edits, the payment is placed on the open ACH schedule. The requests are then batched and downloaded through the FEDLINE terminal and transmitted to the Federal Reserve in Richmond. A report is produced for any ACH transmission errors.

#### Electronic Certification System (ECS)

DPM uses ECS to submit same day payment requests (FEDWIRES). Members of the A&R Branch are the only individuals who have access to ECS. When an A&R accountant enters FEDWIRES into ECS, a personal identification number (PIN) is

required which is the primary security feature of the system. ECS data entry error messages appear if the following payment request edits are not in compliance:

- The Agency Location Code (ALC) must be keyed in and only numerals are allowed;
- The ALC must be in the ALC Table or a data entry error message appears;
- The date of the payment is mandatory and only numerals are allowed in the format of MM/DD/YYYY;
- The Receiving Bank's ABA Number (routing number), ABA Name, ABA City, and ABA State are all required fields. Only numerals are allowed in the ABA Number. Two positions are required on the ABA State field and must be in accordance with the U.S. Postal abbreviations designated for the United States;
- All payments must have a type code with a value of either 10 (for standard payments) or 15 (for foreign central banks);
- The product code must be keyed in with a value of either CTR/(for customer funds transfer) or BTR/(for institution-to-institution funds transfer). The BNF field is mandatory and represents the Beneficiary or ultimate recipient of the funds; or
- The payment amount must be entered. Up to nine numeric digits before the decimal point may be entered.

A&R assigns individuals to close the FEDWIRE approved payment requests and place them on a schedule in the Certify Queue for authorized certification. A log of individual transactions using Same Day Pay, and the schedule totals are generated from ECS. The log and totals from ECS, along with the log and totals from PMS, are used by a DPM Certifying Officer to verify the schedule's transactions before releasing the transmission. The certifying officer uses a card reader to access the schedule in the Certify Queue. The DPM Certifying Officer then compares the detail of the payment records with the overall total and transmits the data to the Philadelphia Financial Center.

### **The Fund Ceiling**

The PMS Payment Subsystem performs on-line logical tests to ensure that the payment amount requested does not cause cumulative payments, against the account or the sub-account(s), to exceed the in-effect authorization value established by the Authorization Subsystem. Those processes (e.g., warehouse advances) which require batch updates during the daily run also have batch logical tests applied to ensure that funds in excess of the fund ceiling are not advanced.

### General Accounts (G)

The edit check against the grant ceiling for general accounts exists at the recipient account level because there are no sub-accounts. This means that when a recipient with multiple awards makes a payment request, the fund ceiling is calculated as the sum of all grant awards for that recipient minus prior cash advances.

Only HHS recipients, not Cross-Serviced recipients, can have general accounts. General accounts comprise approximately 11% of the monthly PMS payment activity in dollars, and 60% of the transactions.

### Block Grant (B) and Public Assistance Grant (P) Accounts

For the purpose of managing block grant accounts, recipients are assumed to have a cash needs pattern similar to that which prevailed historically under the various programs. Payment requests fail PMS edits if contrary to the following information: the historical draw-down patterns for the previous programs which have been incorporated into the block grant; the available (undrawn) award authority; and the information provided by recipient organization officials. In addition, the Medicaid and Temporary Assistance to Needy Families (TANF) programs have specific edits. If the payment is for a sub-account identified as Medicaid or TANF, PMS performs a test to ensure that payments in the first two months of the quarter do not exceed the following guidelines:

	<u>TANF</u>	<u>Medicaid</u>
1st month	35% of quarterly total	40% of quarterly total
2nd month	70% of quarterly total	70% of quarterly total

Payment requests do not go through batch edits. The edits are performed on-line. The edits include sufficiency of funds, validity of sub-account numbers, a reasonableness check against prior advances and verification of whether DPM has imposed a manual review. Those payment requests that fail the edit fund ceiling checks are moved into a holding file for follow-up. The holding file is reviewed throughout the day by a Liaison Branch Operating Accountant. Holding file dispositions are initially approved for payment or disapproved by the Operating Accountant. A Team Leader or Branch Chief then reviews the documented disposition and determines final approval.

### **PMS Holding File**

PMS has a single database file to hold all errors, reminders of pending actions, and warning messages generated by the system. The holding file is structured to provide a tailored service to all PMS users based on their job function. PMS application security builds discrete sections of the holding file for each activity and then prioritizes the transaction errors, warning messages, and pending actions within the confines of each user's code. Each agency has a separately accessible section of the holding file that is

restricted/protected by the user ID and password. Liaison Branch holding files may be accessed by multiple users depending on work assignments. In such situations, Operating Accountants are permitted to review and approve the holding file contents within their assigned work area.

PMS routes problems, messages, and transactions requiring review to the holding file. These issues must be resolved by appropriate DPM units or in the case of authorizations, by the Operating Divisions (OPDIVs). The data on the holding file includes the original transaction, its most recent correction, any calculation which identifies the source of the problem, and possible options available to the user to solve the problem.

The transactions placed in the holding file are keyed by the DPM user and is based on the account number for the holding file transaction. An example of a holding file transaction is one produced by a payment request posted to the "M" priority holding file. The error message "This payment must be manually reviewed" appears on the holding file record. All transaction related problems are categorized by the type of the error.

A "9" holding file item does not necessarily have a lower priority than a "6" item. The priority is an identifier, not a sign of importance. The types of records that can be found in the holding file include the following:

- M - ACH payments and L items that are released and require manual review or that do not satisfy system edits;
- L - Dial up requests;
- D - Add or change an entity;
- E - Request for a bank change;
- 8 - New PIN being assigned;
- 4 - ITA transactions;
- 6 - Disbursements; or
- 9 - Award Authorizations.

All holding file records that are reviewed or corrected show the initials and terminal number of the user taking the corrective action. Payment corrections are initiated by the Liaison Branch and entered into PMS by the A&R Branch. The Liaison Branch is responsible for specifying action as identified on the disposition form. After approval and correction of holding file items, the edited transactions are moved to the open transaction schedule. PMS automatically re-processes the corrected items during the regular closing and transmission process. If a condition which prevented the transaction from being processed has been fixed, the transaction processes successfully. There is no record of the individual performing the correction and posting disbursement information from the priority "6" holding file.

On-line transactions are thoroughly edited upon entry. Invalid transactions are returned to the accountant for correction. The accountant has the option of immediately correcting the transaction and re-attempting processing. Only those transactions which fail the system edits are placed in the holding file for later correction. Batch transactions are

thoroughly edited; erroneous transactions, which fail the editing process, are routed to the holding file.

The PMS system is capable of reprocessing any transaction or deleting it from the holding file upon request of the user. Any transaction that is successfully reprocessed during the Daily Job Stream (DJS) is deleted from the holding file. For example, the DJS may allow a transaction that previously did not have enough money in the recipient's account to be approved. During the course of the day, sufficient money may have become available. If the transactions cannot be reprocessed, the user is notified of the reason(s). The user can optionally return the transaction to the holding file. Accountants are not able to examine, change, or delete transactions not assigned to them. This is controlled by the application security access rights.

The A&R Branch is responsible for releasing payment transactions from the "M" priority holding file. The Liaison Branch releases disbursement errors from the "6" priority holding file. OPDIVs release authorization transactions from the "9" priority holding file.

Priority M holding file items are processed over the course of the entire day when the dispositions are forwarded to the A&R Branch. In order to process these transactions in a timely and expedient manner, DPM policy states that each item in the holding file must be resolved and corrected within two hours. The Branch Chief is able to monitor that the Operating Accountants are resolving the items in the holding file specific to their assigned accounts in a timely fashion through two methods.

The first method involves the appropriate Liaison Branch Chief having browse capabilities over each Operating Accountant in their Liaison Branch. The second method involves the Liaison Branch Chief reviewing the time and date fields within the open items per the holding file. The Liaison Branch is responsible for pursuing and correcting payment and/or disbursement errors. Awarding agencies are responsible for correcting award authorization problems. The A&R Branch is responsible for deleting or releasing a transaction from the priority M holding file. If the transaction relates to a payment, the A&R Branch cannot update the holding file until it has received authorization and documentation from the Liaison Branches; specifically, a disposition which must be signed and dated by the Operating Accountant and approved by the Liaison Branch Chief or Team Leader. The dispositions are then forwarded to the A&R for the required action.

If a request for payment needs to be deleted (i.e., the recipient's request for funds is denied) the rejected disposition must be stamped "DISAPPROVED-DO NOT PAY," initialed and dated by the Operating Accountant and noted with the name and telephone number of the person who was contacted to advise why the payment was not being made. The Team Leader or appropriate Liaison Branch Chief must also sign and date the request prior to its release to the A&R Branch. The A&R Branch then has the authority to delete the applicable transaction upon receipt and review of the authorized supporting documentation from the Liaison Branch. A deleted transaction is automatically removed from the holding file. If the request cannot be released after the annotated corrections from the Operating Accountant are made by the A&R Branch, A&R Branch informs the

Liaison Branch. If the Operating Accountant concurs with the change, the A&R Branch has the authority to release transactions from the holding file, with approval from the Liaison Branch.

OPDIVs and other agencies are responsible for reviewing their segment of the holding file for award authorizations and correcting and resolving transactions contained therein. The Operating Accountants are responsible for reviewing the priority 'M' and priority '6' holding file transactions, correcting and resolving the errors and/or issues for the accounts assigned to them within the time frame detailed above. The A&R Branch is required to clear all priority 'M' holding file dispositions received prior to the next scheduled ACH transmittal to the Federal Reserve Bank. In addition, the holding file is reviewed daily in conjunction with the PMS reconciliation process and reviewed by the Senior Accountant.

If a payment request that is placed in the holding file is resubmitted by the requester, it is possible that both transactions will ultimately be processed and two payments will be made. However, there are edits to prevent the fund ceiling from being exceeded.

### **Payment Request Warehousing**

The warehousing process allows an approved recipient to request funds up to thirty days in advance. Warehouse requests from two to four days are forwarded to the Federal Reserve Bank (FRB) the same day of the request. Warehouse requests from 5 to 30 days are "warehoused" in PMS until four work days before the payment due date. At that time, the payment is transmitted through the normal ACH process. Each ACH payment has a settlement date (effective date) based upon the payment due date provided by the recipient. These payments are held by the recipient's bank until the settlement date. The warehouse payments are isolated from the regular ACH payments via the numeric schedule range.

Each time a request for funds is made, a check is made to determine whether the account is set up to warehouse payments. If the payment type is "F" and the payment due date is up to thirty days into the future, the transaction is processed. If the payment type is not "F" and the payment due date is greater than four days into the future, an error message "PAYMENT DUE DATE CANNOT EXCEED 4 DAYS" is displayed on the requester's screen. If an account is not set up for warehousing and the recipient enters a payment due date within the four day range, the request is paid the next work day.

Once the recipient has requested funds and the request has passed the on-line PMS edits, a determination, based on the settlement date, is made whether the request is to be warehoused in PMS or forwarded to the recipient's bank. If the payment due date is between one and four workdays into the future, excluding the current work day and the next work day, the request is posted to the requester's account and added to the open ACH schedule. Note that in determining whether the payment due date is greater than four working days in the future, weekends and holidays are excluded. Payment requests which have the current day or the next work day as the payment due date, are treated as payment type indicator "S" or same day ACH payments. In the event that funds are not

available to cover all warehouse payments, PMS posts transactions to the holding file based on the warehouse payment with the furthest date in the future, to the extent necessary until funds are available.

If the payment due date is greater than five working days but less than thirty working days, the request for funds are routed to the pending warehouse payment file. Each night, as part of the batch process, each warehouse payment is edited. These edits check for availability of funds, manual review flags, stop payment flags and other errors (e.g., invalid account and/or sub-account number(s)). If any warehouse payment fails an edit, it is written to the appropriate holding file for further action. The duplicate payment edit is not made for warehouse payments unless the transaction is being released from the holding file.

If the warehouse payment passes all PMS edits, a check of the payment due date is performed. If the warehouse payment's due date is four days in the future (current day plus three), the payment is written to the open warehouse schedule during the nightly batch process for transmission to the Federal Reserve Bank the following work day.

Once a warehouse payment request is posted to the pending daily activity file, the request cannot be changed. In the event it is necessary to change or withhold the payment, then it must be canceled from the pending daily activity file. The cancellation process is executed via the TC "C27" transaction process which requires a disposition to be completed with two levels of approval. The first level is the Operating Accountant who is responsible for the particular account and the second level is the Liaison Branch Chief or a Senior Accountant from either Liaison branch.

Each valid future payment request updates the amount stored in the pending advance field for the account and the appropriate sub-account(s). Each time a request is made, the pending advance field is used as part of the edit for funds availability. This edit is also performed as part of the batch process. When payment of the warehouse transaction is made, the related amount is subtracted from the pending advances field and added to the in transit advanced field. These edits are the same as the on-line edits. In addition, reasonableness edit checks are conducted to ensure that payments, in comparison to previous quarter activity, appear appropriate and within allowable ranges.

In order to track and control payments which are warehoused, the following four reports are used:

- Closed & Transmitted Schedules During the Business Day -- lists all current day schedules that have been closed and transmitted to the FRB but have not been confirmed. This report reflects both same day ACH schedules and the warehousing schedules which can be differentiated from one another based on their schedule numbers.
- Schedules Opened & Not Closed at Close of Business -- lists all open schedules that were not transmitted during the current business day.

- Warehoused ACH Transaction Activity -- acts as a roll-forward of all daily activity for transactions to be warehoused by PMS. Section I of that report details all pending warehouse payment balances at the beginning of the business day, Section II details all activity during the business day, Section III details the activity during the nightly batch process of that business day, and Section IV details the balances at the end of the business day.
- Unconfirmed ACH Schedules -- lists all ACH schedules for the current business day and warehouse schedules that have been closed (transmitted to the FRB but the debit date has not been entered).

The Audit Trail Report, which is created during the nightly batch process, includes warehouse payment requests received during the current business day.

### **Payment Advances**

There are two primary methods by which recipients receive funds: ACH and FEDWIRE. ACH is a method of electronic funds transfer used to process the funds so that funds are available during the next business day. FEDWIRE is a direct deposit method that makes funds available the same business day. However, FEDWIRE is used under specific circumstances in support of specially legislated programs and emergency payments.

Both CASHLINE and SMARTLINK II users receive ACH payments, and can also receive FEDWIRE payments if necessary. When recipients have temporary problems accessing SMARTLINK II or CASHLINE, they can call their DPM account representative and request funds over the telephone. These requests are called I-27 dial-ups.

Recipients of ACH and FEDWIRE must complete a Direct Deposit Sign-up Form (SF 1199A) to authorize funds to be electronically deposited into their bank account. The recipient's financial institution is responsible for disseminating copies of the three-part form in accordance with the destination information located at the bottom of the form. The Government Agency Copy is forwarded to DPM.

### Automated Clearing House (ACH)

ACH is a central distribution point for transferring funds electronically for participating depository financial institutions. Rather than each payment being sent separately, ACH transactions are accumulated and sorted by destination for transmission during a predetermined period. ACH primarily functions through the Federal Reserve Bank which uses procedures and programs developed by the Regional ACH Association under the direction of the National Automated Clearing House Association (NACHA).

If a payment request passes all programmed edits, the payment is placed on the open next day ACH schedule. If the recipient account is placed on manual review or if the

payment did not pass the programmed edits, the request is routed to a separate holding file for Liaison Branch review. Those that fail the edit check require further investigation. ACH funds are deposited in the recipient's bank the following day. ACH transactions are posted through the FEDLINE terminal.

A report is produced for any ACH errors. At the end of the day, a senior accountant in the A&R Branch reviews the log of files transmitted for any unusual circumstances. Follow-up is performed as needed. Control totals for the day's transmissions are prepared the following morning for reconciliation (against FRB's confirmation) and review. On a daily basis, the ACH payment requests are reconciled to PMS. These figures are then reconciled to ACH figures from Richmond to ensure that what is reflected by Richmond is what was actually spent by DPM. The FRB creates matching debit vouchers and then mails carbon copies of the vouchers back to DPM.

#### FEDWIRE Payment Method

FEDWIRE is an electronic funds transfer system that allows DPM to use a transaction-by-transaction processing system designed for only high-dollar, low-volume items that must be received by payees the same day as originated. Most of the FEDWIRES are initiated as a result of the provisions of the Cash Management Improvement Act of 1990. The intent of the Act is to minimize the time grantees hold Federal funds by requiring the grantee to only request funds for immediate needs. All FEDWIRE transactions are routed through the Treasury FEDLINE Payment System (FEDLINE) that has a direct link to the Federal Reserve Communications System (FRCS) through the Philadelphia Financial Center. FEDLINE is used by the Financial Management Service (FMS) to electronically make payments for a Federal program agency's financial obligations.

DPM is currently in the process of integrating PMS with ECS. A Data Entry Operator may access the ECS system after entering his/her PIN and inserting their token card into the ECS PC.

FEDWIRES are initiated using SMARTLINK II, or telephone, or fax in the case of an emergency. Accounts which have FEDWIRE as their payment method are designated with a "W." These accounts are flagged for manual review. Payment requests submitted with the "W" payment indicator through SMARTLINK II are automatically placed into the holding file for additional investigation. The payment disposition is then printed by the appropriate Liaison Branch. The data from the payment disposition is used to manually prepare Same Day Pay Request Forms. These forms require approval signatures from either the Liaison Branch Chief or a Lead Accountant. The Liaison Branch must then stamp the payment disposition with "DISAPPROVED - DO NOT PAY" so that the A&R Branch can delete this transaction from the holding file. After the item is deleted from the holding file, the A&R Branch processes the payment as a FEDWIRE.

Once the Same Day Pay Request form is received in A&R, an accountant posts the information to PMS for validation of funds available. A print out of the PMS input screen includes a message which states the transaction was successfully (Funds Available)

posted to the data base is also generated. Also included, is a printout of the detailed payments and total amount for the schedule. These printouts are used for supporting documentation.

The Payment Disposition Form is the source document used by the A&R accountant to remove the transaction from the holding file. The FEDWIRE payment requests are subject to a series of PMS programmed edit checks to determine whether the transactions meet the necessary requirements for payment. A report of FEDWIRE transactions and processing totals is produced for the Certifying Officer. A Certifying Officer must electronically authorize the FEDWIRE transactions before the file can be transmitted to the Philadelphia Financial Center.

The Same Day Request Form and holding file release documentation are then used as source documents for entering the payment request into the electronic certification system. DPM uses the ECS to submit same day payment requests (FEDWIRES).

An A&R Branch accountant prepares a Reconciliation of the Manual Wire Process form that is used to document a comparison of the payments from the Same Day Request Forms to the ECS transaction report. The reconciliation ensures that all wires sent to Treasury are accurately contained in PMS. Differences are indicated directly on the reconciliation form with an error notation. All errors are corrected by the end of the day unless a change in the system is required. The A&R Branch Chief reviews the reconciliation for reasonableness, then date stamps and initials the ECS report as indication of his approval.

#### *Tests of Operating Effectiveness*

- Verified that documented policies and procedures exist for the following DPM functional areas:
  - Requesting Payments;
  - Processing Payment Request holding files;
  - Warehousing Payment Requests; and
  - Processing Payment Advances.
  
- Dialed into the SMARTLINK II system and entered the following to validate the on-line edits:
  - a valid account number and associated ID;
  - three consecutive errors in the account number;
  - payment due date prior to current date;
  - payment due date greater than 30 days in the future;
  - a payment request without the required fields;
  - an estimated disbursement amount that does not equal the total amount requested;
  - alpha characters in fields expecting numeric;
  - “0” as the total amount requested;

- requested a payment using an invalid sub-account name/code;
  - requested a payment without entering at least one sub-account;
  - requested a payment where the sum of all sub-accounts do not equal the total amount requested; and
  - requested a payment entering a sub-account for an account that does not have sub-accounts.
- Entered the following into CASHLINE to validate the on-line edits:
    - the log-on and password;
    - a correct six digit ID number and account number combination
    - an account number that does not end in “G”;
    - a payment request that does not contain the required fields;
    - three consecutive errors;
    - three attempts at entering in the wrong account number or ID; and
    - an expected disbursement amount that does not equal the cash balance.
  - Reviewed a report copy of individuals receiving FEDWIRE payments and traced to the Same Day Pay Request Form and determined that the request was removed from the holding file and not transmitted as ACH.
  - To validate the on-line edits, attempted to input the following:
    - alpha characters into the Agency Location Code field;
    - an invalid Agency Location Code;
    - omit the date of payment;
    - an invalid date format;
    - input alpha characters into the payment date field;
    - a payment request without the required fields;
    - alpha characters into the ABA Number field;
    - an invalid payment type code; and
    - an invalid funds transfer type.
  - Reviewed the most recent Disposition forms used for reviewing OPAC transfers.
  - To validate on-line edits, entered OPAC charge transactions (TC 920) where the charge amount:
    - is greater than the authorization; and
    - is greater than a sub-account authorization level.
  - To validate the on-line edits, using transaction code 920, entered the following:
    - a future date; and
    - an improper sub-account date.
  - To validate on-line edits, reviewed a sample of payment requests, entering them in as transactions which total greater than the grant ceiling and verified that the total transaction was rejected.
  - Using the selected sample, attempted to override the fund ceiling edit.

- Reviewed a sample of holding file transactions including holding files “D”, “E”, “8”, and “4” to ensure items are reviewed and released by the appropriate Branch Chief, Team Leader, or Operating Accountant.
- Reviewed a sample of entity relationship transactions, as well as miscellaneous transactions, and verified the:
  - A&R Branch’s signature and date approval; and
  - appropriate accountant and/or Branch Chief signature exists.
- Reviewed a sample of journal vouchers and verified that all required information is contained in the documentation.
- Reviewed a sample of payment requests that include “dial-up” payment, ACH, or Treasury check and reviewed the following holding files:
  - “L” - “dial-up” payment requests,
  - “M” - ACH payment requests, and
  - “2” - Treasury Check payment requests.
- Obtained a screen print of the on-line holding file to include the date and time the transaction posted and tested that the dispositions are properly marked with indicators depending on the transaction resolution and are properly authorized.
- Traced a transaction which was erroneously entered into the system and agreed it to the proper holding file.
- Reviewed a description of processing dispositions and verified that processing controls appear to provide adequate mechanisms for users to identify transactions.
- Reviewed the rejected payment request transaction record content and determined whether it contained information such as:
  - codes identifying the error type;
  - date and time when entry was captured;
  - identification of individual responsible; and
  - identification of the terminal.
- Determined whether payment request corrections are reviewed and approved by an independent supervisor prior to being re-entered.
- Determined whether the system provides reports for management to periodically review rejected input to analyze the frequency and status of uncorrected transactions in the payment request holding file.
- Determined which individuals have the ability to remove rejected data from the suspense file and ensure procedures include proper detective controls.
- Reviewed a sample of suspended transactions that occurred during the audit period and traced each transaction to its resolution and determined that they were resolved on a timely basis.

- Reviewed a sample of transactions where PMS performed critical calculations (interest, etc.) that have occurred during the audit period and reperformed systematic calculations.
- Reviewed the on-line activity or supporting documentation and reviewed a recipient payment request that would be identified by PMS as a warehoused transaction. Based on the activity date and the effective date, we determined the propriety of the transaction being classified as warehoused.
- Reviewed a sample of warehoused transactions and verified that each of the following criteria was properly verified by PMS: availability of funds, manual review flags, stop payment flags, and an invalid account and/or sub-account number.
- Reviewed the Daily Activity File and verified that all warehoused transactions for one day were properly accounted for in one of the following files/processes: the holding file, the Warehouse Pending File, the Daily Activity Pending File, or the nightly batch job processing.
- As a valid recipient with warehouse capabilities, attempted to enter a request for payment at a future date in excess of 30 days to verify that the following error is displayed: message "PAY DATE CANNOT BE GREATER THAN 30 DAYS."
- As a valid recipient with no warehouse capabilities, attempted to enter a request for payment at a future date within the allowable warehouse parameters (greater than 4 days but less than 30 days).
- Reviewed the holding file and the Daily Activity Pending File to identify warehoused transactions by the schedule numbers 4500 through 4999 and verified that the timing of these transactions appears reasonable based on the expected or actual date of processing.
- Reviewed the pending warehouse payment file for propriety of posting for these warehoused transactions (payment due date is greater than five work days but less than thirty work days).
- Reviewed a sample of days and verified evidence that the ACH/FED reconciliation was performed in a timely manner.
- Reviewed a sample of days that had ACH errors and verified evidence that the A&R Branch Chief performed an investigation.
- Reviewed a sample of days and verified evidence the A&R Branch Chief approved all payment reconciliations.
- Verified that Treasury Check transactions processed during the audit period were approved by the A&R Branch Chief.
- Verified that payment requests received by fax and processed during the audit period were approved by the Liaison Branch Supervisor.

- Reviewed a sample of I-27 payment requests and verified that the transactions were approved by the Liaison Branch Supervisor.

### *Results of Tests*

No exceptions noted.

### **Posting**

#### *Control Objective*

Control structure policies and procedures provide reasonable assurance that all transactions are correctly posted and the proper: awarding agencies are charged, and recipient grant accounts are charged.

#### *Description of Policies and Procedures*

#### **Awarding Agency Charging**

Throughout the month, payment advances to grant recipients (payees) and PMS remittances for credit to payee accounts are posted to the DPM Grants Management Fund at the Department of Treasury. Once per month, in accordance with Treasury Department regulations, DPM submits a SF 224 report that is used to execute “awarding agency charging.” The SF 224 report and “awarding agency charging” process serve to remove the payment advances and remittance credits from the Grants Management Fund and apply the payments and credits against the proper awarding agency appropriation. The PMS procedure for “charging” grant payments and credits from the Grants Management Fund to the proper awarding agency appropriation is classified as either “Direct Charging” or “Cash Pooling.”

In the PMS database, grant numbers are directly associated with a CAN (common accounting number) or multiple CANs. CANs are directly associated with awarding agency appropriations. Awarding agency OPDIVs are responsible for maintaining the integrity of the PMS database table which establishes the CAN/appropriation relationship. Additionally, awarding agency OPDIVs are responsible for using the correct Fiscal Year CAN information when posting grants into PMS.

Both the “Direct Charging” and “Cash Pooling Charging” processes allocate cash advances and credits to awarding agency appropriations based upon the grant number, fiscal year, and CAN. However, the allocation methods of the two processes differ significantly. Both the Direct Charging and Cash Pooling Charging processes enable PMS to charge individual payee cash requests to an awarding agency appropriation on a monthly basis. The cash request information is supplied by the payees during the standard cash request process. In order to record payment requests in a unique payee record, PMS assigns each payee a PAN (payee account number). Payees must enter their PAN and

corresponding security codes into the cash request system when requesting funds. PMS validates the PAN and security codes on-line prior to allowing the payee to access the actual cash request process.

#### PMS Automated Charging Process (Direct Charging)

For PANs designated as either "Public Assistance" (P) type accounts or "Block Grant" (B) type accounts, grant awards have been assigned a sub-account number which uniquely identifies the grant or grants within a particular program. The designation of a payee as a P or B account type is dependent upon the applicable grant award accounting regulations or on the reporting requirements requested by a Cross-Serviced awarding agency. P or B type PANs can have one or many sub-accounts. When a P or B type PAN requests funds, they must specify the sub-account(s) to which the cash payment is posted. As stated above, sub-accounts under P and B type PANs are directly associated with one or more grants.

By using the PMS database relationships established between the CAN and awarding agency appropriation, between the CAN and the grant number, and between the grant and sub-account number, a series of automated edits contained in the monthly direct charging process associates each P or B type payee cash request contained in the payees monthly request record to an awarding agency appropriation(s). The direct charging process completes the association process, compiles the data, and allocates according to the proper awarding agency appropriation.

#### Manual Charging (Cash Pooling)

Under "Cash Pooling," PMS also charges cash advances from the Grants Management Fund to the awarding agency appropriation based on cash request information supplied by the payees. However, the process differs in the allocation method. "Cash Pooling" applies to General (G) type accounts. The cash pooling concept and G type accounts were developed by HHS in order to simplify grant accounting for grant recipients receiving awards from multiple HHS awarding agencies. During the G type account payee cash request process, the payee is not required to specifically identify the grant or grants to which the payment is to be posted. The payee enters a cash request amount which is recorded in the PMS database under the payee's PAN.

During the monthly Cash Pooling charging process, PMS executes a process whereby the monthly cash payments (from the payees' payment record) are charged to the proper awarding agency appropriation based upon an algorithm which allocates the cash payments to open grant numbers under each G type PAN.

The Charging Process is an automatic procedure within PMS. Charges are executed as follows: the system determines the total amount of cash distributed to recipients. Closed account totals and M year totals are backed out. This information yields a current amount to be distributed by the system. A comparison is then made between total authorization

and disbursements (typically authorization less disbursements) so that the appropriate charging algorithm (charging path) is selected. Once a charging path has been chosen, the system allocates the total to be distributed among the various documents, down to account and FY/CAN (amounts appear on SF 224 report). This figure determines the total amount each appropriation is required to reimburse the Grants Management Fund.

### The Department of Treasury Reporting

The Department of Treasury requires that all governmental agencies account for all financial transactions performed during the month. In addition, financial transactions need to be identified as to the awarding agencies for all funds issued by DPM throughout the month. The SF 224 Statement of Transactions is the required form for this balancing operation. DPM, because it has three Agency Location Codes (ALCs), is required to file three SF 224s as described below:

- ALC 75-08-0032—Captures ACH payments and collection activities affecting the Grants Management Fund.
- ALC 75-08-0098—Captures non-ACH and miscellaneous payments and collection activities affecting the Grants Management Fund.
- ALC 75-08-9701—Charging of the OPDIVs appropriation or fund symbols and replenishing the Grants Management Fund.

Documents supporting the 75-08-0032 SF 224 are reports of ACH transactions and copies of the debit vouchers and deposit tickets generated by the Federal Reserve Bank in Richmond. The Federal Reserve Bank accepts and forwards all the ACH payment batches from DPM. Duplicates of these documents are maintained in the A&R Branch. Documents supporting the 75-08-0098 SF 224 are the other miscellaneous accounting documents generated during the month. They include SF 1166s for check payments, FEDWIRE same-day schedules, Journal Vouchers, SF 215s for collections, and other supporting schedules and forms.

The purpose of the GMF is to accumulate all the payments and collections in a single account. When DPM finalizes the subsidiary SF 224s (75-08-0032 and 75-08-0098), the total financial effect to the GMF is computed. This is the amount the OPDIVs are charged for payments and collections made on their behalf during the month. The charging process is the process by which the financial activity is allocated amongst the various agencies serviced by DPM. SF 224s, from the other two accounts, must be balanced to the GMF before it can be released to HHS. This final allocation is reported to the Department of Treasury.

### PMS Synchronization Process

On a monthly basis, a synchronization process occurs when PMS develops a file that is divided by grant numbers and includes all authorized amounts, disbursements, and

charged amounts. Disbursement information for the prior quarter is reported by the recipient to DPM during the quarterly PMS 272 process. This synchronization file is then sent to each OPDIV via tape or electronic transmission and a copy is printed for their review. DPM requires that the OPDIVs sign and return a certification letter as verification of receipt and as a vehicle for classifying all the types of differences found. DPM investigates all outstanding certification letters.

#### The Department of Treasury Reconciliation (GOALS and CASHLINK)

During the month, the Department of Treasury identifies all instruments DPM used to move funds by two unique Agency Location Codes. The SF 224 report is used by the Department of Treasury to ensure that all funds moved during the month by DPM have been charged to an authorized awarding agency. This charging process brings the Grant Management Fund at the Department of Treasury back to its normal zero balance. Once the SF 224 reporting process is complete, DPM sends the information to the awarding agency's OPDIV to update the records within their accounting systems.

#### **Recipient Grant Disbursement Reporting**

##### Recipient Transaction Posting

Once a quarter, PMS generates a PMS 272 report for each recipient that has active and open grants. Each report contains grant award amounts, the total amount of advances made, and the total cumulative reported disbursements for each grant listed on the R272. DPM requires that the recipient verify these amounts. In addition, the recipient must document on the PMS 272 the total amount of disbursements made for each grant. Once verification is completed, the recipient must sign, date, and return the report to DPM. Reports are received by the accountant and are reviewed for completeness.

In certain instances, recipient disbursement data is manually entered into PMS by the Liaison Branch Operating Accountant including any adjustments resulting from the reconciliation process. However, most of the data is entered into PMS via electronic file transfer which occurs from the disbursement data being keypunched by an external service provider. The data is captured in a specified PMS record layout. DPM processes disbursement information for approximately 15,000 recipients.

The PMS 272 reports are mailed out and the completed reports are required to be returned to DPM within 45 days from the end of the quarter. The mailroom distributes the reports to the appropriate Liaison Branch, and the Operating Accountant reviews and batches the reports. The PMS 272 batches are delivered to the A&R Branch who sends the information to the external service provider with an attached batch control log.

When the data is sent to DPM via electronic file transfer and loaded into PMS, header records must be complete before PMS begins posting those transactions to the recipient account. Each PMS 272 report is individually balanced. PMS maintains control tables that are used to identify the recipient according to PAN and account number. If the PAN

and account number are invalid, PMS sends the transaction to a holding file for research. Once the tape is processed, PMS generates PMS 501, PMS 502, and PMS 503 which are reports of disbursement data entered into the system. There is also a PMS inquiry that can be performed to determine whether the data has been properly entered into the system and correctly posted to the proper recipient account.

DPM recently piloted a program to implement a process that would allow recipients to transmit a disbursement file electronically that would be used as input into PMS. Approximately ten to fifteen percent of PMS recipients have implemented the file transmission process. DPM expects the number to increase significantly within the next few months.

#### Disbursement Data Verification

On a quarterly basis, DPM sends the recipient a PMS 272 report that is used to report disbursements. Data on the 272 should be verified by the recipient. The report reflects the following:

- cumulative disbursements from prior quarterly reporting;
- sub-account data;
- the amount (authority) of the grant award; and
- the advances.

Grant award data is entered into PMS by the OPDIV. Therefore, if the recipient reports to DPM that there is a discrepancy in the award amount, DPM requires that the recipient submit a copy of the actual grant award for verification. If payment information is posted to the wrong account or sub-account, the payment is traced through the system and corrective action initiated.

Disbursement transactions are sent to the OPDIVs twice a month via an electronic file transmission and/or the PMS 82 and 98D Expenditure Reports. The OPDIVs also receive expenditure information from the recipient via the SF 269 report.

DPM accountants are responsible for following-up with the PMS 272 reporting to ensure that all reports are generated, distributed, and promptly returned with the appropriate information. The PMS 272-S (Stub Report) is used as a check list to verify that all reports are distributed and returned with the appropriate information.

Once the file created by the servicing agency has been electronically transferred, processed, and the disbursement transactions have been posted to PMS, the Operating Accountant uses PMS on-line inquiry to verify production results. In the end, the recipient has the ultimate responsibility for ensuring that transactions have been correctly posted to their grant award accounts.

### *Tests of Operating Effectiveness*

- Observed the input of payment requests (block grants and public assistance grants) and traced each transaction to the proper awarding agency.
- Observed the input of payment requests that must be allocated across more than one grant number and traced each transaction to the proper awarding agency.
- Observed the input of a payment request for a block grant without providing the program name and noted the method in which the system rejects the transaction.
- Reviewed the process used for manual charging and selected a sample of advance amounts that require manual intervention to determine that the charge amount reported on the SF 224 was reasonable according to the estimates provided by the awarding agency.
- Reviewed a sample of SF 224 reports and verified that they were signed by the HHS Office of the Secretary and A&R Branch Chief.
- Reviewed a sample of SF 224 reports and verified the following:
  - a system reconciliation of cash balances was performed;
  - any statements of differences from Treasury were resolved;
  - any reconciling items were adequately explained; and
  - reconciliations were properly approved.
- Reviewed a sample of OPDIVs and traced their most recently signed certification letter (sync process) and verified existence.
- Verified that SF 224 reports for the review period were maintained at DPM in an orderly manner.
- Reviewed the process used to make the SF 224 report available to the OPDIVs.
- Reviewed a sample of recipients with grant awards currently open on PMS and verified that a PMS 272 report was generated during the prior quarterly reporting period.
- Using the sample selected, we traced the recipient's PMS 272 reports on the appropriate Status/Stub Report and verified existence.
- Using the sample selected, verified the existence of the recipient's signature and ensured that the reports were returned by the recipient to DPM in a timely manner.
- Reviewed the rejected disbursement transaction record content and determined whether it contains such information as:
  - codes identifying the error type;
  - date and time when entry was captured;
  - identification of individual responsible; and
  - identification of the terminal.

- Determined whether all disbursement corrections are reviewed and approved by an independent supervisor prior to being re-entered.
- Determined which individuals have the ability to remove rejected disbursement data from the holding file and verified procedures include reasonable detect controls.
- Reviewed a sample of suspended disbursement transactions that occurred during the audit period and traced each transaction to its resolution place to verify proper control procedures were followed in the process.
- Reviewed a sample of batch control sheets used for the PMS 272 data entry and reviewed them for completeness and proper identification by the DPM accountant.
- Using the batch control sheets selected, verified the existence of the DPM accountant's signature.
- Using the sample selected, verified that a PMS 501 report was generated for each batch of transactions.
- Reviewed procedures that are followed when the header record does not balance to the total number of disbursement records on tape and ensured that PMS rejected the batch and transactions did not post to any of the recipient's accounts.
- Using the sample selected, verified that batch balancing was performed prior to the transaction being posted to the recipient account.

#### *Results of Tests*

One of twenty signed Certification Letters sampled was not maintained on file.

One of twenty changes to a PMS 272 report did not have a supporting letter of notification for the recipient on file.

No other exceptions noted.

### **Remittance Processing**

#### *Control Objective*

Control structure policies and procedures provide reasonable assurance that remittances from the recipient are processed completely and accurately.

#### *Description of Policies and Procedures*

Recipients submit funds to the Division of Payment Management (DPM) for posting to grant awards as a result of the following:

- Unexpended Funds;
- Duplicate Payments;
- Audit Disallowances; and

- Interest Payments (OMB Circular A-110).

However, it is not uncommon for remittances to be received without an explanation of their purpose. On these occasions, DPM will investigate the reason and proper accounting for the refund before depositing the remittance.

#### Unexpended Funds

Unexpended funds are identified as a result of a cash management analysis that occurs during the PMS 272 reporting process and by recipients as a result of their own cash management review process. Payments that have been advanced to the recipient and not disbursed in a timely manner are considered excess cash on hand. For excess cash identified from the PMS 272 reporting process, recipients remit the funds based on notification letters initiated by DPM. Additionally, CMIA recipients sometimes identify and return unexpended funds to avoid incurring interest penalties for holding cash for extended periods.

#### Duplicate Requests for Advance Payments

Occasionally, duplicate requests for advance payments occur that cannot be prevented through the existing processing edits occurring in PMS. When duplicate requests for advance payment occurs, the Liaison Branch Operating Accountant contacts the recipient and requests that the payment amount be refunded to the account.

#### Audit Disallowances

Findings from recipient organization financial audits can result in grant funds being de-obligated. When grant funds are de-obligated, the recipient is required to refund any related cash payments to DPM as soon as possible. Audit disallowances can result from excess cash, disallowed expenses, unexpended funds, or excess interest.

#### Interest Payments

OMB Circular A-110 requires certain recipients to maintain advances of Federal funds in interest-bearing accounts unless:

- Recipient receives less than \$120,000 in Federal awards per year;
- The best reasonably available interest bearing account would not be expected to earn interest in excess of \$250 per year on Federal cash balances; or
- The depository would require an average minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.

Interest payments are made by both PMS and Non-PMS grantees. Interest remittances are posted to the remitter's account as a memo and immediately reversed out to the general ledger account.

#### Cash Receipts and Disposition

Remittances are received by DPM and entered into a manual Check Receipt Log. Two copies of each check are made. An A&R Branch Accountant identifies the appropriate Liaison Branch responsible for the remittance and annotates the user code and date on both copies. The original check is placed in a safe. One copy of the check and the original correspondence is sent to the appropriate Liaison Branch and the other copy of the check is retained in the A&R Branch. The Liaison Branches are responsible for reviewing, verifying, and approving all remittances. In addition, the Operating Accountants must determine whether the remitted checks are PMS or Non-PMS related. If they are determined to be PMS related, the Liaison Branch must also determine whether the payment is interest or returned grant funds. The Operating Accountant details remittance processing instructions on a check disposition form and forwards this form to the A&R Branch. Each Liaison Branch maintains a copy of the check and the original correspondence in the recipient's correspondence file. Upon receiving the disposition forms from the Liaison Branches, the A&R Branch separates the remittances into PMS and Non-PMS related activity.

#### PMS Processing

A deposit slip (bank document) and deposit ticket (Treasury document) are completed by the A&R Branch after receiving the disposition form from the Operating Accountant. The original check is removed from the A&R Branch safe and deposited, along with the deposit slip and ticket, to First Union National Bank of Maryland. Once the deposit has been made, the A&R Branch Accountant logs the transaction into PMS. PMS remittances are entered into the PMS system according to the PAN. Remittances are allocated between interest and principal based on the check disposition form researched by the Liaison branches. A schedule number is generated by the system and noted on both the manual check receipt log and the check disposition form, and used during the reconciliation process. The check disposition forms and copies of the checks, correspondence, check log, deposit slip, and deposit ticket are filed in the A&R Branch.

On a daily basis, an A&R Branch accountant reconciles the First Union deposit ticket to the Display Deposit Summary obtained from the Treasury CASHLINK system. This reconciliation verifies that all checks deposited by DPM have been recorded by Treasury. Additionally, the A&R Branch accountant receives FEDWIRE receipts from Treasury indicating that remittances were received by Treasury. When a copy of the FEDWIRE receipt is received by DPM, the Liaison Branch Operating Accountant must complete a remittance disposition form to ensure that the money is appropriately accounted for. These receipts are also reconciled to CASHLINK on a daily basis.

On a monthly basis, a reconciliation is performed by the A&R Branch to ensure that the total on the PMS system agrees to the PMS receipt total on the SF 224 report. This reconciliation is performed to ensure that the total in the PMS system combined with the total Non-PMS remittances equals the total on the SF 224 report.

### Non-PMS Processing

After receiving the disposition form from the Liaison Branch Operating Accountant, a deposit slip (bank document) and deposit ticket (Treasury document) are prepared by the A&R Branch. The original check is removed from the A&R Branch safe and deposited, along with the deposit slip and ticket, to First Union National Bank of Maryland. The bank forwards a copy of the deposit ticket to Treasury and returns a copy of the deposit ticket to DPM. Non-PMS remittances are recorded in a Non-PMS manual check deposit log and entered into a Quattro Pro worksheet. One copy of the Non-PMS checks, correspondence, deposit slip, and check log are filed within the A&R Branch.

On a daily basis, an A&R Branch accountant reconciles the First Union deposit ticket to the Display Deposit Summary obtained from the Treasury CASHLINK system. This reconciliation verifies that all checks deposited by DPM have been recorded by Treasury. Additionally, the A&R Branch accountant receives FEDWIRE receipts from Treasury indicating that a remittance was sent directly to Treasury. When a copy of the FEDWIRE receipt is received by DPM, the Operating Accountant must complete a remittance disposition form to ensure that the money is appropriately accounted for. These receipts are also reconciled to CASHLINK on a daily basis.

On a monthly basis, the deposit tickets, FEDWIRE receipts, and a monthly Display Deposit Summary are reconciled by the A&R Branch to verify that the sum of all deposit tickets equals the Display Deposit Summary total. This Non-PMS net total is then added to the SF 224 report as a separate line item. The A&R Branch performs an additional reconciliation (SF 166) between the SF 224 and the PMS system. The total on the SF 224 should exceed the total on the PMS system. The amount by which the SF 224 is in excess should agree to the total Non-PMS remittances. After the above reconciliations are performed, they are reviewed by the A&R Branch Chief.

### **Funds Transfer**

In addition to check remittances, there are three electronic methods by which grant recipient funds can be remitted to DPM: ACH, FEDWIRE, and OPAC. DPM encourages all grant recipients to use an electronic funds transfer method (ACH and FEDWIRE) per the Department of Treasury's revised collection and deposit regulations (31 CFR, Part 206).

### Electronic Funds Transfer (ACH)

The Remittance Express (REX) system is used by the grant recipients to submit funds via the ACH network. REX is an electronic funds transfer system that allows use of the ACH network to receive payments from grantees. The grantee satisfies an obligation by sending an ACH credit transaction to a unique routing transit number (RTN) at the Federal Reserve Bank (FRB). FRB then credits DPM's Remittance Express account. The detail information is passed to the Treasury CASHLINK deposit reporting system. CASHLINK is a worldwide deposit reporting and cash concentration system designed to record, move and manage all of the Federal agency deposits. Funds are collected through eight collections networks, including REX. Deposit information is concentrated into a single database to expedite agency reconciliation.

The A&R Branch uses the agency access module of CASHLINK to perform daily inquiry of detail deposit transactions. Detail information should include payments, a summary of deposits, the program, and the recipient. This information should also identify both the sender and purpose of payment. CASHLINK information is printed and then distributed to the appropriate Liaison Branch. The Operating Accountant reviews the printout and prepares an ACH System Collection disposition form and then forwards it to the A&R Branch for processing. Once the form is received, the information is posted to PMS according to the requirements on the disposition form which states specific instructions on how to allocate the funds (e.g., returned grant funds versus interest). All supporting documentation is placed in the recipient's correspondence file in the Liaison Branch.

### Electronic Funds Transfer (FEDWIRE)

The FEDWIRE Deposit System (FDS) is used by the recipient to remit funds on a same-day basis. All FDS collections are routed to the Department of Treasury in the New York Federal Reserve Bank for credit to the GMF Account. The detail information is passed into the CASHLINK deposit reporting system. The A&R Branch uses the agency access module of CASHLINK to perform daily inquiry of detail deposit information. The CASHLINK detail is printed and then distributed to the appropriate Liaison Branch. The Operating Accountant reviews the printout and prepares a FEDWIRE Deposit System Collection Disposition Form and forwards it to the A&R Branch for processing. Once the form is received, the information is posted to PMS according to the requirements on the disposition form which states specific instruction on how to allocate the funds (e.g., principal versus interest). All supporting documentation is placed in the correspondence file as noted above.

### On-line Payment and Account Collection System (OPAC)

OPAC is used by the various agencies (including HHS) for interagency billing and collection. For those billings and collections which affect the GMF, Transaction 920 from the Miscellaneous Receipts Sub-Menu of PMS is used to record the transfers. While PMS does initiate OPAC payment transactions based on requests from other agencies, this

information must be recorded to ensure proper balances of charged appropriations for the Awarding Agencies and to ensure that sufficient information is stored for the generation of the SF 224 report.

### PMS Payment Advances & Disbursement Reconciliation

The A&R Branch performs monthly cash reconciliations that compare the source documents (Collection Form Dispositions) to PMS subsidiary ledgers and the Department of Treasury information. On a quarterly basis, a PMS 272 reporting process occurs which requires that the grantee reconcile payment advances to disbursement activity. The PMS 272-B Statement of Cash Accountability report illustrates the recipient's cash accountability as derived by DPM which includes refund checks, interest transfers, Journal Vouchers, and OPAC/1081.

A PMS 272-E is generated for all block and public assistance accounts regardless of whether the recipient is HHS-related or a Cross-Serviced agency. The PMS 272-E is the Major Program Statement that illustrates advances by programs. The advance breakdown shows which sub-accounts/grant awards were affected by remittance processing. The PMS 272-B does not reflect this specific data.

The potential exists for one individual within the A&R Branch to alter documentation supporting the A-110 remittances process for Non-PMS entities. This individual has access to the checks and the manual Check Receipt Log, as well as the responsibility for completing the deposit slips, posting the remittances to PMS, and reconciling recorded remittances to actual deposits. While this assignment of duties does not guarantee a proper segregation of duties, adequate compensating controls exist as remitters will complain if their checks are not properly deposited.

### *Tests of Operating Effectiveness*

- Verified that policies and procedures existed in the liaison branches for processing remittances, i.e. Various refunds and criteria for posting interest to the proper receivable account.
- Verified that documented policies and procedures existed in the A&R Branch for processing cash receipts.
- Reviewed a sample of refund transactions that are system generated (PMS) and traced to the proper supporting documentation and verified that the refund is posted to the proper receivable account.
- Reviewed a sample of interest transactions that are system generated (PMS) and traced to the proper supporting documentation and verified that the refund is posted to the proper grant account or sub-account.
- Reviewed a sample of days throughout the audit period and verified that cash reconciliations were performed on a timely basis.

- Reviewed a sample of Non-PMS interest transactions and traced to the proper supporting documentation and verified that the transactions were entered in the Non-PMS log timely and accurately.
- Inquired if reconciliations were performed throughout the audit period and verify that cash reconciliations were made on a timely basis. Trace any reconciliation item to a proper resolution place.
- Using the sample selected, verified that the Non-PMS deposits were made in a timely manner after the check disposition form was received by the A&R Branch and supporting documentation was maintained.
- Verified that all ACH/FEDWIRE payments have appropriate disposition forms.
- Verified that reconciliations between CASHLINK and Non-PMS deposits are performed on a daily basis.
- Verified that monthly reconciliations are performed between DPM deposits and Treasury (SF 224 and monthly CASHLINK) and verified that proper supporting documentation existed.
- Reviewed a sample of days in the PMS check log to ensure that all old checks have been accounted for.
- Determined that the number of “suspense” or long term receipts is small in quantity and dollar value.
- Physically examined the contents of the DPM safe and ensured that the checks are being recorded and processed appropriately and in a timely manner.

#### *Results of Tests*

No exceptions noted.

#### *User Control Considerations*

User organizations are ultimately responsible for reviewing the PMS 272 reports and ensuring all remittances are completely and accurately recorded.

Responsibility for verifying deposits of non-PMS remittances regarding OMB Circular A-110 interest payments belongs to the remitter.

## PMS Reports

### *Control Objective*

Control structure policies and procedures provide reasonable assurance that reports are generated completely and accurately.

### *Description of Policies and Procedures*

Various PMS reports are made available to the awarding agencies by DPM. Included in this section is a description of the reports and other forms of output developed to control the automated payment management process. Data output controls are described according to the different areas of responsibility.

### Output Production

The daily reports are produced by PMS based on the procedures defined within the production job streams. DCRT executes the production job stream that produces extract files and places them on a "hold" queue. The following morning, the ASB Chief reviews computer processing results on-line to ensure that all production jobs were executed as scheduled. After all jobs are verified, based on daily check-out procedures, various routines are followed to execute programs and produce reports using the files made available as a result of production. A production schedule is distributed annually to inform users when to expect bi-weekly, monthly, quarterly, and annual processing to occur.

### Output Distribution

The A&R Branch is responsible for report distribution once output is received from the DCRT Computer Center. The A&R Branch has developed procedures that include a checklist to verify all reports were distributed. On a daily basis, reports and tapes containing file numbers are generated by DCRT and placed in the DPM mail room. Some daily and monthly PMS reports are used internally and some are sent to Awarding Agencies and Operating Divisions (OPDIVs). On a quarterly basis, in excess of 15,000 PMS 272 reports are generated for recipients and distributed by the Government and Tribal Payment Branch and the University and Non-Profit Payment Branch of DPM. PMS generates a Stub Report that summarizes the number of PMS 272 reports produced. The stub report is used by the Liaison Branch Operating Accountants to control the PMS 272 distribution process.

External reports are distributed based on a distribution database. The database contains the name of each person who receives the reports and defines what output is expected. When the output arrives in the DPM mailroom, it is distributed to the proper OPDIV or agency according to the database set-up. Reports are mailed to a designated individual

within the OPDIV's Accounting Department and/or program office. A Memorandum of Understanding between the Cross-Servicing OPDIVs and DPM addresses reporting requirements.

#### Output Accuracy and Completeness

The OPDIVs and recipients are responsible for verifying that data contained on the reports are complete and accurate. DPM ensures normal completion of the report by verifying that reports have totals and that the "end of run" is indicated.

##### *Expenditure*

Prior to releasing the expenditure data to the OPDIVs, DPM compares the PMS 82 (Summary of Expenditures by CAN information) to the PMS 207 (General Ledger). If the figures agree, DPM notifies the OPDIVs (both by phone and in a follow up letter) that the PMS 272 reports are available. DPM does not release any PMS 272 information prior to ensuring that the PMS 82 agrees to the PMS General Ledger. After receiving written notification of PMS 272 report availability, the OPDIV has five days to notify DPM of any discrepancies they may have.

##### *Funds Control*

On a daily basis, DPM prepares a Funds Control Report. This report includes 1) amounts sent to the FRB-Richmond by DPM on a specific settlement date, 2) a FEDLINE printout of amounts FRB-Richmond reports they received from DPM on the specific settlement date, 3) wires sent via ECS on the settlement date, and 4) returns from ACH on the settlement date. Treasury must receive the Funds Control Report by 8:30 AM each morning in order to compare Funds Control Report amounts to the figures Treasury receives from FRB-Richmond.

#### Program Agencies (OPDIV) Output

Once a grant has been established and the information is entered into PMS, funds are available for recipient advancement. On an "as needed" basis, each OPDIV transmits a file to PMS that contains grant authorization processing transactions. This transmission only occurs when the OPDIV has authorizations to send PMS.

DPM batches the transactions and produces the daily Authorization Transaction Report (PMS 84). This report is then sent to each OPDIV via a file transmission to verify accuracy and completeness of the data actually received by PMS. This is used by the OPDIV to determine whether any transactions were lost during the transmission process. Transactions are subject to PMS edits. Transactions that fail the edit process are posted to the OPDIV's holding file. The OPDIV is responsible for investigating, releasing, or deleting such transactions from their respective holding file.

When recipients request payment advances, the transactions are entered into PMS. Once these transactions have been processed and edited by PMS, the information must be reported to the Department of Treasury. DPM is considered as three separate agency stations. Therefore, DPM is responsible for submitting three separate Statement of Transaction Reports (SF 224) monthly. The first agency station (75-08-0032) report contains ACH activity; the second (75-08-0098) contains miscellaneous FEDWIRE, remittances, OPAC, and miscellaneous transactions; and the third agency station (75-08-9701) allocates the GMF activity to the respective appropriation. The information reported on the SF 224 originates from advances posted to the recipient's PMS account and distributed to the relevant appropriation. Likewise, the information reported on the SF 224 should agree with the following sources: 1) PMS printout of ACH Transactions, 2) ECS Report for Wire Transfers, 3) the OPAC Report for Transferring Funds between Government Agencies, and 4) other source documents used to initiate various transactions related to the financial accounting of the GMF. The Department of Treasury then uses the SF 224 to allocate appropriations, thereby reducing an agency's available funds.

#### Grant Award Closing

Once the grant period has ended, the PMS files must be closed. Each recipient sends a Final Report of Expenditures (Financial Status Report SF 269) to the OPDIV. This report is used to ensure that all expended amounts are accurate and allowable, that the grant was not renewed, and that all terms have been adequately fulfilled. To close the grant on PMS and to prevent an additional disbursement of funds, the OPDIV transmits a file to PMS that contains a transaction code to change the grant's status. PMS produces two separate close-out reports that DPM sends to the respective OPDIVs.

The Document Closed But Not Purged Report (PMS 81) contains all grants that have been closed but the document data still remains on PMS.

The Close-out Special Audit Report contains grants with the following status:

<u>Status</u>	<u>Description</u>
O	Grant is a working document subject to changes in authorization and the posting of disbursements and advances. No closing transaction code was posted.
P	Grant has been closed by the OPDIV but there is a difference between the authorized and the disbursed amounts. This difference must be reconciled before the document can be officially closed.
E	Grant has been closed by the OPDIV, the authorized and disbursed amounts agree, but there is a different charged amount. If the recipient has multiple documents, this difference may require additional time to research.

Grants on this report must have a budget ending date at least six months old and have no disbursing activity reported during the last nine months.

Another OPDIV report includes the various Special M Account Reports (FAFR817). Twice a year, DPM creates reports to warn OPDIVs and Agencies with open grants containing funds that are expected to soon cancel. Congress requires that all unobligated fiscal year funding be automatically canceled after five years.

The items contained within this report are as follows:

- FAFR817A -- Account is ready to expire. Authorized amounts equal the disbursed and charged amounts; however, the status remains open.
- FAFR817G -- Accounts that have a difference between the authorized amount and the disbursed amount that is greater than \$100. It also has a status code of "P" or "E" that indicates a closing transaction has been posted.
- FAFR817J -- Accounts that have a difference between the authorized amount and the disbursed amount is less than or equal to \$100. However, the closing transaction has not yet been posted.
- FAFR817K -- Accounts that have a difference between the authorized amount and the disbursed amount that is greater than \$100, but do not contain a transaction code that is required once the correct authorized amount has been determined.

#### Grantee Disbursements

PMS recipient reporting requirements are consistent with the OMB policies and the standards for government reporting.

Based on the disbursement data reported by the recipient during the PMS 272 cash management process, DPM generates two OPDIV reports: A Summary of Expenditures (PMS 82) and Accounting Transactions by Agency (PMS 98D). The PMS R82 report is a summary of the detail in the PMS 98D. The disbursement data is written to magnetic tapes and printed for distribution. Tapes and reports are sent to the HHS OPDIVs bi-weekly for posting to their accounts. Non-HHS OPDIVs download advance payment data each day and use this information to post both advanced and expended amounts to their records.

Each month DPM produces the PMS Synchronization Report (PMS 817) for the OPDIVs. Some OPDIVs receive the actual production file from which the report was generated. The synchronization report contains cumulative accounting data as of the end of the month and is provided to the OPDIV by the 15th of the following month. This allows the OPDIV to reconcile with their award recipients. Synchronization reports are reviewed by the OPDIVs and errors are addressed in the following month.

### Grant/Cash Recipients Output

Quarterly, DPM generates the Federal Cash Transaction Report (PMS 272) for each recipient. These reports are used by the recipient to report fund transactions and disbursement reconciliation.

### DPM Output

DPM uses the daily Proof of Cash Management Report (PMS R205) along with the Daily OPDIV Subsidiary Control Ledger Report (PMS R207) to verify control totals prior to distributing production output. DPM also produces various ad hoc reports as requested internally by DPM employees and OPDIVs. Reports are also produced as requested via the Freedom of Information Act (FOIA). When requests are acknowledged and approved by the FOIA office, a form is completed and forwarded to DPM. At that time, the feasibility and the financial costs associated with the job are determined. Ad hoc reports are generated and forwarded to the requester. However, in the case of FOIA, all reports are forwarded to an authorized person within the FOIA Department for proper distribution. Ad hoc report requests are reviewed and approved at DPM by the Manager of the A&R Branch.

### Authorization Output

#### PMS 84

The PMS 84 report is created daily and provides proof of agency authorization transactions. The report includes information on the nature of authorization transactions, hash totals, and batch totals. The information is accumulated and distributed by OPDIV.

### The Department of Treasury Output

#### SF 224

The Department of Treasury requires agencies to report their cash transactions via the Statement of Transaction Report SF 224. This report summarizes cash transactions by appropriations and charges the correct agency, thereby reducing the available funds. The report is used by The Department of Treasury to reconcile recipient disbursement activity to the amounts charged in the SF 224 process. Additionally, the PMS514 is produced which provides detailed information on FY, CAN, Object Class level, and a Report of Charges by Appropriation.

#### SF 220.9

On a quarterly basis, DPM submits a report on Receivables Due From the Public (SF 220.9) to the Program Support Center that compiles the DPM information with every

other division within the Program Support Center. Treasury reconciles the financial items processed to the overall amounts reported on the SF 224.

### SF 6653

The Undisbursed/Receipts Report (SF 6653) is sent to the OPDIV, on a monthly basis, to review for reasonableness. This report contains detailed account information for each appropriation which is an accumulation of activity as of the day the report was produced. The OPDIV is responsible for verifying, correcting, and following-up with DPM if necessary. DPM is responsible for maintaining the Grants Management Fund and balancing the fund to zero at the end of each month.

### Federal Reserve Bank Output

DPM has a personal computer that contains the Federal Reserve Bank's FEDLINE application to facilitate processing ACH transactions daily. Batches are entered and transmitted seven times a day. A FEDLINE Incoming Processor Report (FLIP) is received by DPM daily contains all ACH batches submitted. The SMARTLINK II Audit Trail Report produced by PMS illustrates data corresponding to each request for funds by the request date.

This report is used by DPM to complete the Daily Reconciliation Form that calculates the daily payment settlement amount. For each batch, DPM prepares a Total of All Batches Accepted Report. The Federal Reserve Bank completes a debit voucher for the total amounts and mails a copy of the vouchers to DPM, which uses the information to reconcile with the source documents.

Once FEDWIRE transactions have been entered into ECS, a Payment Schedule Printout is produced that includes payment details as well as totals. The Philadelphia Treasury produces a daily report of FEDWIRE processed, but transactions contained on that report are three days old.

DPM produces the Agency Confirmation Report from the GOALS System which illustrates daily advancements made by the Department of Treasury. FEDWIRE are included on this report. FEDWIRE make up only a small percentage of disbursements and are used only to advance funds that must be credited the same day.

### *Tests of Operating Effectiveness*

- Verified that documented policies and procedures exist for all reports/output being distributed by DPM.
- Determined through interviews with selected users whether:
  - the reports they receive are relevant;
  - data presented are accurate and reliable;
  - they should be removed from any report distribution list;

- should they be added to any report distribution list; and
  - if they had suggestions for improving format, content, frequency and timing.
- Determined whether individuals within each area appear to review their output for accuracy and completeness in a timely manner.
- Reviewed a copy of the documented procedures for output distribution and verified that at a minimum they contain:
  - frequency of preparation;
  - disposition of all copies; and
  - scheduled timing of distribution.
- Reviewed a sample of bi-weekly and monthly reconciliations between the Expenditure Report (PMS 82) and the PMS General Ledger (207) and verified that each reconciliation has been performed and that amounts agreed between the reports and the Quattro Pro reconciliation.
- Reviewed a sample of OPDIVs and verified the existence of a signed Memo of Understanding on file at DPM.

#### *Results of Tests*

No exceptions noted.

#### *User Control Consideration*

Procedures should be established to ensure that the OPDIVs records on an on-going basis agree with accounting transactions received from the PMS feeder interface process as well as reconcile to the process-related reports provided by PMS that detail dollar and transaction counts, i.e., (Award Authorizations (PMS 84), Recipient Disbursements (PMS 98D and PMS 82), Monthly Synchronization (PMS 817), Grant Close Outs (PMS 81 and the Close-Out Special Audit Report), Special M-Account (FAFR859A, PMS 84, FAFRASF, FAFRASG, FAFRASJ, and FAFRASK), and Charging (SF 224).

***Section IV* - OTHER INFORMATION PROVIDED BY THE  
DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION  
OF PAYMENT MANAGEMENT**

**Year 2000**

As part of the development effort to replace the existing PMS application with a client/server application, DPM has a plan to address the information systems implications of the Year 2000.

**Federal Financial Management Improvement Act of 1996 (FFMIA)**

In accordance with the Memorandum for Chief Financial Officers and Inspector Generals at CFOs Act Agencies, dated September 9, 1997, which was issued by the Office of Management and Budget and gives guidance on compliance with the FFMIA 31 U.S.C. 3512, DPM is considered a Federal financial management system. Accordingly, DPM is responsible for substantial compliance with Section 1 regarding Federal financial management systems requirements and Section 3 regarding the U.S. Standard General Ledger at the transaction level.