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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 MAINE  
FOR THE FISCAL YEAR  
ENDED JUNE 30, 2007**

**March 2009**

**A-77-09-00010**

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**MANAGEMENT  
ADVISORY REPORT**

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## **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:** March 26, 2009

**Refer To:**

**To:** Candace Skurnik  
Director  
Audit Management and Liaison Staff

**From:** Inspector General

**Subject:** Management Advisory Report: Single Audit of the State of Maine for the Fiscal Year Ended June 30, 2007 (A-77-09-00010)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Maine for the Fiscal Year ended June 30, 2007. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Maine Department of Audit performed the audit. We have not received the results of the desk review conducted by the Department of Health and Human Services (HHS). We will notify you when we receive the results 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 the Maine Department of Audit 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 (OMB) 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 Maine Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The Maine DDS is reimbursed for 100 percent of allowable costs. The Department of Human Services (DHS) is the Maine DDS' parent agency.

The single audit reported:

1. Payroll certifications were not obtained for employees who worked solely on SSA's DI and SSI programs (Attachment A, Page 1). The corrective action plan indicates that semiannual certifications will be completed and retained for all Maine DDS staff (Attachment A, Page 1).
2. Suspension and debarment certification language was not included in all contracts with DDS medical and psychological consultants. In addition, the Excluded Parties List System (EPLS) website was not checked to determine whether the medical and psychological consultants were excluded from participation in Federal programs (Attachment A, Pages 2 and 3). The corrective action plan indicates the required disbarment form will be completed on future contracts, and consultants will be verified using the EPLS website to ensure they are not excluded or disqualified (Attachment A, Page 3).
3. DHS had an insufficient accounting system to account for Federal program funds (Attachment A, Pages 4 and 5). The corrective action plan indicates DHS will maintain a chart of accounts, document all procedures and review and reconcile account activity (Attachment A, Page 5).

We recommend that SSA:

1. Verify that payroll certifications have been completed and are being maintained for DDS employees who work solely on the DI and SSI programs.
2. Ensure contracts related to the DDS include suspension and debarment certification language.
3. Ensure the DDS reviews the EPLS as part of the consultant background check process.
4. Ensure DHS is properly accounting for funds provided to the Maine DDS for disability determinations.

The single audit also disclosed the following findings that may impact the DDS' operations although they are 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.

- The Department of Administrative and Financial Services (DAFS) failed to return excess reserves to the Federal funding sources (Attachment B, Page 1).
- DAFS did not have an acceptable plan to reduce excess working capital reserves with the Government (Attachment B, Pages 2 and 3).

- DAFS had excess reserves reported in the cost allocation plan that was submitted to HHS (Attachment B, Pages 3 and 4).

Please send copies of the final Audit Clearance Document to Ken Bennett. If you have questions contact Ken Bennett at (816) 221-0315 extension 1558.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

Attachment

(07-82)

**Title:** Cost principles related to personal services not followed

**Prior Year Finding:** No

**State Department:** Health and Human Services

**State Bureau:** Disability Determination Services

**Federal Agency:** U.S. Department of Health and Human Services

**CFDA Title:** Disability Insurance/SSI Cluster

**CFDA #:** 96.001

**Federal Award #:** 0604MEDI00, 0704MEDI00

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Internal control and compliance

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

**Condition:**

- Payroll certifications were not obtained for employees who work solely on the SSDI/SSI programs.

**Context:**

- Payroll certifications were not obtained for the employees working solely on these programs.

**Cause:**

- Program manager was unaware of the requirement.

**Effect:**

- Federal program may be charged for salaries/wages of personnel working on other activities.

**Recommendation:** We recommend that the Department provide periodic certifications of employees who work solely on the SSDI/SSI programs.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*Although the Social Security Administration does not require the payroll certification, they do recommend OIAS follow the OMB Circular guidelines. Effective July 1, 2008, OIAS-DDS will complete and retain a semi-annual certification for all Disability Determination Staff.*

**Contact:** Scott Mack, Director, Disability Determination, 377-9501

**(07-83)**

**Title:** Noncompliance with suspension and debarment requirements.

**Prior Year Finding:** No

**State Department:** Health and Human Services (DHHS)

**State Bureau:** Disability Determination Services

**Federal Agency:** U.S. Department of Health and Human Services

**CFDA Title:** Disability Insurance/SSI Cluster

**CFDA #:** 96.001

**Federal Award #:** 0604MEDI00, 0704MEDI00

**Compliance Area:** Procurement, suspension and debarment

**Type of Finding:** Internal control and compliance

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** Government-wide Debarment and Suspension (non-procurement) (45 CFR §76.300)

**Condition:**

- The Department did not include suspension and debarment certification language in all contracts or check the Excluded Parties List System (EPLS) website to determine that the contractor was not excluded or disqualified.

**Context:**

- Sixteen of seventeen contracts did not include suspension and debarment language nor was the EPLS website checked to determine if contractor was excluded or disqualified.

**Cause:**

- Starting in fiscal year 2007, contracts were sent out to providers by purchasing personnel, rather than program personnel. Purchasing personnel were not informed that suspension and debarment language (located in Rider D) must be included in the contracts or that the EPLS website should be checked to determine if the contractor was excluded or disqualified.

**Effect:**

- Possible noncompliance with suspension and debarment requirements. However, we verified that the contracted parties were not suspended or debarred.

**Recommendation:** We recommend that the Department put control procedures in place to ensure that suspension and debarment language is included or that the EPLS website is checked in all contract agreements greater than \$25,000.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*This finding pertains to the medical and psychological consultants who handle disability requests. Rider A requires that each consultant hold a valid license. The Department requires proof of licensure annually. If the license is suspended or revoked, consultant services provided by the doctor would cease.*

*Effective with the next contract renewals, the Office of Integrated Access and Support will ensure that Rider D and the required disbarment form is completed. Additionally, a review will be performed to identify multi year contracts and steps will be taken to check the EPLS website to ensure the vendor is not excluded or disqualified. This review will be documented.*

**Contact:** Thomas Keyes, Deputy Director, OIAS, 287-2310

**Please see the following findings for other issues relating to this program.**

(07-95) page E-188

(07-96) page E-189

(07-97) page E-191

(07-98) page E-192

(07-95)

**Title:** Administration of federal funds inadequate

**Prior Year Finding:** 06-99

**State Department:** Administrative and Financial Services

**State Bureau:** Health and Human Services Service Center

**Federal Agency:** U.S. Department of Health and Human Services  
U.S. Department of Agriculture

**CFDA Title:** Various

**CFDA #:** Various

**Federal Award #:** Various

**Compliance Area:** Allowable costs/cost principles

Cash Management

Reporting

**Type of Finding:** Internal control and compliance

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments - Standards for Financial Management Systems (45 CFR §92.20)

**Condition:**

- The Department does not consistently utilize separate accounts within the State's accounting system for each federal program. For some federal programs, "reporting organizations" are used for individual programs but are combined into a single "appropriation organization," which controls the cash for multiple programs. The Department is not always able to provide a complete and accurate list of the accounts established and used for each program.
- The State's accounting records do not accurately reflect the sources and uses of funds. Transactions are not always posted or transferred to the relevant accounts. This is particularly true for costs related to accounts within the Department's cost allocation plan. Those costs are significant because they include regional office costs and other costs that benefit multiple programs. This process complicates the administration of federal funds.
- The Department "self-funds" some programs through a method they refer to as "earned revenue". This "earned revenue" is the result of federally qualified expenditures having been paid for with State funds. When the Department subsequently receives federal reimbursement, the State's General Fund is not refunded. Instead, these federal reimbursements are often transferred to Other Special Revenue Fund accounts and used to "self-fund" other Department programs. This "self-funding" approach also makes tracing the sources and uses of funds difficult or, if proper documentation is not

maintained, impossible. The Title IV-E Foster Care and Adoption Assistance programs are examples of programs that used the "earned revenue" approach.

**Context:**

- This is a systemic problem.

**Cause:**

- Incomplete written policies and procedures
- Inadequate accounting structure
- Overly complex accounting

**Effect:**

- Difficulty identifying sources and uses of funds
- Insufficient supporting documentation
- Noncompliance with federal regulations (e.g. cash management, reporting, allowable cost/cost principles, etc.)

**Recommendation:** We recommend that the Department:

- Establish and maintain a chart of accounts
- Document all procedures in writing
- Record all activity relating to specific programs into distinct accounts
- Consistently review and reconcile account activity

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the recommendations to maintain a chart of accounts, document all procedures and review and reconcile account activity.*

*Additional staffing authorized in PL2007, c. 539 and currently being recruited will effect these changes. It is standard practice across all State agencies to place multiple grants in one appropriation organization. Placing all grants in separate appropriation organizations would add over 100 to the Department's chart of accounts. The earned revenue account referred to in the final recommendation is authorized in statute, Public Law 2007, Chapter I, Part V.*

**Contact:** Charles Woodman, Deputy Director, HHS Service Center, 287-2572

**Title:** Federal share of excess reserves in Internal Service Fund not returned

**Prior Year Finding:** No

**State Department:** Administrative and Financial Services

**State Bureau:** General Government Service Center

Office of the State Controller

**Federal Agency:** U.S. Department of Health and Human Services

**CFDA Title:** Various

**CFDA #:** Various

**Federal Award #:** Various

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Compliance

**Known Questioned Costs:** \$1,396,601

**Likely Questioned Costs:** \$1,396,601

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

**Condition:**

- The Office of State Controller (OSC) transferred to the State's General Fund and Highway Fund, as mandated by the Maine Legislature, a portion of the excess reserves in the Accident, Sickness and Health Insurance Internal Service Fund during fiscal year 2007. Federal regulations require that the excess reserves, attributable to federal funding sources, be returned to them in proportion to the original transfer. A corresponding transfer to the federal Funds was neither authorized nor made.
- We noted that subsequent legislation authorized the State Controller to transfer the equitable share of the excess reserves to each participating fund by June 30, 2008. The OSC is currently in negotiations with the federal government to finalize those amounts.

**Context:**

- These transfers were made to facilitate the State's budgeting process.

**Cause:**

- Actions mandated by the 122<sup>nd</sup> Maine Legislature through PL2005 C. 457, JJ-2, JJ-3 and III-1 and the 123<sup>rd</sup> Maine Legislature through PL2007 C. 240, III-1 and C329, J-1

**Effect:**

- Current questioned costs

**Recommendation:** We recommend that the Department return the excess reserves to the federal government based on a negotiated distribution and in accordance with authorized legislation.

**Management's Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with this finding.*

*The Office of the State Controller has contacted the Federal Division of Cost Allocation and is waiting for instructions on how to return the funds to the participating federal programs. Corrective action will be completed by September 30, 2008.*

**Contact:** Terry Brann, Deputy State Controller, 626-8423

(07-97)

**Title:** Excess working capital reserves

**Prior Year Finding:** 06-101

**State Department:** Administrative and Financial Services (DAFS)

**State Bureau:** General Government Service Center

**Federal Agency:** U.S. Department of Health and Human Services

**CFDA Title:** Various

**CFDA #:** Various

**Federal Award #:** Various

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Compliance

**Known Questioned Costs:** \$275,000 (Questioned costs were calculated by multiplying the excess working capital reserve balance of \$5.6 million by 4.9%, which is the estimated percentage paid by federal funds in relation to all other funds)

**Likely Questioned Costs:** \$275,000

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

**Condition:**

- The Risk Management Fund had a balance of \$8.2 million in retained earnings with an allowable reserve of \$2.6 million as of June 30, 2007. This resulted in excess working capital reserves of \$5.6 million of which approximately \$275,000 is attributable to federal funds. We are questioning these costs because no acceptable plan to reduce the excess working capital reserves has been negotiated with the federal government.

**Context:**

- The amount of excess working capital reserves is determined on an annual basis by DAFS. Although rates are periodically adjusted, the rates charged were higher than necessary to offset ongoing expenditures.

**Cause:**

- Management decisions.

**Effect:**

- Current and potential future questioned costs

**Recommendation:** We recommend that the Department adjust billing rates to ensure compliance with federal working capital reserve requirements.

**Management's Response/Corrective Action Plan** *The Department of Administrative and Financial Services understands this finding to assert that a biennial actuarial analysis conducted by the Division of Risk Management failed to identify sufficient information as required by the federal government to sustain a certain level of reserve funds, nor did the Department provide justification for reserves in excess of what the actuary identified in the Statewide Internal Service Fund cost allocation plan.*

*The Department strongly believes that the current reserve in this self insurance fund is reasonable and necessary in order to comply with State laws requiring certain minimum reserve levels be maintained and to secure financial stability against sudden and accidental losses for State Government. However, we understand and agree that improved documentation and explanation is needed to justify the reserves and to avoid the perception expressed in this finding that the Division of Risk Management's reserves are anything other than in compliance with all applicable rules and laws, including MRSA 5, Chapter 152.*

*Noting the requirements of OMB A-87 and GASB 10, the Division of Risk Management will continue to seek actuarial reports which address the necessity of reserve funds. The fiscal year 2007 Internal Service Fund cost allocation plan will be amended to provide justification for the excess reserve in an effort to obtain the necessary approval from the federal government. Additionally, we will take measures to ensure that future Internal Service Fund cost allocation plans provide the necessary information to support any excess reserves in this fund.*

**Contact:** *Dave Fitts, Director, Risk Management, 287-3352*  
*Denise Garland, Director, General Government Service Center 624-7413*

(07-98)

**Title:** Excess working capital reserves - Retiree Health Insurance Fund

**Prior Year Finding:** 06-101

**State Department:** Administrative and Financial Services (DAFS)

**State Bureau:** General Government Service Center

**Federal Agency:** U.S. Department of Health and Human Services

**CFDA Title:** Various

**CFDA #:** Various

**Federal Award #:** Various

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Compliance

**Known Questioned Costs:** \$15,142,659 (Questioned costs were calculated by multiplying the excess reserves of \$94,464,500 by 16.03 %, which is the percentage paid by federal programs in relation to all other funds)

**Likely Questioned Costs: \$15,142,659**

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

**Condition:**

- The Department did not comply with federal working capital reserve requirements. The Retiree Health Insurance Fund had excess working capital reserves of \$94,464,500 for fiscal year 2007. The portion of this excess that was attributable to federal funds was \$15,142,659. These amounts were included in the DAFS cost allocation plan submitted to the U.S. Department of Health and Human Services in December of 2007.

**Context:**

- This fund converted from pay-as-you-go to actuarially funded on July 1, 2007. The state is actively seeking federal approval to utilize these funds as an initial deposit in an irrevocable trust fund for this purpose.

**Cause:**

- Management decisions.

**Effect:**

- Current and potential future questioned costs

**Recommendation:** We recommend that the Department finalize the approval process with the federal government or adjust billing rates to ensure compliance with federal working capital reserve requirements.

**Management's Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with this finding.*

*The Retiree Health Insurance fund converted from pay as you go to actuarial basis funding on July 1, 2007, and the excess reserve funds were transferred to an irrevocable trust fund in accordance with GASB 45 requirements. The Office of the State Controller is currently working with the Federal Division of Cost Allocation to address their questions regarding the structure of the trust, the federal share of the amount transferred and the federal programs impacted. The State fully expects to receive approval from the federal government within the next few weeks.*

**Contact:** Ed Karass, State Controller, 626-8420

## **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Office of the Counsel to the Inspector General**

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.