
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

OCTOBER 2003 A-77-04-00001

**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: October 23, 2003

Refer To:

To: Candace Skurnik
Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Maryland for the Fiscal Year Ended June 30, 2002 (A-77-04-00001)

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, 2002. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Ernst & Young LLP 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 Ernst & Young LLP 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 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 Department of Education (DoE) is the Maryland DDS's parent agency.

The single audit reported that documentation was not maintained to support check clearance patterns outlined in the Cash Management Improvement Act agreement for payroll and vendor payments (Attachment A). The corrective action plan indicates that clearance patterns for payroll and vendor payments have been reviewed and updated, and documentation will be maintained.

We recommend that SSA remind the DDS to maintain documentation to support draws of Federal funds.

The single audit also disclosed other internal control weaknesses related to DoE's recording and reporting of Federal revenue and related cash management activities. 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 (Attachment B).

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
Steven L. Schaeffer

Attachments

cc:
Trudy Williams

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III - Federal Award Findings and Questioned Costs (continued)

Finding 2002-10 .

State Treasurer's Office

CFDA No.10.553 - School Breakfast Program

CFDA No.10.555 - National School Lunch Program (NSLP)

CFDA No. 10.558 - Child and Adult Care Food Program

CFDA No. 10.561- State Administrative Matching Grants for Food Stamp Program

CFDA No.17.207 - Employment Services

CFDA No. 17.225 - Unemployment Insurance Program

CFDA No. 17.253 -- Welfare-to-Work Grants to States and Localities

CFDA No. 17.255 - Workforce Investment Act

CFDA No. 20.106 - Airport Improvement Program

CFDA No. 20.500 - Federal Transit: Capital Investment Grants

CFDA No. 20.507 - Federal Transit: Formula Grants

CFDA No. 84.010 - Title I Grants to Local Education Agencies

CFDA No. 84.027 - Special Education: Grants to States

CFDA No. 84.048 - Vocational Education: Basic Grants to States

CFDA No. 84.126 - Rehabilitation Services: Vocational Rehabilitation Grants to States

CFDA No. 84.338 - Reading Excellence

CFDA No. 84.340 - Class Size Reduction

CFDA No. 93.558 - Temporary Assistance to Needy Families (TANF)

CFDA No. 93.563 - Child Support Enforcement

CFDA No. 93.568 - Low-Income Home Energy Assistance (LIHEAP)

CFDA No. 93.658 - Foster Care: Title IV-E

CFDA No. 93.778 - Medical Assistance Program (Medicaid)

CFDA No. 93.917 - HIV Care Formula Grants

CFDA No. 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

CFDA No. 96.001- Social Security: Disability Insurance

The State Treasurer's Office did not maintain documentation supporting the check clearance time for two check clearance patterns referenced in the Cash Management Improvement Act Agreement between the State Treasurer of Maryland and the Secretary of the Treasury - United States Department of Treasury (CMIA Agreement).

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III - Federal Award Findings and Questioned Costs (continued)

Finding 2002-10 (continued)

Condition:

The State Treasurer of Maryland has entered into the CMIA Agreement with the U.S. Department of the Treasury in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). The Agreement took effect on July 1, 2001 and remained in effect until June 30, 2002.

The State Treasurer of Maryland, per Section 7.2 of the CMIA Agreement, is responsible for developing the State's clearance patterns for vendor payments and payroll. The check clearance time for the average clearance-vendor clearance pattern per Exhibit II of the CMIA Agreement was 3.2 calendar days. The check clearance time for the average clearance-payroll clearance pattern per Exhibit II of the CMIA Agreement was one calendar day. The methodology and standards used to develop these check clearance times is governed by 31 CFR, 205, Part 8, and Sections 7.0 to 7.10 of the CMIA Agreement.

The State Treasurer of Maryland could not provide documentation supporting the development of the check clearance time for these two check clearance patterns noted in the CMIA Agreement.

Criteria:

31 CFR 205.17C states:

"Recordkeeping: A State shall maintain records supporting interest calculations, clearance patterns, direct costs, and other functions directly pertinent to the implementation and administration of the subpart."

Cause:

Due to staff turnover, the Treasurer's Office was unable to supply the documentation supporting the basis for development of the check clearance time for the average clearance-vendor and average clearance-payroll clearance patterns in the CMIA Agreement.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III - Federal Award Findings and Questioned Costs (continued)

Finding 2002-10 (continued)

Effect:

The State is not in compliance with the federal regulations relative to recordkeeping supporting the check clearance patterns in the CMIA Agreement that are noted in the finding. We cannot determine if the State Treasurer of Maryland complied with the appropriations standards for development of these check clearance patterns per the federal regulations and the terms of the CMIA Agreement.

Recommendation:

We recommend that the State Treasurer's Office maintain all documentation supporting the basis for development of the check clearance time for the average clearance-vendor and average clearance patterns in the CMIA Agreement.

Auditee Response and Corrective Action Plan:

The State Treasurer's Office in conjunction with the General Accounting Division and Central Payroll has reviewed and updated the clearance patterns for payroll and vendor payments. The supporting documentation resides in the Internal Audit Department of the State Treasurer's Office and will be effect until June 30, 2007. If an adjustment is identified prior to June 2007, it will be corrected and an amendment will be prepared and submitted to the United States Treasury Department.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

Finding 2002-18

Maryland State Department of Education (MSDE)

CFDA No. 84.010 - Title I Grants to Local Educational Agencies

CFDA No. 84.126 – Rehabilitation Services: Vocational Rehabilitation Grants to States

Internal control weaknesses over recording and reporting of federal revenue and related cash management activities.

Condition:

We noted that federal revenues per the MSDE's accounting records for the fiscal year ended June 30, 2002 for CFDA No. 84.126 were not reconciled to federal revenues per the E-Payment System.

<u>Federal Revenue per R*STARS System</u>	<u>Federal Revenue Per E-Payment System</u>	<u>Difference</u>
\$ 34,145,681	\$ 35,004,246	\$ (858,565)

Additionally, segregation of duties can be enhanced in part through supervisory reviews and the establishment of written policies and procedures related to the following federal draw down and cash management activities which include but are not limited to the following areas:

1. Identifying to the federal government the date of reimbursement for purposes of federal draw down reporting.
2. Ensuring that requests for reimbursement from the federal government are executed in accordance with the terms of the federal/state Cash Management Improvement Act.
3. Investigating any federal cash discrepancies.
4. Preparing the journal entry to reclassify federal funds received from the State Treasurer's Office default account for the Department of Education to the proper program.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III - Federal Award Findings and Questioned Costs (continued)

Finding 2002-18 (continued)

Criteria:

Some of the objectives of internal control pertaining to the compliance requirements for federal programs are noted in Office of Management and Budget (OMB) Circular A-133.105(1)(i) and 105(2)(i) are:

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

Furthermore, OMB Circular A-133.300(c) 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."

Cause:

The MSDE had experienced staff turnover and a hiring freeze during the year. The increase in workloads of existing employees during this affected the time available to review work processed and perform the necessary reconciliations. Additionally, limited segregation of duties in the key functions of authorization, execution, recording and reporting of federal draw downs and revenues may be due to the lack of written policies and procedures in these areas.

Effect:

The appropriate reconciliations on a CFDA number basis between amounts drawn from the federal government to those recorded in R*STARS.

Additionally, as a result of there being limited segregation of duties in the key functions of authorization, execution, recording, and reporting of federal draw downs and revenues, internal controls over cash management related activities can be enhanced.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III - Federal Award Findings and Questioned Costs (continued)

Finding 2002-18

Recommendation:

Based on the above, we recommend that the Maryland State Department of Education reconcile for a particular federal CFDA number for the fiscal year per their records of cash received from the federal government to what is recorded as federal revenue on the R*STARS for that CFDA number to ensure that federal revenues and related federal receivables are accurately reported on the State's financial statements.

We also recommend that the Maryland State Department of Education enhance internal controls over cash management activities by enhancing segregation of duties in part through the use of documented supervisory reviews and the establishment of written policies and procedures in the areas of authorizations, execution, recording and reporting of federal draw downs and revenues.

Auditee Response and Correction Action Plan:

MSDE concurs with this finding.

Corrective Action Plan

MSDE has adopted the following procedures to segregate duties for authorization, execution, recording, and reporting of federal funds.

The General Accounting Supervisor will run reports to draw in funds for the following:

- o Cash Management Improvement Act Grants (weekly)
- o Non-Cash Management Improvement Act Grants (monthly)
- o Payroll Disbursements for all grants (one day after funds are expended)

The General Accounting Supervisor will forward the information to the Accounts Payable Supervisor who will access GAPS system and draw in the funds for grants at the appropriate time and forward the draw down to the General Accounting Supervisor. The General Accounting Supervisor will prepare the journal entries to redistribute the funds in R*STARS.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III - Federal Award Findings and Questioned Costs (continued)

Finding 2002-18 (continued)

- At year end, the General Accounting Supervisor and Chief of the Accounting Branch will prepare the Schedule G revenues and expenditures by CFDA by utilizing the following reports:
 - o DAR G 100 (fund balance for revenues, expenditures, and receivables for federal fund)
 - o DAF 8560 (federal expenditures)
 - o DAF 8400 (federal revenues)

Anticipated Implementation Date

Plan as been implemented.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

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.