
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ILLINOIS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

February 2006 A-77-06-00006

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: February 10, 2006

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2004 (A-77-06-00006)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Illinois for the Fiscal Year ended June 30, 2004. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

KPMG LLP 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 KPMG LLP 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 Illinois 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 Department of Human Services (DHS) is the Illinois DDS' parent agency.

The single audit reported that fringe benefit expenditures were not properly allocated to various Federal programs, including SSA, through the indirect cost allocation process. Specifically, DHS overclaimed life insurance expenditures and underclaimed dental insurance expenditures. The corrective action plan indicated that the errors were corrected and procedures were implemented to ensure such problems will be detected in the future (Attachment A, pages 1 and 2).

We recommend that SSA ensure DHS took appropriate actions to correct the expenditures inappropriately charged to its programs.

The single audit also disclosed that DHS did not have an adequate process to ensure that financial information needed for the financial statements and the Schedule of Expenditures of Federal Awards was accurate and timely (Attachment B, page 1). Although this finding was not specifically identified to SSA, it may impact DDS operations. I am bringing this matter to your attention as it represents a potentially serious service delivery and financial control problem for the Agency.

Please send copies of the final Audit Clearance Document to Shannon Agee and Rona Lawson. If you have questions contact Shannon Agee at (816) 936-5590.



Patrick P. O'Carroll, Jr.

Attachments

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Education (USDE)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSA)

Program Name: Food Stamps Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Rehabilitation Services – Vocational Rehabilitation Grants to States
Temporary Assistance for Needy Families
Child Care Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse
Social Security Disability Insurance

CFDA # and Program Expenditures: 10.551/10.561 (\$1,255,122,000)
10.557 (\$174,100,000)
84.126 (\$93,313,000)
93.558 (\$499,898,000)
93.575 / 93.596 (\$215,793,000)
93.667 (\$139,053,000)
93.959 (\$64,128,000)
96.001 (\$61,282,000)

Questioned Costs: Cannot be determined

Finding 04-19 Inaccurate Benefit Costs Allocated to Federal Programs

IDHS did not allocate the correct amount of fringe benefit expenditures to its federal programs through the Public Assistance Cost Allocation Plan (PACAP).

IDHS administers several federal and state programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, IDHS has submitted a PACAP to the USDHHS describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by IDHS. IDHS has developed the methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

During our review of the payroll and fringe benefit expenditures for 200 employees, we noted the following errors were made in accumulating costs to be allocated through the PACAP:

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

- The life insurance expenditures allocated for employees paid out of a fund other than the General Revenue Fund (GRF) included both the amount paid on the behalf of the employee and the amount of the premium paid for a GRF employee. This error resulted in IDHS over claiming group insurance.
- The dental insurance expenditures allocated for employees paid out of GRF were the employee paid portion only. As the employee paid portion is less than the State paid portion of the premium, IDHS has under claimed its dental insurance expenditures.

As of the date of our report, IDHS has not been able to quantify the impact of the errors noted above in the aggregate or on a program basis as such, the questioned costs cannot be determined.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing these conditions with IDHS officials, they stated there was a problem with the payroll download. The payroll download incorporated the General Revenue Fund (GRF) employee paid dental amounts rather than the employer paid dental amounts for 2004 pay periods 1 through 7. Also, the access database included a group insurance field from the payroll download for non-GRF staff that included two amounts for life insurance. The field incorrectly included the state paid life amount for GRF staff in addition to the life reimbursement amount that is included in the group insurance for non-GRF staff.

Failure to accurately accumulate costs for allocation through the PACAP may unallowable expenditures being charged to federal programs. (Finding Code 04-19)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare cost pool reports and implement changes necessary to ensure the accurate accumulation of costs for allocation.

IDHS Response:

Agree. The incorrect dental amounts resulted in an under claim and the error in the group insurance amount for non-GRF staff resulted in an over claim. The net impact was an under claim of approximately \$700,000 for state fiscal year 2004. The problems have been corrected and the group insurance amounts of non-GRF staff are being compared to actual expenditures to detect any future problems.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: All Federal Agencies

Finding 04-02 Inadequate Process for Accurate and Timely Financial Reporting

IDHS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDHS officials, they stated they disagree with the finding.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-02, 03-02, 02-02)

Recommendation:

We recommend IDHS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies.

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.