
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

November 2003 A-77-04-00003

**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: November 19, 2003

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 California for the Fiscal Year Ended June 30, 2002 (A-77-04-00003)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of California 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 California State Auditor performed the audit. Results of the desk review conducted by the Department of Health and Human Services (HHS) 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 California State Auditor 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 California 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 Social Services (DSS) is the California DDS' parent agency.

The single audit reported that DSS provided the Department of Finance (DoF) incorrect information on the California DDS's cash draws, which could have resulted in an inaccurate calculation of the State's interest liability to the Federal government. The corrective action plan indicated that Cash Management Improvement Act (CMIA)

training was provided to staff and a new CMIA procedures manual was developed (Attachment A, pages 1 and 2). We recommend that SSA ensure that the DSS has procedures in place to accurately report the California DDS's cash draw information to the DoF.

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.

- Limitations in the automated accounting systems did not allow for the State to report expenditures by program on the Schedule of Expenditures of Federal Awards (Attachment B, pages 1 and 2).
- Certifications were not obtained by the State to ensure that suspended or debarred parties were not contracted for Federal programs (Attachment B, pages 3 and 4).

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



Steven L. Schaeffer

Attachments

U.S. SOCIAL SECURITY ADMINISTRATION

Reference Number:	2002-3-12
Federal Catalog Number:	96.001
Federal Program Title:	Social Security—Disability Insurance
Federal Award Numbers and Calendar Years Awarded:	0104CADI00; 2000 0204CADI00; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Social Services

CRITERIA

We determined that the following requirements relate to compliance with the Cash Management Improvement Act Agreement (CMIA agreement) between the U.S. Department of the Treasury and the State:

The CMIA agreement, sections 9.4.1 and 9.6.1, establishes requirements for calculating the State's interest liability. Sections 9.4.3 and 9.6.2 provide the methods for calculating this interest liability.

CONDITION

The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds so that Finance can calculate the State's interest liability under the CMIA agreement. However, our review of the worksheet that the Department of Social Services (Social Services) submitted to Finance for the Social Security—Disability Insurance program found that Social Services did not always accurately report its draw amounts or dates for three of the five draw downs on one quarterly worksheet.

Specifically, Social Services reported that it drew down \$16 million on May 24, 2002, when it actually drew down \$16.5 million. For another draw down occurring two weeks later, Social Services reported that it drew down \$14 million when it actually drew down \$13.5 million. Social Services also incorrectly reported the date of the draw down as June 25, 2002, instead of June 7, 2002. In another instance, Social Services reported that it drew \$993,715 on May 25, 2002, instead of May 28, 2002. When Social Services does not accurately report the dates and the amount of funds drawn, it causes Finance to incorrectly calculate the amount of the State's interest liability. If Finance had left these errors uncorrected, it would have understated the State's interest liability by \$15,501.

RECOMMENDATION

Social Services should ensure that the quarterly worksheets it submits to Finance accurately report draw amounts and dates.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services concurs with the recommendation. Recent changes and expansion of reporting of CMIA costs for state operation activities had created confusion and inconsistency in how staff was to report draws and offsets. Since the time of this finding, staff has attended CMIA training on August 29, 2002, and has held a separate discussion with the Department of Finance Fiscal Systems and Consulting unit staff responsible for CMIA in October 2002 to clarify reporting policies. The Social Services Fund Accounting and Reporting Bureau has also developed a more detailed CMIA procedure manual to further assist staff in the reporting of various situations encountered. The manual specifically states that the "draw" amount on the Administrative Cost Worksheet should equal the amount drawn per the "Plan of Financial Adjustment" process. Instructions for the "date" specify that this should be the date posted by the State Controller's Office. Our compliance with these instructions will eliminate this finding in the future, however, it is to be noted that reporting of CMIA amounts and dates represent a manual posting of a quarter's federal draws and unfortunately are subject to key data errors, especially in the case of transaction dates.

IDENTIFYING PROGRAM EXPENDITURES

Reference Number: 2002-12-1

Federal Program: All Programs

Category of Finding: Reporting

CRITERIA

In our review of federal reports, we determined the following were among state and federal compliance requirements:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires that the State prepare a schedule showing total expenditures for the year for each federal program. Further, OMB Circular A-133 requires that the State identify and audit all high-risk Type A federal programs. Type A programs are those exceeding .15 percent of total federal program moneys the State expends during the fiscal year. The California Government Code, Section 13300, assigns the Department of Finance (Finance) the responsibility for maintaining a complete accounting system to ensure that all revenues, expenditures, receipts, disbursements, resources, obligations, and property of the State are properly tracked and reported.

CONDITION

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 157) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high-risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified three such programs. Our review of the expenditures of these programs showed that none of them exceeded the Type A threshold.

RECOMMENDATION

As priorities and resources permit, Finance should modify the State's accounting system to separately identify expenditures for all major programs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Finance has responded that although the State, on a statewide basis, reports federal receipt totals, each individual state entity reports expenditures by grant to its federal cognizant agency. Finance states that the State's accounting system will require substantial modification to compile expenditure information to meet all federal and state requirements. Because the State has limited resources, Finance has no plans at this time to enhance the State's accounting system or to implement a new system.

RECOMMENDATION

Health Services should comply with the provisions of the agreement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees it has deviated from the State Treasury Agreement. Effective July 1, 2003, the modified zero balance accounting method will be used for CMIA purposes.

Reference Number: 2002-9-7

Category of Finding: Suspension and Debarment

State Administering Department: Department of Social Services

(See listing of the specific federal program details following the discussion of the issues below.)

CRITERIA

Our review of the Emergency Food Assistance Program identified the following requirements related to suspension and debarment:

The Code of Federal Regulations, Title 7, Section 3017.225, prohibits the State from contracting with any party that is suspended or debarred or otherwise ineligible to participate in federal assistance programs. In addition, Section 3017.510 requires the State to obtain certifications from participating organizations indicating that they are not suspended, debarred, ineligible, or voluntarily excluded from transactions by any federal agency.

CONDITION

The Department of Social Services (Social Services) did not require 46 of its 51 subrecipients of the Emergency Food Assistance Program to submit suspension and debarment certifications. These 46 subrecipients were nonprofit organizations; the other five subrecipients were county-run organizations. When Social Services does not obtain the required certifications, it risks unknowingly allowing suspended or debarred parties to participate in the federal program. For these 46 subrecipients, we used an alternative test to determine that they were not suspended or debarred.

RECOMMENDATION

Social Services should ensure that it obtains the necessary suspension and debarment certifications from all subrecipients before approving their participation in the Emergency Food Assistance Program.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services concurs. Social Services will obtain the required suspension and debarment certifications from its subrecipients by making the certifications part of the Memoranda of Understanding (MOU) between Social Services and these subrecipients. Existing MOUs with these subrecipients expire on September 30, 2004. Social Services will have suspension and debarment certifications included in the agreements that take effect on October 1, 2004.

U.S. DEPARTMENT OF AGRICULTURE

Federal Catalog Number:	10.568
Federal Program Title:	Emergency Food Assistance Program (Administrative Costs)
Federal Award Numbers and Calendar Years Awarded:	7CA810CA8; 2000 7CA810CA8; 2001
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Federal Catalog Number:	10.569
Federal Program Title:	Emergency Food Assistance Program (Food Commodities)
Federal Award Numbers and Calendar Years Awarded:	TEFAP-2000-01, FD-5-6, 2001 TEFAP-2001-02, FD-5-06-3, 2002
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Reference Number:	2002-13-4
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Numbers and Calendar Years Awarded:	7CA300CA3; 2000 7CA300CA3; 2001

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.