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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SINGLE AUDIT OF THE STATE OF  
MARYLAND FOR THE FISCAL YEAR  
ENDED JUNE 30, 2001**

**August 2002**

**A-77-02-00015**

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**MANAGEMENT  
ADVISORY REPORT**

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## **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:** August 21, 2002

**Refer To:**

**To:** Ellen Baese  
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, 2001 (A-77-02-00015)

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, 2001. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution.

Ernst & Young LLP 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 Ernst & Young 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 and Supplemental Security Income 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 Disability Insurance and Supplemental Security Income programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Maryland Department of Education is the Maryland DDS' parent agency.

The single audit reported that documentation was not maintained to support the two check clearance patterns noted in the Cash Management Improvement Act agreement for payroll and vendor payments (see Appendix A). The corrective action plan indicates that future clearance patterns will be certified and documented.

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 Department of Education's recording and reporting of 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 (see Appendix B).

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



Steven L. Schaeffer

Attachments

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2001-10**

**State Treasurer's Office**

CFDA No. 10.553 - School Breakfast Program

CFDA No.10.555 - National School Lunch Program

CFDA No.10.558 - Child Care Food Program

CFDA No. 10.561 - Food Stamps - Administrative Costs

CFDA No.17.207 - Employment Services

CFDA No. 17.225 - Unemployment Insurance

CFDA No.17.250 - Job Training Partnership Act

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 - Urban Mass Transit Capital Improvements

CFDA No. 20.507 - Urban Mass Transit Capital and Operating Assistance

CFDA No. 84.010 - Chapter I Programs - Local Education Agencies

CFDA No. 84.027 - Handicapped - State Grants

CFDA No. 84.048 - Vocational Education - Basic Grants

CFDA No. 84.126 - Rehabilitation Services - Basic Support

CFDA No. 84.338 - Reading Excellence Program

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

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

CFDA No. 93.767 - Children's Health Insurance Program (MCHIP), (Children's Health Insurance Program Title XXI)

CFDA No. 93.778 - Medical Assistance Program

CFDA No. 93.917 - HIV Formula Care Grants

CFDA No. 93.959 - Substance Abuse Treatment Block Grant

CFDA No. 93.994 - Maternal and Child Health Services

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 2001-10 (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, 2000 and remained in effect until June 30, 2001.

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 11 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 CN41A Agreement.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2001-10 (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-payroll clearance patterns in the CMIA Agreement.

*Auditee Response and Corrective Action Plan:*

The STO recognizes that it appears that the Office has failed to meet the requirement for certifying the clearance patterns according to the CMIA Agreement. However, we do have documentation for the original certification of the clearance patterns, completed in 1992-1994. We cannot locate the documentation supporting the analysis that was completed in 1997. Unfortunately, due to staff turnover, the documents were misfiled and are not available for review, or to support the current clearance patterns.

The STO agrees that clearance patterns should be certified and documentation maintained in the STO files. We are aggressively attacking the program by scheduling field visits to review and certify all program specific clearance patterns, as well as initiating conversations with GAD personnel to analyze, document, and certify the clearance for vendor payments and payroll.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2001-10 (continued)**

Our intent is to explore all available options to improve compliance with the certification of clearance patterns. We have scheduled a meeting with the STO, Comptroller, and FMIS to examine previous efforts for this project, and the possibility of resurrecting the FMIS effort to install the CMIA Module. If or when implemented, the CMIA Module would ensure the accuracy of the agency draw downs. However, our initial review identified two major obstacles; one is the system's inability to interface with agency level programs and the other is the availability of general funds to finance the project. If the determination is made to not implement the CMIA Module, documentation supporting the decision will be maintained in STO files for review.

***Auditors' 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 2001-6**

**Department of Education**

**CFDA No. 84.340 -Class Size Reduction**

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

***Condition:***

We noted that the Maryland State Department of Education understated its federal revenue for Class Size Reduction (CFDA No. 84.340) for the fiscal year ended June 30, 2001 on the Schedule G by approximately \$826,000 due to not posting an adjusting journal entry to the Schedule G as of the end of the fiscal year. The Schedule G was submitted by the Department of Education to the Comptroller as of June 30, 2001 and for the fiscal year then ended. The Schedule G fiscal year federal revenues reported to the Comptroller as offset by the Schedule G fiscal ,year federal expenditures are used to ensure the accuracy of the grant receivable from the federal government at the end of the fiscal year that is reported on the State's financial statements

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 federal program.
5. Preparing, reconciling on a CFDA basis, and submitting the Schedule G report to the Comptroller without a review from supervisory personnel.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2001-6 (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 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(c) states that 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 Maryland State Department of Education's Class Size Reduction Program federal revenues were understated and federal receivables overstated as a result of a lack of performance of a reconciliation and related documented supervisory review of such a reconciliation for CFDA No. 84.340 between amounts drawn down and amounts recorded as revenue on the Schedule G.

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.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2001-6 (continued)**

*Effect:*

The appropriate reconciliations on a CFDA number basis between amounts drawn from the federal government and recorded in R\*STARS to the federal revenue reported on the Schedule G was not performed as of June 30, 2001. Consequently, the reported federal revenue for the Class Size Reduction Program is understated by approximately \$826,000 with a corresponding overstatement of the federal accounts receivable as of June 30, 2001.

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.

*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 Schedule G for that CFDA number in the Class Size Reduction Program 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 authorization, execution, recording and reporting of federal draw downs and revenues.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2001-6 (continued)**

*Auditee Response and Corrective Action Plan:*

MSDE concurs with this finding.

MSDE's staff is in the process of developing written policies and procedures for federal draw down and cash management activities. The written policies and procedures will incorporate the following:

- As stipulated in the agreement between the U.S. Government and the State Comptroller, MSDE shall draw down funds for grants nine days after the funds are transmitted, the drawn down for payroll will occur the day after the funds are expended, and all operating expenses will be drawn down by the 16<sup>th</sup> of the month.
- The Department shall request an applicable DAFR Report and reconcile the Schedule G expenditures and revenues to the GAPS Report and R\*STARS Reports.
- Any and all adjustments shall be prepared for the reconciliation and reviewed by the chief of the accounting branch.

In addition to developing written policies and procedures, MSDE has requested and received an exception to the statewide hiring freeze that will allow recruitment to fill a high-level, supervisory accountant position. This position will be directly responsible for the federal draw down and related cash management activities. This additional position will enable MSDE to segregate those duties and give close attention to receiving and reporting federal revenues.

Corrective action will be implemented by June 30, 2002, when the Schedule G is prepared.

*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**

OEO supports the 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.