
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF MARYLAND
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

OCTOBER 2006 A-77-07-00002

**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: October 27, 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 Maryland for the Fiscal Year Ended June 30, 2005 (A-77-07-00002)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Maryland for the Fiscal Year ended June 30, 2005. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Abrams, Foster, Nole & Williams, P.A. (AFNW) 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 AFNW 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 Maryland 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 Maryland State Department of Education (MSDE) is the Maryland DDS' parent agency.

The single audit reported that the MSDE did not properly reconcile the financial statements with the general ledger balances, resulting in incorrect receivable balances being carried forward each year. As a result, the accuracy of Federal cash draws may have been impacted. The corrective action plan indicated that MSDE agreed with the finding, but stated that on a total basis, receivables reconciled between the financial statements and the General Ledger, and by December 31, 2006 receivables would be reconciled by grant (Attachment A, pages 1 and 2).

The Office of the Inspector General is currently conducting an audit of Administrative Costs Claimed by the Maryland DDS (A-13-06-16029) that covers part of the same time period as this single audit. The administrative cost audit will review Federal cash draws made by the Maryland DDS and report any problems. Accordingly, we are not making a recommendation on this single audit finding.

The single audit also identified that MSDE charged administrative expenses in excess of the amount allocated in the Federal award (Attachment B, pages 1 and 2). Although this finding was not specifically identified to SSA it may have an impact on 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 MARYLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2005-4

Maryland State Department of Education (MSDE)

CFDA 10.558 Child & Adult Care Food Program

CFDA 84.126 Rehabilitation Services

CFDA 96.001 Social Security Disability Insurance

CFDA 84.027 Special Education Grants to States (IDEA Part B)

CFDA 84.173 Special Education Preschool

CFDA 84.010 Title I

Schedule G - Internal control weakness exist over reconciliation of the Schedule G.

Condition:

We noted that Maryland State Department of Education (MSDE) did not properly reconcile Schedule G with the general ledger (R*Stars) receivable balances. The Schedule G net receivables were understated for the combined programs listed above by approximately \$3,703,494 due to lack of appropriate reconciliations of receivables at year end. Consequently, incorrect beginning receivable balances are brought forward each year.

Criteria:

Objectives of internal control pertaining to the compliance requirements for federal programs noted in the Office of Management and Budget (OMB) Circular A-133.105(1)(i) and (2)(i) are:

“Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports. Transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program.”

Furthermore OMB Circular A-133.300 (b) states “the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

STATE OF MARYLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2005-4 (Continued)

Cause:

The accounts receivable balances for the Federal Programs listed above had been understated or overstated as a result of a lack of performance of reconciliations and related documented supervisory review.

Effect:

The reported net federal receivables for the above programs are understated by approximately \$3,703,494 as of June 30, 2005. The net effect of the incorrect receivable balances impacts the accuracy of federal drawdown requests and related expenditures for subsequent periods.

Recommendation:

We recommend that MSDE perform quarterly reconciliations of amounts drawn and expended to properly determine the balance due from or payable to the Federal Government on a federal program basis.

We also recommend that prior year receivable balances be resolved so that balances in subsequent years are accurate.

Auditee Response and Corrective Action Plan:

MSDE agrees with the Finding that the ending receivables per the Schedule G do not reconcile in all cases to the individual grant receivables shown in R*STARS. However, on a total basis, receivables do reconcile between the Schedule G and the general ledger (R*STARS). By December 31, 2006, receivables will be reconciled by grant.

Auditor's Conclusion:

Based on the above, the Finding remains as stated.

STATE OF MARYLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2005-2

Maryland State Department of Education (MSDE)
CFDA No 84.027 Special Education – Grant to States (IDEA, Part B)

Internal control weakness exists over monitoring earmarking compliance requirements.

Condition:

We applied the Federal Awards allocation table to calculate the limit to which Maryland State Department of Education (MSDE) may use program funds for administration cost and compared this figure to the amount charged to the program for administration as reflected on MSDE's general ledger. We noted that MSDE charged the program actual administration costs in excess of the amount allocated in the Federal award notice. MSDE expended \$3,477,654 for administration cost; whereas, the limit allowed per the Federal allocation table was \$3,222,132, resulting in excess administration expenses of \$255,522.

Criteria:

20 USC 1411 (f) (2) (A) (i) states in part:

"Each state may use not more than twenty percent of the amount it may retain for administration and other state activities."

Cause:

MSDE did not charge administration expenses in accordance with OMB Circular A-133 earmarking compliance requirements.

Effect:

MSDE failed to monitor the allocation of administration costs under the program, therefore exceeding the twenty percent limit as stipulated in the grant.

STATE OF MARYLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2005-2 (Continued)

Recommendation:

We recommend that MSDE monitor its administration costs more accurately to ensure it does not charge more than allocated per earmarking compliance requirements specified in OMB Circular A-133.

Auditee Response and Corrective Action Plan:

MSDE agrees with the Finding regarding CFDA No. 84.027. However, upon subsequent review of the information provided and used by the auditors in their calculations, MSDE has determined that nonadministrative costs were inaccurately charged to this fund. MSDE is in the process of determining the amount of these costs for subsequent reclassification. Also, as recommended, MSDE will create and utilize controls that monitor the level of administrative costs on an ongoing basis.

Auditor's Conclusion:

Based on the above, the Finding remains as stated. We noted that MSDE corrected the administrative costs subsequent to yearend.

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.