
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF RHODE ISLAND
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002**

March 2004 A-77-04-00008

**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: March 18, 2004

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Rhode Island for the Fiscal Year Ended June 30, 2002 (A-77-04-00008)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Rhode Island for the fiscal year ended June 30, 2002. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Rhode Island Auditor General 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 Rhode Island Auditor General and the reviews performed by HHS.

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 Rhode Island 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 Rhode Island Department of Human Services (DHS) is the Rhode Island DDS' parent agency.

The single audit reported that controls were inadequate to ensure the accuracy of information in Federal reports. Specifically,

1. Disbursements reported on the SSA-4513 (State Agency Report of Obligations) were understated by \$411,389 (Attachment A, page 1 and 2).
2. Overtime hours were reported twice on the SSA-4514 (Time Report of Personnel Services) (Attachment A, page 2).

The corrective action plan indicates that DHS will prepare timely quarterly reports based on the State accounting records. Both reports were revised and re-submitted to SSA (Attachment A, page 3).

We recommend that SSA instruct the DDS to implement procedures that ensure the accuracy of information reported on the SSA-4513 and SSA-4514.

The single audit also disclosed the following findings that may impact 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.

- Monthly bank reconciliations were not performed timely because of the implementation of a new accounting system (Attachment B, pages 1 through 3).
- Access controls for employee passwords over entry into the State payroll accounting system were not in place (Attachment B, page 4).
- The State did not have accounting controls in place over the acquisition, disposal, and inventory of equipment (Attachment B, page 5).
- Cost allocation reports were not reconciled to the State's accounting system (Attachment B, pages 6 through 8).

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

Steven L. Schaeffer
Steven L. Schaeffer

Attachments

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

We also found that the CMS-64 did not include information regarding the collection of health care related taxes as required by federal regulation. Additionally, drug rebates receivable were not correctly reported based upon detail drug rebate data maintained by the fiscal agent.

No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.

Questioned Costs: None

RECOMMENDATIONS

- 2002-65a Reconcile Medicaid program expenditures reported on the CMS-64 with amount included in the State's accounting system. Implement a review process to ensure the consistent and accurate reporting of program expenditures.
- 2002-65b Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.
- 2002-65c Include information relative to the collection of health care related taxes on the CMS-64.
- 2002-65d Ensure data reported on the CMS-64 regarding outstanding drug rebates is consistent with supporting records maintained by the fiscal agent.

Finding 2002-66

DISABILITY INSURANCE / SSI CLUSTER:

Social Security – Disability Insurance – CFDA 96.001
Administered by: Department of Human Services

REPORTING

DHS did not have appropriate controls in place to provide reasonable assurance that reports submitted to the federal government (Social Security Administration) were complete and accurate. We found errors in both of the reports that it must submit as outlined below.

State Agency Report of Obligations for SSA Disability Programs

DHS must submit the *State Agency Report of Obligations for SSA Disability Programs* (4513 Report) to the Social Security Administration on a quarterly basis. This report shows disbursements, unliquidated obligations and total outstanding obligations by expenditure

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

category. We found that disbursements for fiscal year 2002 were understated by \$411,389 (6.1% of total). This was caused by 1) changes in the state accounting system, and 2) DHS prepared the June 30, 2002 report before the State had closed its accounting records. DHS has since submitted revised reports to accurately reflect disbursements in fiscal 2002.

Time Report of Personnel Services

DHS is also required to submit the *Time Report of Personnel Services* (4514 Report) to the Social Security Administration on a quarterly basis. This report shows the number of hours devoted to program activities by each class of employee (e.g., medical consultants, hearing officers and clerical staff). We found that three of the four reports in fiscal 2002 overstated the total number of hours and total number of hours excluding overtime by between 910 and 1,298 hours (between 4% and 6% of total hours). This occurred because overtime hours were included twice in the totals. We brought this to DHS's attention and it subsequently submitted revised reports to accurately reflect total hours devoted to program activities.

Questioned Costs: None

RECOMMENDATION

- 2002-66 Implement controls to provide reasonable assurance that federal reports are complete and accurate.

**Corrective Action Plan -
Findings Included in 2002 Single Audit Report**

2002 – 65c

DHS will contact the R.I. Division of Taxation to implement a process to obtain this information.

Anticipated completion date: April 1, 2003

Contact person: Ronald Gaskin
 (401) 462-6856

2002 – 65d

The H.H.S. Office of the Inspector General is currently reviewing the R.I. CMS-64 reports as it relates to drug rebates. O.I.G. has instructed DHS not to change any federal reports during this review. We are awaiting the O.I.G. report and will implement changes at that time.

Anticipated completion date: December 31, 2003

Contact person: Ronald Gaskin
 (401) 462-6856

Finding 2002-66

Corrective Action:

DHS/ORS will prepare quarterly reports based on RI-SAIL accounting records available at the time of submission. These reports will be reviewed by the ORS- Supervising Accountant for accuracy and completeness. At this time, the previous quarterly submission will also be re-checked for any outstanding postings that were not available at the time of submission. If any variances are found, a revised report will also be submitted for the previous quarter.

Anticipated completion date: The next quarterly reporting period ends June 30, 2003.

Contact person: Jennifer Patrie, Office of Rehabilitation Services
 (401) 421-7005 Ext. 313

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

- 2002-1c Strengthen controls over wire transfer transactions by defining and enforcing appropriate accounting documentation and authorization of cash disbursements by wire transfer.
- 2002-1d Implement ACH functionality within the RISAIL accounting system to reduce the volume of check disbursements and bank to bank wire transactions and also to improve controls over the current ACH process which requires duplicate data entry of disbursement information.
- 2002-1e Modify the “positive pay” file format so that it cannot be modified prior to transmission to the bank.
- 2002-1f Improve controls over approval of receipt transactions to prevent duplicate entry of revenue.
- 2002-1g Improve controls over the use of RISAIL natural accounts to classify transactions so that the system will yield reliable amounts for financial reporting purposes.

Finding 2002-2

TIMELY BANK RECONCILIATIONS

Monthly bank reconciliations were not performed during fiscal year 2002. Reconciliation of bank and book cash balances as of June 30, 2002 was not completed until September 2003 - 15 months after fiscal year end. Timely bank reconciliations are an integral component of internal control over the recording of receipts and disbursements. Consequently, controls over receipts and disbursements were severely weakened during fiscal 2002.

As a result of the reconciliation of June 30 bank and book balances subsequent to fiscal year end, material audit adjustments were required to post unrecorded or incorrectly recorded transactions. Reconciliation of bank and book balances during the fiscal year would have identified these differences and allowed timely correction in the underlying accounting records.

The reconciliation of bank and book balances was significantly impacted by the implementation of the new RISAIL accounting system. The general ledger component of the new accounting system was not fully operational until the close of the fiscal year, consequently cash balances for each fund were not available until that time. Additionally, in prior fiscal years, bank reconciliations had been performed through use of a sub-system (AV-60) which was fed data from the statewide accounting system. The sub-system facilitated the matching of bank and book activity. With implementation of RISAIL, the sub-system could not automatically receive data from the new accounting system. Efforts were made to replicate the functionality of the old

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

reconciliation sub-system by extracting data from the RISAIL accounting system. Treasury personnel subsequently discovered that these efforts resulted in incomplete and erroneous data being reported by the reconciliation sub-system. This situation complicated and delayed the reconciliation process particularly for the general fund.

Treasury attempted to reconcile each general fund bank account balance (11 separate bank accounts) to its sub-system with the intent that the sub-system would then be reconciled to the combined general ledger balances. Because of the unreliability of the sub-system and the fact that transactions were not consistently tracked to the appropriate bank account, Treasury's reconciliation model for the general fund proved unworkable.

Reconciliation of general fund cash balances is particularly complex because of the volume of activity and the number of bank accounts. We also found that the reconciliation process is made much more difficult by the processing of certain types of transactions (mostly wire transfer transactions) which creates differences in either the amount, mode (wire, ACH or check), or timing of transactions between the book and bank. Additionally, no unique identifier follows the transaction to facilitate matching of book and bank transactions. Ultimately, this required extensive manual effort to match bank and book transactions for reconciliation purposes.

Further, during fiscal 2002, implementation of the new accounting system resulted in significant delays, on occasion, between the movement of cash between funds or payments to vendors and the recording of the transactions in the accounting system. Numerous instances also occurred where cash moved with no recording in the accounting system.

Ultimately, a combined reconciliation (all general fund bank balances reconciled directly to one combined general fund general ledger balance) had to be performed. An unreconciled variance of approximately \$344,000 continues to exist between general fund book and bank balances (book over bank) at June 30, 2002.

Delay in completing bank reconciliations has contributed significantly to the delay in completing the State's fiscal 2002 financial statements. Various actions are required to allow timely reconciliation of bank and book balances thereby restoring this essential control over receipts and disbursements. Should these issues not be addressed promptly, delays in completing bank reconciliations will continue to threaten timely completion of the State's annual financial statements.

A comprehensive plan must be developed and implemented by both the Office of the General Treasurer and the Office of Accounts and Control to address these issues. The plan should be divided into short-term objectives to address bank reconciliation issues for fiscal year 2003 and longer-term issues necessary to address the systemic issues that currently prevent timely reconciliation of bank and book cash balances. We believe the following issues should be addressed by this plan:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

Short-term objectives:

- Agree on a format for the fiscal 2003 bank reconciliations that provides for direct reconciliation of bank and book balances (no intermediary sub-system).
- Agree on the formatting of fiscal 2003 transaction data from the RISAIL accounting system to facilitate reconciliation of general fund cash balances.
- Agree on a time-frame to complete reconciliation of all General Treasurer bank balances. The plan should describe the commitment of resources necessary to meet the objective.

Longer-term objectives:

- Revise the processing of certain disbursement transactions to eliminate differences between bank and book activity.
- Include reference numbers on all wire transactions to facilitate matching to accounting system transactions.
- Modify the RISAIL accounting system to allow ACH transaction processing to both reduce the volume of manual wire transactions and also to align book and bank activity.
- Integrate RISAIL information into the General Treasurer cash management function to prevent processing of transactions that cannot be completed due to insufficient cash flow.
- Explore options geared to automating and streamlining the bank reconciliation process with the State's financial institutions.

RECOMMENDATIONS

- 2002-2a Perform timely reconciliation of bank and book cash balances.
- 2002-2b Develop a comprehensive plan to address the short-term and longer term issues which currently prevent timely reconciliation of bank and book balances. The plan should be developed jointly by the Office of the General Treasurer and the Office of Accounts and Control.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Finding 2002-12

PASSWORD ACCESS CONTROLS OVER THE PAYROLL ACCOUNTING SYSTEM

Payroll data for the majority of State employees is entered on-line to the payroll accounting system at the department or agency level.

We reviewed the controls over data entry for the State payroll accounting system and found that established procedures now mandates the assignment of unique passwords for each user to control and restrict access to the system, however, the existing password control system does not record password information within the data files to identify individuals making specific file changes thereby providing a clear audit trail. System access controls need to be improved by utilizing the password to track all transactions initiated by an individual user.

RECOMMENDATION

- 2002-12 Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2002-16

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2002-4 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2002 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Additionally, insufficient inventories were performed to ensure the completeness of furniture and equipment, computer systems and building improvements in the initial recording of capital assets acquired in previous fiscal years.

Because of the weaknesses in controls over capital assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Federal regulations require that the State calculate the Federal and State interest liabilities for each Federal assistance program included in the Treasury/State agreement, and maintain records supporting these interest calculations for audit purposes. Our review disclosed that, with the exception of the Unemployment Trust Fund and the Special Supplemental Nutrition Program for Women, Infants and Children program, no documentation supporting the interest calculations for the State's other Federal assistance programs was available. The State reported that neither a Federal or State interest liability existed for any other Federal assistance program; no additional documentation was retained supporting this conclusion. The State also did not calculate an interest liability on refunds exceeding \$10,000 as required by the Treasury/State agreement.

We also noted that the fiscal year 2002 Treasury/State agreement reflected an estimated check clearance pattern as the basis for drawing down payments to local education agencies when over 85% of disbursements to these recipients under three financial assistance programs are made via wire transfer. Federal regulations require that the State notify the Federal Department of the Treasury if a Federal assistance program undergoes operational changes that may affect clearance activity.

Questioned Costs: None

RECOMMENDATIONS

- 2002-17b Strengthen procedures to ensure that all interest liability calculations are performed and documented as required by Federal regulations.
- 2002-17c Review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices.

Finding 2002-18

VARIOUS DEPARTMENT OF HUMAN SERVICES PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

COST ALLOCATION RECONCILIATIONS

The Department of Human Services (DHS) maintains a cost allocation system that distributes personnel and operating expenditures in excess of \$125 million each year to various programs and activities administered by the Department. The cost allocation system, that is part of and operates pursuant to a federally approved cost allocation plan, is needed due to the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

inability of the State's accounting system to fully meet the Department's needs for computing and reporting the federal share of costs for various federal programs.

All DHS operating expenditures within a designated series of accounts are assigned cost center numbers when processed through the State's accounting system. Likewise, DHS employees are also assigned cost center codes as processed in the State's payroll system. The Department utilizes these cost centers to accumulate expenditures attributable to specific activities, and to allocate costs to State and Federal programs based on approved methodologies.

The cost allocation system generates quarterly reports which detail all operating and personnel expenditures processed through the state accounting system (for a designated series of accounts). These cost allocation reports are sorted by cost center, and should mirror the transactions processed through the State accounting system that are recorded by account number and expenditure type. Since the State's implementation of its new accounting system (RISAIL) on July 1, 2001, the Department has not reconciled the cost allocation reports to expenditures recorded in the RISAIL accounting system. Due to implementation issues associated with the new state accounting system, expenditure data required for such a reconciliation (i.e., expenditure balances by account by quarter) was not available to the Department until near fiscal year end.

Electronic data processing controls should include methods and procedures to ensure the accuracy and completeness of data input for processing. Since the input data for the Department's quarterly cost allocation process are those transactions processed through the State's RISAIL accounting system, a reconciliation of expenditures recorded in both systems should be conducted to ensure data accuracy and completeness.

The results of the cost allocation process (costs accumulated by program and activity) are intended to be the base for determining the federal share of program costs reported to and reimbursed by the federal government. DHS utilizes the output of the cost allocation system to report administrative costs for some of its largest federal programs. The final step of the quarterly cost allocation process requires that each program's expenditures be adjusted within the State accounting system to reflect the results of the cost allocation process. During fiscal 2002, the Department did not compare the cost allocation results to program expenditure recorded within the State accounting system and initiate the required adjustments. Department personnel have indicated these reconciliations have resumed in fiscal 2003.

Federal financial reports should be supported by the accounting records from which the audited financial statements and the Schedule of Expenditures of Federal Awards are prepared. Therefore, federal financial reports must be reconciled quarterly to RISAIL, and variances must be adjusted in the underlying accounting records.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2002-18a Conduct quarterly reconciliations of expenditures processed through and recorded in the RISAIL accounting system and cost allocation expenditure reports to ensure the accuracy and completeness of data used for allocation purposes.
- 2002-18b Reconcile federal financial reports, as supported by the quarterly cost allocation process, to State accounting records and initiate any required adjustments.

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.