March 23, 2010

TO: Carmen Nazario  
Assistant Secretary for Children and Families  
Administration for Children and Families

FROM: /Lori S. Pilcher/  
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The attached final report provides the results of our review of internal controls over the process for awarding American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), funds at the Administration for Children and Families TANF Bureau) This review was part of the Office of Inspector General’s assessment of whether the Department of Health & Human Services is using Recovery Act funds in accordance with legal and administrative requirements and is meeting the accountability objectives defined by the Office of Management and Budget.

The Recovery Act was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation’s infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President’s direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and departments receiving Recovery Act funds must establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.

Our objective was to assess the internal controls the TANF Bureau has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

Most of the internal controls over the grant award process used to award Recovery Act funds, as described by TANF Bureau management, are suitably designed to provide reasonable assurance that the specified internal controls objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed. However, the Recovery Act
established TANF funding mechanisms that used caseload and expenditure information that was not readily available to ACF. According to its Recovery Program Plan submitted to OMB, the TANF Bureau does not have internal control procedures in place to ensure the accuracy of estimated caseload and expenditure information submitted by grantees. The TANF Bureau subsequently developed procedures to reconcile estimated information with actual data and for remitting funds resulting from overpayments due to estimated data. The procedures are currently under review by HHS and will be provided to jurisdictions once OMB approval of the TANF Bureau’s revised form and instructions is complete.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, the final report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-02-09-02015 in all correspondence.
Administration for Children and Families TANF Bureau—Internal Control Review of the Process for Awarding American Recovery and Reinvestment Act Funds
The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

**Office of Audit Services**

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

**Office of Evaluation and Inspections**

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

**Office of Investigations**

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

**Office of Counsel to the Inspector General**

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG’s internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.
OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.
EXECUTIVE SUMMARY

BACKGROUND

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation’s infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

Every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for the Department of Health and Human Services and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President’s direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Administration for Children and Families TANF Bureau

The Temporary Assistance for Needy Families (TANF) program, a block grant program, provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. The TANF block grant is administered by State, territorial and tribal agencies. The TANF program is administered on the Federal level by the Administration for Children and Families (ACF), Office of Family Assistance’s TANF Bureau.

The Recovery Act provided $5 billion in supplemental funding to the Emergency Contingency Fund (Emergency Fund), which is administered by the TANF Bureau. The funds are intended to
provide additional revenue to States, territories, and tribes that have an increase in caseloads and basic assistance expenditures, or an increase in expenditures related to short-term benefits or subsidized employment. The funds, which will be awarded on a first-come, first-served basis, may be used in the same way that annual Federal TANF block grants funds are spent, except a jurisdiction may not transfer the funds to other ACF block grant programs.

OBJECTIVE

Our objective was to assess the internal controls the TANF Bureau has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

SUMMARY OF FINDINGS

Most of the internal controls over the grant award process used to award Recovery Act funds, as described by TANF Bureau management, are suitably designed to provide reasonable assurance that the specified internal controls objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed. However, the Recovery Act established TANF funding mechanisms that used caseload and expenditure information that was not readily available to ACF. According to its Recovery Program Plan submitted to OMB, the TANF Bureau does not have internal control procedures in place to ensure the accuracy of estimated caseload and expenditure information submitted by grantees. The TANF Bureau has subsequently developed procedures to reconcile estimated information with actual data and for remitting funds resulting from overpayments due to estimated data. The procedures are currently under review by HHS and will be provided to jurisdictions once OMB approval of the TANF Bureau’s revised form and instructions is complete.

This report provides a sufficient understanding of the TANF Bureau’s grant process for awarding Recovery Act funds to grantees as it pertains to internal control objectives in the following internal control areas:

- authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority;

- accuracy, completeness, and validity: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted;

- physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals;

- error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management; and
• segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.
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INTRODUCTION

BACKGROUND

Recovery Act Requirements

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation’s infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

According to the Department of Health and Human Services (HHS) Recovery Act Web site,¹ every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for HHS and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President’s direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and required that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Administration for Children and Families TANF Bureau

The Temporary Assistance for Needy Families (TANF) program, a block grant program, provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. The TANF block grant is administered by State, territorial and tribal agencies. The TANF program is

administered on the Federal level by the Administration for Children and Families (ACF), Office of Family Assistance’s TANF Bureau.

The Recovery Act provided $5 billion in supplemental funding to the Emergency Contingency Fund (Emergency Fund), which is administered by the TANF Bureau. The funds are intended to provide additional revenue to States, territories, and tribes that have an increase in caseloads and basic assistance expenditures, or an increase in expenditures related to short-term benefits or subsidized employment. The funds, which will be awarded on a first-come, first-served basis, may be used in the same way that annual Federal TANF block grants funds are spent, except a jurisdiction may not transfer the funds to other ACF block grant programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess the internal controls the TANF Bureau has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

Scope

We assessed the TANF Bureau’s internal controls over the grant award process used to award Recovery Act funds to States, territories, and tribes. Our assessment was limited to determining whether existing controls adequately achieved the control objectives for: (1) authorization; (2) accuracy, completeness and validity; (3) physical safeguards and security; (4) error handling; and (5) segregation of duties. We did not perform procedures to determine the overall operating effectiveness of the TANF Bureau’s internal controls. Accordingly, we express no opinion on the operating effectiveness of any aspect of the TANF Bureau’s internal controls over the grant award process used to award Recovery Act funds, individually or in the aggregate.

We performed fieldwork at the TANF Bureau’s offices in Washington, D.C., from May through July 2009.

Methodology

The internal control environment represents the collective effect of a number of elements in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. To gain an understanding of TANF Bureau’s internal control environment, we:

- reviewed relevant Federal laws and regulations, including Recovery Act guidance issued by OMB, that the TANF Bureau must follow for awarding grants;
- reviewed the TANF Bureau’s organizational structure, including segregations of functional responsibilities, policy statements, operating manuals, and personnel policies;

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2The TANF Bureau will compare grantees’ fiscal year (FY) 2008 or FY 2008 caseload and expenditure data to FYs 2009 and 2010 data to determine whether there was an increase in caseload and expenditures.
• interviewed TANF Bureau management as well as operations, administrative, and other personnel responsible for developing, assuring adherence to, and applying internal controls; and

• reviewed the grant award process used to award one grant funded with Recovery Act funds.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

Most of the internal controls over the grant award process used to award Recovery Act funds, as described by TANF Bureau management, are suitably designed to provide reasonable assurance that the specified internal controls objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed. However, the Recovery Act established TANF funding mechanisms that used caseload and expenditure information that was not readily available to ACF. According to its Recovery Program Plan submitted to OMB, the TANF Bureau does not have internal control procedures in place to ensure the accuracy of estimated caseload and expenditure information submitted by grantees. The TANF Bureau has subsequently developed procedures to reconcile estimated information with actual data and for remitting funds resulting from overpayments due to estimated data. The procedures are currently under review by HHS and will be provided to jurisdictions once OMB approval of the TANF Bureau’s revised form and instructions is complete.

This report provides a sufficient understanding of the TANF Bureau’s grant process for awarding Recovery Act funds to grantees as it pertains to internal control objectives in the following internal control areas:

• authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority;

• accuracy, completeness, and validity: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted;

• physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals;

• error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management; and
• segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

AUTHORIZATION AND APPROVAL

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Grant Eligibility Requirements Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

• The TANF Bureau’s policy is to apply its financial and programmatic rules pertaining to Federal TANF block grant funds to the Emergency Funds.

• Grantees may request TANF Emergency Funds equal to 80 percent of the increase in current quarterly expenditures compared to expenditures from the same quarter in a base year of either fiscal year 2007 or 2008.

• The Recovery Act imposes a cumulative cap on the amount of Emergency Funds that a grantee can receive of 50 percent of the grantee’s annual Federal TANF family assistance grant.

• The TANF Bureau’s policy is for States, territories, and tribes to submit estimated quarterly caseloads and expenditures when applying for Emergency Funds. At the end of the fiscal year, grantees should reconcile their submitted quarterly estimates with actual expenditure data. In addition, the TANF Bureau will review the final caseload and expenditure data submitted by the grantees to ensure that the grantees receive the proper amount of funding.

Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Information and Methods Used to Publicize the Program Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

• OMB implementation guidance for the Recovery Act requires Federal agencies to provide information on funding notifications made for all award types on http://www.recovery.gov with a link to the agency’s Web site.

• The TANF Bureau provides information regarding grants to existing TANF program grantees.3

• The ACF’s Web site provides resource materials to potential grantees about applicable regulations and policies governing the administration of Recovery Act funds. In addition, the TANF Bureau made grant information available through press releases.

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3For example, the TANF Bureau issued a policy announcement (TANF-ACF-PA-2009-01, dated April 3, 2009), notifying grantees that additional funding was available for fiscal year 2009 under the Recovery Act. The announcement included a link to the ACF Web site.
Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Grant Application Processing Procedures Are Established and in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- The TANF Bureau’s grant application processing procedures are defined and communicated in grant cycle memos, program instructions, and program guidance.

- The TANF Bureau does not have a competitive process for awarding a mandatory block grant. Rather, the grant application process is limited to 112 existing TANF grantees. The number of existing grantees is comprised of 50 States, 3 territories, and 59 tribes.

- The TANF Bureau has developed the Form OFA-100, Emergency Fund Request form, to apply for Recovery Act funds.

- ACF management has selected a group of officials to review and analyze information submitted by grantees. The group examines caseload and expenditure data reported in each category to ensure that they are in accordance with TANF Bureau requirements.

Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Grantee Procedures for Control, Use and Reporting of Grant Funded Operations Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- TANF Bureau grantees are required to meet eligibility requirements set forth in section 2101 of the Recovery Act. The TANF Bureau requires applications for Emergency Funds to include actual expenditures and caseload information related to a specific quarter. Expenditures during a quarter should reflect the amount actually expended (or estimated to be expended) for that quarter.

- Pursuant to 45 CFR 92.20 and 45 CFR 92.42, grantees are required to maintain pertinent documentation related to caseload and expenditure data that support their request for grants funds. In addition, grantees must submit expenditure data that is comparable for each quarter of the base year and for each quarter for which it is requesting Federal funds.

Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grant Requirements Are Noted and in Place

- Upon approval of Emergency Funds, the ACF issues a Notice of Grant Award to the grantee. In addition, the grantee is also provided with a copy of the terms and conditions of the grant. This document mandates and specifies the manner in which funds are to be used and the manner in which the grantee is to conduct business.
ACCURACY, COMPLETENESS, AND VALIDITY

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Program Objectives Are Achieved in an Economical and Efficient Manner

- The TANF Bureau requires that individuals in the grant award process be sufficiently qualified and receive adequate training.

- ACF uses a predefined template system to ensure that all program announcements follow OMB standards as well as all HHS and ACF policies.

Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Procedures Used to Process and Approve Grant Applications and Related Transactions Are Efficient

- Grant applicants may submit electronic or hard copy Form OFA-100s. ACF uses several systems to track and fund grants, including the Grants Administration, Tracking & Evaluation System, the Unified Financial Management System, and the Payment Management System.

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That the Agency Has Mechanisms in Place to Timely Award Grant Funds

- ACF Central and Regional Office staff work together to ensure that grantees have accurate and up-to-date information.

- TANF Bureau officials said that they expect to contact grant applicants within two weeks of receiving requests to inform the applicants about the grant amount awarded or to request further information concerning the application.

Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Only Those Grant Request That Meet Eligibility Requirements Should Be Approved

- The Recovery Act requires that any grantee applying for Emergency Funds must meet at least one of the following three conditions for a quarter during FY 2009 or FY 2010:

  - The grantee’s average monthly assistance caseload in a quarter is higher than its average monthly assistance caseload for the corresponding quarter in the Emergency Fund base year, and its expenditures for basic assistance in the quarter are higher than its expenditures for such assistance in the corresponding quarter of the Emergency Fund base year.

  - The grantee’s expenditures for non-recurrent short-term benefits in the quarter are higher than its expenditures for such benefits in the corresponding quarter of the Emergency Fund base year.
The grantee’s expenditures for subsidized employment in the quarter are higher than such expenditures in the corresponding quarter of the Emergency Fund base year.

- The TANF Bureau will review Emergency Fund grant applications to determine compliance with Recovery Act requirements. However, the Recovery Act established TANF funding mechanisms that used caseload and expenditure information that was not readily available to ACF. According to its Recovery Program Plan submitted to OMB, the TANF Bureau does not currently have internal control procedures in place to ensure and validate the accuracy of estimated caseload and expenditure information submitted by grantees. TANF Bureau officials stated that section 417 of the Social Security Act, which prohibits the Federal Government from regulating how a State operates its TANF program, limited the TANF Bureau’s capacity to monitor the accuracy of States’ estimated caseload and expenditure information submitted in prior quarters.

- The TANF Bureau has developed procedures to reconcile estimated caseload and expenditure information with actual data and for remitting funds resulting from overpayments due to estimated data. The procedures are currently under review by HHS and will be provided to jurisdictions once OMB approval of the TANF Bureau’s revised form and instructions is complete.

Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grantee Records Are Periodically Substantiated and Evaluated

- Grantees expending more than $500,000 in a fiscal year are required to obtain audits of their organization’s operations annually from independent public accountants in accordance with OMB Circular A-133 and 45 CFR § 74.26.

- TANF Bureau program officials use reports, correspondence from grantees, audit reports, site visits, and other available information to monitor costs and performance results, identify potential problems, and identify areas where technical assistance or enforcement action may be necessary.

PHYSICAL SAFEGUARDS AND SECURITY

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Access to Grant and Accounting Records, Critical Forms, Processing Areas, and Processing Procedures Are Permitted Only in Accordance With Policy

- Access to ACF facilities is electronically controlled. Access to various computer systems used to track and manage grants are password protected.

- Emergency Fund grant applications files are safeguarded in a locked cabinet in the TANF Bureau Director’s office. Only authorized personnel are allowed to access these records.

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5 Pursuant to OMB’s updated initial implementing Recovery Act guidance (February 18, 2009), Federal agencies are required to prepare Recovery Program Plans for each Recovery Act program specifically named in the legislation.
ERROR HANDLING

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That the Administration for Children and Families Accurately and Promptly Classifies, Summarizes, and Reports Adjustments to Grant Application Information and Records

- Emergency Fund requests are periodically compared with underlying documents. In addition, procedures are implemented to detect and correct misstatements and to evaluate recorded balances.

- The TANF Bureau allows applicants the opportunity to correct errors identified during the application process and re-submit the corrected information. When the TANF Bureau identifies an error, management is notified and applicants are requested to provide further information concerning the application.

- The Division of Mandatory Grants (DMG) officials verify that the awarded amount does not exceed the cumulative cap (50 percent of the annual Family Assistance Grant) for the two-year period.

- A rejection letter is sent to applicants not meeting the requirements.

SEGREGATION-OF-DUTIES

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That TANF Bureau Officials in the Review Group, Are Not the Officials That Actually Approved the Recovery Act funds

- The review of the applications for Emergency Funds is conducted by a group consisting of individuals from different offices within ACF and with different expertise, backgrounds, and level of responsibilities.

- The grant application is approved by the Director, Office of Family Affairs, based on the review group recommendation.

- DMG reviews the accuracy of funds awarded and completes the award process by making the funds available to the grantees. In order to maintain adequate controls, DMG officials are not part of the review group.