
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

December 2007 A-77-08-00007

**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: December 21, 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 New Jersey for the Fiscal Year Ended June 30, 2006 (A-77-08-00007)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of New Jersey for the Fiscal Year (FY) 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 accounting firm of KPMG performed the audit. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by KPMG 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 New Jersey 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 Labor and Workforce Development is the New Jersey DDS' parent agency.

The single audit reported:

1. A manual error in the computation of fringe benefits resulted in SSA being overcharged indirect costs totaling \$103,086 (Attachment, pages 1-3). The overcharge was corrected by reducing the next FY's fringe benefit rate. The corrective action plan indicates that changes were made to the procedures for calculating the fringe benefit rate and an additional staff member has been trained to review the calculations (Attachment, page 4).
2. Reconciliation procedures between two State accounting systems that accumulate payroll information were not always properly followed (Attachment, pages 5-6). The corrective action plan indicates that this issue will be prevented in the future as a result of a new time and leave reporting system (Attachment, page 7).

We recommend SSA:

1. Ensure the State implemented appropriate procedures for calculating fringe benefits.
2. Ensure the new time and leave reporting system properly accumulates payroll information related to the New Jersey DDS.

Please send copies of the final Audit Clearance Document to Ken Bennett. If you have any questions contact Ken Bennett at (816) 936-5593.



Patrick P. O'Carroll, Jr.

Attachment

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Food Stamps Cluster (10.551, 10.561)

Child and Adult Care Food Program (10.558)

Employment Services Cluster (17.207, 17.801, 17.804)

Unemployment Insurance (17.225)

Workforce Investment Act Cluster (17.258, 17.259, 17.260)

Rehabilitation Services: Vocational Rehabilitation Grants to States (84.126)

Centers for Disease Control and Prevention – Investigations and Technical Assistance (93.283)

Temporary Assistance for Needy Families (93.558)

Child Support Enforcement (93.563)

Child Care Cluster (93.575, 93.596)

Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

Social Services Block Grant (93.667)

State Children's Insurance Program (93.767)

Medicaid Cluster (93.775, 93.777, 93.778)

State Pharmaceutical Assistance Programs (93.786)

Disability Insurance/SSI Cluster (96.001)

Homeland Security Cluster (97.004, 97.067)

State Agency: Department of Treasury, Office of Management and Budget

Federal Agencies: U.S. Department of Agriculture

U.S. Department of Labor

U.S. Department of Education

U.S. Department of Health and Human Services

Social Security Administration

U.S. Department of Homeland Security

Finding: 06-13

Criteria

Section II costs - Direct Costs are chargeable to grant programs in accordance with Circular Letter A-87 and OASC-10.

Condition

The State of New Jersey prepares a Fringe Benefit Rate Proposal for negotiation with the United States Department of Health and Human Services. The negotiated fringe benefit rate is used by all State agencies

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

including State colleges for estimating and computing actual charges for fringe benefit costs related to Federal programs in their indirect cost rate proposals, as well as, for direct billing of fringe benefit costs. The negotiated fringe benefit rate applies to personnel who are members of the Public Employees' Retirement System (P.E.R.S.), Teacher's Alternate Benefit Plan (T.A.B.P.), Teacher's Pension and Annuity Fund (T.P.A.F.), Police and Fire Retirement System, and all employees who are not members of a pension plan, but are covered for Health Benefits.

During our audit we noted that there was a manual error in the computation of the proposed fringe benefit rate in which approximately \$48 million of pension salaries were excluded from the PERS fringe benefit rate calculation, resulting in an approximately \$10.2 million overcharge statewide of fringe benefits costs associated with PERS. Since the rate had already been negotiated and the error was not caught until April 2006, the State decided to take a one-time charge against recoveries for the FY 2007 fringe benefit rate computation. If the error did not occur, the PERS fringe benefit rate would have been negotiated at 24.7% instead of 25.1%.

We also noted a manual error in the computation of workers compensation appropriations disaggregated amongst the groups receiving benefits in that 2005 employee information was used rather than 2006. This error was not detected through the State's limited review prior to submission of the plan to the Federal Government. This error did not have an effect on the final fringe benefit rate negotiated with the Federal Government.

It should be noted that the State identified the errors and made a subsequent correction as a one-time charge for the 2007 negotiated rate.

For the above programs, the Schedule of Expenditures of Federal Awards was overstated by \$2,725,814 as a result of utilization of the incorrect PERS fringe benefit rate.

Cause

There were manual errors and inconsistencies in data entering certain salary and expense amounts in the spreadsheets utilized to calculate the fringe benefit rate.

Effect

The State of New Jersey utilized an incorrect fringe benefit rate for PERS in 2006; however, the State identified the error and made a subsequent correction as a one-time charge for the 2007 negotiated rate.

Recommendation

We recommend that the State strengthen its procedures in the preparation and the review of the proposed fringe benefit rate plan to ensure that all costs and amounts entered to prepare the proposed fringe benefit rate are correct.

Questioned Costs

Food Stamps Cluster - \$17,811

Child and Adult Care Food Program - \$13,467

Employment Services Cluster - \$66,491

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Year ended June 30, 2006

Unemployment Insurance - \$224,540

Workforce Investment Act Cluster - \$40,047

Rehabilitation Services: Vocational Rehabilitation Grants to States - \$71,175

Centers for Disease Control and Prevention – Investigations and Technical Assistance - \$38,238

Temporary Assistance for Needy Families - \$71,464

Child Support Enforcement - \$328,285

Child Care Cluster - \$16,189

Foster Care – Title IV-E - \$155,460

Adoption Assistance - \$134,662

Social Services Block Grant - \$28,861

State Children's Insurance Program - \$17,213

Medicaid Cluster - \$1,366,547

State Pharmaceutical Assistance Programs - \$18,022

Disability Insurance/SSI Cluster - \$103,086

Homeland Security Cluster - \$14,258

View of Responsible Official

See management's corrective action plan.

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2006
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/CONTACT PERSON
06-13 No finding in prior years	The State has recently made changes to the procedures for calculating the fringe benefit rate. An additional staff member has been assigned and trained to provide review of the plan prior to its submission. This change was made prior to the calculation of the rate for the fiscal year 2008. As noted in the finding the errors involve manual calculations that our procedure changes are intended to address in future fringe benefit rate calculations.	Ongoing Anne B. Fletcher (609) 984-8261

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Employment Services Cluster (17.207, 17.801, 17.804)

Workforce Investment Act Cluster (17.258, 17.259, 17.260)

Rehabilitation Services: Vocational and Rehabilitation Grants to States (84.126)

Disability Insurance/SSI Cluster (96.001)

State Agency: Department of Labor and Workforce Development

Federal Agencies: U.S. Department of Labor

U.S. Department of Education
Social Security Administration

Finding: 06-37

Criteria

The basic guidelines affecting allowability of costs are identified in OMB Circular A-87 (A-87), Attachment A, Section C. Costs must meet the following general criteria to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, Section C, paragraph 2, for additional information on reasonableness of costs.)
- (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, Section C, paragraph 3, for additional information on allocable costs.)
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- (i) Be net of all applicable credits. (Refer to A-87, Attachment A, Section C, paragraph 4, for additional information on applicable credits.)
- (j) Be adequately documented.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Condition

The Time and Leave Reporting System (TALRS) is used to generate payroll and feeds payroll information to the New Jersey Comprehensive Financial System (NJCFS), which is the system used to generate the Schedule of Expenditures of Federal Awards (SEFA). The Department's Cost Accounting System (CAS) breaks down payroll information by project code to determine the amounts to be charged to each Federal program.

For twenty-three of the one hundred employees selected for personal services testwork, total hours for each employee per TALRS agreed to CAS; however, the distribution of vacation, sick, administrative and other time per TALRS did not agree to CAS. Reconciliation procedures between the two systems were not performed adequately.

A similar finding was included in the 2005, 2004 and 2003 prior year single audit reports as items 05-43, 04-36 and 03-46, respectively.

Cause

Reconciliation procedures in place between CAS and TALRS were not properly followed in all cases.

Effect

Costs may not properly be recorded in CAS and charged to the correct Federal program.

Recommendation

We recommend that the Department improve internal control procedures to ensure that time per TALRS is reconciled with CAS on a regular basis and that vacation, sick, administrative and other time is properly tracked and appropriately charged to the Federal programs.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2006
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

FINDING #¹		VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/CONTACT PERSON
06-37	On April 1, 2006, the Department of Labor and Workforce Development (LWD) introduced a new web-based time and leave reporting system. The electronic Cost Accounting and Timesheet System (eCATS) eliminated both the Time and Leave Reporting System (TALRS) and the LWD Cost Accounting System (BA-43's).	April 2006 James M. King (609) 292-1885	
04-36	All of the findings noted in the audit were for the period prior to the implementation of eCATS. Therefore, this type finding should not appear in future audit reports.		
03-46			
FINDING #¹		VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/CONTACT PERSON
06-38	The Office of Grants Management has revised its Policies and Procedures manual to address this issue. The Program Officer and the Grants Specialist will now be required to verify independently that all required components are included in the application.	July 2007 Charles R. Peffall (609) 292-1319	
No finding in prior years			
FINDING #¹		VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/CONTACT PERSON
06-39	The Child and Adult Care Food Program made progress in fiscal year 2006 in meeting regulatory review requirements. We anticipate meeting full compliance with the requirements of 226.6(l) during fiscal year 2007.	Fiscal Year 2007 subject to Human Resources and NJ Civil Service timeframes Charles R. Toleno (609) 292-5490	
05-46			
04-24			
03-34	The underlying cause for the failure of the Bureau of Child Nutrition Programs to meet all of its regulatory responsibilities pertaining to the administration of the CACFP is insufficient staffing.		
02-18			
01-26	Project Development Specialist positions have been exempted from the State personnel hiring freeze. Interviews for potential		

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.