
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF COLORADO
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

November 2007 A-77-08-00005

**MANAGEMENT
ADVISORY REPORT**



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: November 28, 2007

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Colorado for the Fiscal Year Ended June 30, 2006 (A-77-08-00005)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Colorado for the Fiscal Year ended June 30, 2006. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Colorado State Auditor performed the audit. The Department of Health and Human Services (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Colorado State Auditor and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Colorado Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Office of Self Sufficiency, under the Colorado Department of Human Services (CDHS), is the Colorado DDS' parent agency.

The single audit reported that CDHS inadvertently omitted the debarment and suspension certification clause from some State Fiscal Year 2007 contracts. As a result, CDHS had no assurance that contractors were not suspended or debarred from participation in Federal programs (Attachment A, page 1). The corrective action plan indicated that CDHS would verify the presence of the certification clause in future contracts (Attachment A, page 2).

The Office of the Inspector General is currently conducting an audit of Administrative Costs Claimed by the Colorado DDS (A-07-07-17136) that covers the same time period as this single audit. The administrative cost audit will review the Colorado DDS' procedures for ensuring that contractors are not suspended or debarred from participation in Federal programs. Accordingly, we are not making a recommendation.

The single audit also disclosed the following findings that may impact the Colorado DDS' operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service, delivery, and financial control problems for the Agency. Specifically, CDHS did not have:

- An approved methodology or written procedures for calculating leave without pay adjustments (Attachment B, pages 1, 2, and 3).
- Proper internal controls over purchase cards (Attachment B, pages 4 through 8).
- Adequate internal controls over travel expenditures (Attachment B, pages 9 and 10).

If you have any questions contact Ken Bennett at (816) 936-5593.



Patrick P. O'Carroll, Jr.

Attachments

Federal Debarment and Suspension Certification Requirements

Federal regulations prohibit nonfederal entities from contracting with or making subawards using federal funds to parties that are suspended or debarred or whose principals are suspended or debarred. Nonfederal entities are allowed to use one of the following three methods to ensure that contractors are not debarred or suspended: checking the federal Excluded Parties List System (EPLS), collecting a certification from the contractor that the contractor is not suspended or debarred, or adding a clause or condition to the contract or award document with that entity.

During our prior audits at the Department, we determined that the Department had added a clause to its standard contract template to address debarment and suspension requirements. The debarment and suspension paragraph within the Department's contract template states that the "contractor certifies that to the best of its knowledge and belief that the contractor, its principals and authorized subcontractors are not presently debarred (or) suspended. . . ."

During our Fiscal Year 2006 audit, we found that the Department inadvertently omitted the debarment and suspension paragraph from its contract template between March 1, 2006, and May 24, 2006, for its Fiscal Year 2007 contracts. Although the Department's contract template during that time still contained the general statement, "The contractor and its agent(s) shall at all times during the term of this contract strictly adhere to all applicable federal laws. . . .," the Department had no specific assurance from contractors that they were not suspended or debarred.

After we notified the Department of the paragraph omission, the Department's procurement director instructed all Department contract staff to obtain a signed debarment and suspension certification statement from all contractors. However, as of the end of our audit, the Department had not performed any follow-up to ensure that all contractors were sent a statement of certification and that signed statements were received for all contractors. As a result, the Department may be putting itself at risk of losing federal funding by paying a contractor who is debarred or suspended. This is especially of concern due to the large amount of funds that the Department pays to contractors. For example, for Fiscal Year 2006 the Department of Human Services contracted with various vendors for a total amount (federal and state funds) of about \$508.5 million. The Department should complete follow-up to ensure that it receives signed debarment and suspension certification statements from all of its contractors for Fiscal Year 2007.

(See Appendix A, Department of Human Services, for listing of applicable CFDA Nos.; National School Lunch Program, Child and Adult Care Food Program, Summer Food Service Program for Children, Food Stamps Administration, Section 8 Housing Choice Vouchers, Vocational Rehabilitation Grants to States, Temporary Assistance to Needy Families, Child Support Enforcement, Low Income Energy Assistance Program, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Child Care and Development Block Grant, Foster Care Title IV-E, Adoption Assistance, Social Services Block Grant, Substance Abuse Prevention and Treatment Block Grant, Social Security Disability Insurance; Procurement, Suspension, and Debarment.)

Recommendation No. 86:

The Department of Human Services should ensure that signed certifications on compliance with federal debarment and suspension provisions have been received from all contractors and perform followup as needed. The Department should also ensure that all required certifications are included in its standard contract before contracts are issued to vendors or subrecipients.

Department of Human Services Response:

Agree. Implementation date: March 31, 2007.

The Department is in the process of completing follow-up to document the receipt of a signed debarment and suspension certification statement from contractors for all of its Fiscal Year 2007 contracts or the use of a contract format where the necessary certification clause was present. This documentation is being recorded on the COFRS CLIN screen for each Fiscal Year 2007 contract. The noted certification clause that was inadvertently omitted from the Department's contract template in the March to May 2006 time period was put back in. In addition, the Department has improved its contract review process by adding an individual verification of the presence of the certification clause in its contracts before final execution thereof.

- b. Expanding its supervisory review process over the Exhibit K to include a review of supporting documentation.
- c. Providing training to staff preparing supporting reconciliations and the Exhibit K that addresses the format to be used for reconciliations and the importance of accurate information.

Department of Human Services Response:

- a. Agree. Implementation date: March 31, 2007.

The Department will streamline the preparation of the Exhibit K by developing a new Excel version of the reconciliation report (R120) and standardizing the reconciliation steps. The R120 worksheet will be enhanced to formulate a one-line summary of data in the Exhibit K reporting layout. Written procedures will be established on how to complete the R120 reconciliation and Exhibit K.

- b. Agree. Implementation date: September 30, 2007.

The Department will implement a supervisory review process of R120 worksheets to increase control over the accuracy of reconciliations. The secondary review process of the Exhibit K will include sufficient review of supporting documentation used to support the exhibit.

- c. Agree. Implementation date: June 30, 2007.

Training will be provided to program accountants on the preparation of R120 reconciliations that are used as supporting documentation for Exhibit K reporting. Provision of training to responsible staff will continue on an ongoing basis on Exhibit K preparation for accuracy and completeness.

Payroll Adjustment Calculations

During Fiscal Year 2006 the Department of Human Services spent about \$236 million on salaries and wages and was appropriated over 5,200 full-time equivalent staff (FTE). The Department's payroll staff are located within two of the four departmental accounting districts; one is located at Fort Logan (North Central District) and the other is located in Pueblo (Southern District). North Central District

payroll is responsible for all of the Department's agencies located on the Fort Logan campus, the downtown office, and selected nursing homes staff, while the Southern District is responsible for all of the selected agencies located in Pueblo and Grand Junction.

Employees of the Department are paid on either a monthly or biweekly basis; the standard workweek is 40 hours. When employees are unable to work a full week, they can either use paid leave or choose not to be paid for the missed hours, which is termed "leave taken without pay," or LWOP.

During our Fiscal Year 2006 payroll testwork, we reviewed a total of 45 payroll adjustments. Twenty, or 44 percent, of the adjustments were for LWOP. Based on our review of the LWOP adjustments, we determined that the Department's two payroll offices are not consistently calculating LWOP. Specifically, staff within the North Central District use a rate based on monthly pay and hours worked during the month, while staff within the Southern District use a rate based on annual pay and hours worked during the year. We found differences ranging from \$1 to \$46 in LWOP adjustments between the two methods.

Prior to Fiscal Year 2006, both districts calculated LWOP using the monthly rate. However, according to Southern District staff, at the beginning of Fiscal Year 2006, one payroll staff changed the calculation for the district to the annualized rate for calculating LWOP. The staff person failed to obtain approval from the payroll supervisor for this change in methodology. Further, we noted that neither State Personnel Rules nor the Department provides a clear policy outlining the method to be used for calculating LWOP adjustments.

Although the amounts noted in our sample are small in relation to the Department's overall operations, inconsistent payroll adjustment calculations lead to equity issues among the Department's employees. Therefore, the Department needs to work with the Department of Personnel & Administration to determine the appropriate method that should be used to calculate LWOP adjustments, and using this information, the Department should develop a written procedure for payroll staff to follow when calculating LWOP. Further, the Department should review all future LWOP calculations to ensure compliance with Department procedures.

Recommendation No. 11:

The Department of Human Services should improve controls over payroll by:

- a. Working with the Department of Personnel & Administration to determine the appropriate method to be used for calculating leave taken without pay adjustments.
- b. Establishing a written procedure for payroll staff to follow when calculating leave taken without pay.
- c. Reviewing all future leave taken without pay adjustments to ensure compliance with Department procedures.

Department of Human Services Response:

- a. Agree. Implementation date: April 30, 2007.

Payroll staff will conduct an internal review and discovery using each method of calculation from extracted internal samples. Findings will be composed and presented to the Department of Personnel & Administration (DPA) to obtain a ruling.

- b. Agree. Implementation date: May 31, 2007.

The Department will establish a written payroll procedure for calculating leave without pay based on DPA's ruling. If DPA fails to provide a definitive ruling, the Department will determine the optimum method and establish appropriate written procedures.

- c. Agree. Implementation date: June 30, 2007.

The Department will use the method of calculating leave without pay determined in the above procedures going forward.

- a. Working with the Department of Personnel & Administration to determine the appropriate method to be used for calculating leave taken without pay adjustments.
- b. Establishing a written procedure for payroll staff to follow when calculating leave taken without pay.
- c. Reviewing all future leave taken without pay adjustments to ensure compliance with Department procedures.

Department of Human Services Response:

- a. Agree. Implementation date: April 30, 2007.

Payroll staff will conduct an internal review and discovery using each method of calculation from extracted internal samples. Findings will be composed and presented to the Department of Personnel & Administration (DPA) to obtain a ruling.

- b. Agree. Implementation date: May 31, 2007.

The Department will establish a written payroll procedure for calculating leave without pay based on DPA's ruling. If DPA fails to provide a definitive ruling, the Department will determine the optimum method and establish appropriate written procedures.

- c. Agree. Implementation date: June 30, 2007.

The Department will use the method of calculating leave without pay determined in the above procedures going forward.

Purchasing Cards

The purchasing card program was adopted by the Department of Human Services to allow approved staff within its agencies to make purchases under \$5,000. The goal of the program is to make it easier for state employees to acquire goods and services under this threshold while providing more timely payment to merchants and reducing the number of small dollar payments issued by the traditional voucher system.

During Fiscal Year 2006 the Department expended approximately \$8.9 million through the use of purchasing cards. During Fiscal Year 2006 the Department reported average total monthly purchasing card purchases of \$682,258 with an average number of 3,612 monthly transactions placed. As of the beginning of December 2005, 846 Department employees, or 15.9 percent of its 5,317 employees, had been issued purchasing cards.

All Department employees are considered to be eligible for a purchasing card but are evaluated on their need to make purchases. An employee becomes a cardholder by completing the cardholder account form and obtaining approval from his or her designated approving authority, typically the employee's manager. All charges made on the card are the liability of the Department; the cardholder has no personal liability on the card unless the cardholder violates the terms of card use. Department policy requires that at the end of each purchasing card cycle the cardholder attach supporting documentation for his or her purchase(s), review the account coding, and sign and date the statement. This information is forwarded to the approving authority, who is responsible for performing a secondary review for accuracy and appropriateness and applying his or her signature and date to the statement. Both the cardholder's and approving authority's review and sign-off must occur within a month of the card statement date.

During our Fiscal Year 2004 audit, we reviewed a sample of 87 purchasing card transactions and identified problems with 28 percent, or 24, of the 87 purchasing card transactions we reviewed. We recommended that the Department improve purchasing card controls by enforcing a formalized policy requiring approving authorities to address problems identified through purchasing card reviews, tracking actions taken by approving authorities to address problems identified, provide training in problem areas, and consider the use of a graduated point system with defined consequences for cardholder violations. Under a point system, violations carry various clearly defined consequences on a graduated basis, depending on the recurrence or severity of infractions. The Department agreed with our recommendation and indicated that it would take steps to improve controls over purchasing cards, including evaluating the use of a graduated point system if Department-wide problems persisted and were not reduced by the end of Fiscal Year 2006.

We found during our Fiscal Year 2006 audit that the Department updated its purchasing card policy and required training for selected users. However, while our audit continued to identify problems as discussed further below, the Department reports that it has not considered a graduated point system.

As part of our Fiscal Year 2006 audit, we selected a sample of 25 purchasing card transactions for review. We found 36 percent (9 of 25) of the transactions tested

were either incorrectly coded or contained no documentation of review as required under Department policy. Specifically, we found the following:

- **Cardholder statement reviews.** Department policy requires that each cardholder and approving official review and sign off on the monthly purchasing card statement by the end of the following month. We found six transactions for which the cardholder or approving authority had either not signed the cardholder statement or had not signed the cardholder statement within the required time frame. Specifically, for three transactions totaling approximately \$458, the cardholder did not sign the statement within the required time frame. One statement was signed prior to the item purchase date, and two statements were signed three to six months after the item purchase date. For three transactions totaling approximately \$291, neither the cardholder nor the approving authority had signed the cardholder statement at the time of our review, approximately five months after the purchase was made.
- **Account coding errors.** According to Department policy, the cardholder must ensure that the purchase has the proper account coding. We found three transactions totaling about \$63 that were coded to an improper account code. For example, sponges, paint brushes, and a paint brush set purchased for structured leisure time at one of the Department's regional centers were coded as "Food and Food Service Supplies." The purchases would be more appropriately coded as "Care and Subsistence Program Supplies."

In addition, we found the Department also performed its own reviews of procurement cards during Fiscal Year 2006 and had similar findings. The Department identified account coding errors, instances in which the cardholder and/or the approving authority did not sign the cardholder statement, and a lack of documentation. The Department also performed an audit of its purchasing card system, concentrating its efforts on internal controls over merchants used, the database of transactions, and cards and card limits. The Department made a total of 12 recommendations in these areas. In accordance with Department policy, identified instances of cardholder errors and misuse were reported to the appropriate approving authorities for follow-up.

Adequate controls over purchasing cards are important because the cards are a high-risk area for fraud and abuse. Due to the number of employees within the Department that have purchasing cards, ongoing monitoring of this area is imperative. Further, because a lack of reporting requirements for approving authorities and a lack of tracking of violations and actions taken for violations appear to be contributing to continued cardholder errors and potential misuse, the Department should institute a reporting requirement for appointing authorities

regarding actions taken for cardholders' errors and misuse and strengthen and enforce consequences for misuse. This should include considering the use of a graduated point system as a cardholder consequence for violations of the procurement card system. In addition, the Department should continue to provide ongoing training regarding cardholder and approving authority responsibilities, including account coding and cardholder statement reviews.

Recommendation No. 12:

The Department of Human Services should improve its internal controls over purchasing cards by:

- a. Instituting a formal policy requiring approving authorities to report to Department procurement staff regarding disciplinary or other actions taken for employee purchasing card errors and misuse.
- b. Tracking and enforcing consequences for violations of purchasing card policies.
- c. Providing ongoing training focusing on responsibilities of cardholders and approving authorities and consequences for policy violations.
- d. Considering the use of a graduated point system as a cardholder consequence for repeated violations of the procurement card system.

Department of Human Services Response:

- a. Agree. Implementation date: March 31, 2007.

The current notices that are sent each Cardholder, Approving Official and Executive Management Team member regarding the results of each purchasing card audit request a follow up to the audit results by replying via e-mail to both Procurement and Accounting Offices within 10 business days after receipt of the report and ask for a brief description of actions that are being taken to prevent any future violations or exceptions. Each notice includes an invitation to take a refresher course concerning purchasing card policies and procedures. The Division of Procurement proposes to modify the current format of the notice by providing a check-off list for the Approving Official's response.

- b. Disagree. Implementation date: Not applicable.

The consequences for violations of purchasing card policies are clearly stated in the Department Policy and in the Purchasing Card Manual, and enforcement is dependent on the severity and number of repeated violations. Past audits have identified errors and procedural exceptions, but rarely violations that are obviously intentional and egregious.

Auditor's Addendum:

While the Department's Policy Manual contains a listing of violations and related consequences, the Department does not currently have a method for receiving violation information from approving authorities regarding violations identified during ongoing cardholder statement reviews, tracking violations identified by approving authorities, or actions taken by approving authorities on those violations. Further, the Department does not have a method for tracking actions taken by approving authorities on violations identified through the Department's internal purchasing card audits. Without this reporting and tracking mechanism, the Department cannot determine whether approving authorities are enforcing consequences for violations in accordance with Department policy or if intentional and egregious violations occur.

- c. Agree. Implementation date: May 31, 2007.

The Division of Procurement continues to offer on-going training regarding the purchasing card procedures, which includes information on the responsibilities of cardholders and approving officials and the consequences for violations. When the classes are scheduled, e-mails are sent notifying cardholders of the dates. The Division of Procurement agrees to further emphasize the responsibilities and consequences in the materials presented to classes and in individual training sessions.

- d. Agree. Implementation date: June 30, 2008.

The purchasing card audits have not identified egregious violations. The concept of using a graduated point system has been reviewed by the Department in the past and will be considered in the future if the number of errors do not improve or if there is an increase in the severity of problems identified through the audits. By June 30, 2008, the Department will make a final decision regarding this recommendation.

Travel Expenditures

During Fiscal Year 2006 the Department of Human Services expended more than \$1.4 million for employees' in-state and out-of-state business travel. State Fiscal Rules issued by the Office of the State Controller provide policies for state agencies to follow concerning business travel. The Department has also issued its own policies and procedures governing authorization for travel and reimbursement of travel expenses by state employees traveling for official state business. The Department's policies were revised near the end of Fiscal Year 2006.

As part of our Fiscal Year 2006 audit, we selected a sample of 25 travel expenditures for review. We identified one or more problems with 10 of the 25 (40 percent) expenditures selected for review.

For example, we noted the following problems:

- One travel reimbursement/vendor payment totaling \$945 for travel to Washington, D.C., did not have supporting documentation indicating that the travel request was submitted to the Governor's Office in advance of the trip, as required by Department policy for trips to Washington, D.C.
- One travel reimbursement for \$15 was made for a personal item that was not reimbursable under State Fiscal Rules or Department policy.
- Two travel expenditures totaling more than \$4,500 were coded incorrectly on COFRS.
- Two travel reimbursements totaling nearly \$221 did not include original receipts as required by State Fiscal Rules and Department policy.
- Two travel reimbursement requests did not contain a purpose for the travel, as required by State Fiscal Rules and Department policy.
- One travel reimbursement request did not contain a "Request to Use Private Automobile Form" attached for mileage in excess of 65 miles, as required by Department policy.
- One per diem amount of \$16 was paid in excess of the maximum allowable per diem for that area under Department policies.

These problems indicate the Department lacks adequate controls over travel expenditures. Although Department policies establish a process for review and

approval and require that supporting documentation accompany travel expenditures, our review indicates that employees and supervisors are not consistently adhering to the policies. The Department should adhere to requirements for travel expenditures and ensure that employees and supervisors are adequately trained on state and Department travel rules and policies.

Recommendation No. 13:

The Department of Human Services should strengthen controls over travel expenditures by ensuring adequate supporting documentation accompanies each expenditure, expenditures are appropriately coded on COFRS, and all other state and Department policies regarding travel are followed. Staff and supervisors should be periodically trained on state and Department travel rules and policies.

Department of Human Services Response:

Agree. Implementation date: September 30, 2007.

The Department will maintain a log sheet to keep track of the travel requests that are submitted to the Governor's Office. The Department will continue to improve controls over travel expenditures to ensure that they are processed in compliance with Department travel policy and State Fiscal Rules. Training will be provided at the fiscal year end to address all requirements and review of travel expenditures. The travel reimbursement open forum will be conducted on a quarterly basis during Fiscal Year 2008 to assist staff and provide answers to questions.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.