
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

March 2007

A-77-07-00011

**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: March 23, 2007

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of New Jersey for the Fiscal Year Ended June 30, 2005 (A-77-07-00011)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of New Jersey 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.

KPMG 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 KPMG LLP. 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 New Jersey 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 Labor and Workforce Development (DLWD) is the New Jersey DDS' parent agency.

The single audit reported that reconciliation procedures were not in place between the Time and Leave Reporting System (TALRS) used to generate payroll costs and the Cost Accounting System (CAS) used to record payroll costs charged to each Federal program. Therefore, the payroll costs charged to various Federal programs may not have been accurate (Attachment A, pages 1 and 2). The corrective action plan indicated that the TALRS and CAS systems were replaced with a new payroll system in April 2006 (Attachment A, page 3).

The Office of the Inspector General is currently conducting an audit of Administrative Costs Claimed by the New Jersey DDS (A-02-06-16043) that covers the same time period as this single audit. The administrative cost audit will review the allowability of payroll costs claimed by the New Jersey DDS. Accordingly, we are not making any recommendations.

The single audit also identified that supporting invoices were not maintained for payment of expenditures (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 any questions contact Shannon Agee at (816) 936-5590.



Patrick P. O'Carroll, Jr.

Attachments

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Employment Services Cluster (17.207, 17.801, 17.804)

Workforce Investment Act Cluster (17.258, 17.260)

Rehabilitation Services: Vocational and Rehabilitation Grants to States (84.126)

Disability Insurance/SSI Cluster (96.001)

State Agency: Department of Labor and Workforce Development

Federal Agencies: U.S. Department of Labor

U.S. Department of Education

Social Security Administration

Finding: 05-43

Criteria

The general criteria affecting allowability of costs under Federal awards are:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of Federal awards.
- *Allocable* – Costs must be allocable to the Federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g. a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objective in accordance with the relative benefits received.
- *Consistency* – Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.
- *Conformity to Laws, Regulations and Sponsored Agreements* – Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations as to types or amounts of cost items.
- *Transactions that Reduce or Offset Direct or Indirect Costs* – Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- *Cost Documentation* – Costs must be documented in accordance with OMB Circular A-110 for non profit organizations and institutions of higher education or the A-102 Common Rule for State, local, and Indian tribal governments.

Condition

The Time and Leave Reporting System (TALRS) is used to generate payroll and feeds payroll information to the New Jersey Comprehensive Financial System (NJCFIS), which is the system used to generate the Schedule of

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Expenditures of Federal Awards (SEFA). The Department's Cost Accounting System (CAS) breaks down payroll information by project code to determine the amounts to be charged to each Federal program.

For 20 of the 100 employees selected, the total hours for each employee per TALRS did not agree to CAS. For 17 of the 100 employees selected for personal services testwork, total hours for each employee per TALRS agreed to CAS; however, the distribution of vacation, sick, administrative and other time per TALRS did not agree to CAS. Reconciliation procedures between the two systems were not performed adequately.

A similar finding was noted in the 2004 and 2003 prior year single audit reports as items 04-36 and 03-46, respectively.

In addition, for 1 of the 100 employees selected for personal services testwork, the Department was unable to provide supporting documentation (i.e. personnel file) to verify the employee's information (name, social security number, etc.).

Cause

Reconciliation procedures in place between the CAS and the TALRS were not properly followed in all cases. Also, supporting documentation for certain personal service expenditures could not be provided by the Department, due to a lack of controls regarding the proper filing of documents.

Effect

Costs may not properly be recorded in the CAS and charged to the correct Federal Program. Also, certain personal service expenditures are not appropriately supported by employee personnel files.

Recommendation

We recommend that the Department improve internal control procedures to ensure that time per TALRS is reconciled with the CAS system on a regular basis and that vacation, sick, administrative and other time is properly tracked and appropriately charged to the Federal Programs.

We also recommend that the Department improve internal control procedures to ensure that personnel files are properly filed and maintained for active employees whose time is charged to the Federal Programs.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2005
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS

Election Reform Payment (39,011)		
State Agency: Department of Law and Public Safety		
Federal Agency: U.S. Department of Defense		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
05-41 No finding in prior years	All three procurements performed the price competition procedures, as described in Procurement Circular 00-13-DPP (PC-23-1). However, we were only partially compliant as the files for the sole source vendors were missing the appropriate sole source documentation. The appropriate documentation has been updated for these files to include the missing sole source justifications. All future sole source procurements will include a memorandum as outlined in Procurement Circular 00-13-DPP (PC-23-1), Section IX, paragraph E, which states, "a memorandum of sole source justification must be written and signed by the Agency Approval Officer."	August 2006 Carl Wyhepen (609) 292-8193
Election Reform Payment (39,011)		
State Agency: Department of Law and Public Safety		
Federal Agency: U.S. Department of Defense		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
05-42 No finding in prior years	From this point forward, the Department will include on all subrecipient communications the required Federal award information and applicable compliance requirements set forth by the Election Reform Payment program.	Immediately Carl Wyhepen (609) 292-8193
Employment Services Cluster (17,207, 17,801, 17,804)		
Workforce Investment Act Cluster (17,258, 17,260)		
Rehabilitation Services: Vocational and Rehabilitation Grants to States (84,126)		
Disability Insurance/SSI Cluster (96,001)		
State Agency: Department of Labor and Workforce Development		
Federal Agencies: U.S. Department of Labor		
U.S. Department of Education		
Social Security Administration		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
05-43 04-36 03-46	On April 1, 2006, LWD introduced a new web-based time and leave reporting system. The electronic Cost Accounting and Reporting System (eCATS) eliminates both the Time and Leave Reporting System (TALRS) and the LWD Cost Accounting System (BA-43's). The new eCATS will allow for total synchronization of recordkeeping without the need for two stand-alone systems. The implementation will eliminate the need for time-consuming reconciliations between State payroll and Federal reports.	April 2006 James M. King (609) 292-1885

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Year ended June 30, 2005

Employment Services Cluster (17.207, 17.801, 17.804)

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 05-44

Criteria

The general criteria affecting allowability of costs under Federal awards are:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of Federal awards.
- *Allocable* – Costs must be allocable to the Federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g. a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objective in accordance with the relative benefits received.
- *Consistency* – Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.
- *Conformity to Laws, Regulations and Sponsored Agreements* – Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations as to types or amounts of cost items.
- *Transactions that Reduce or Offset Direct or Indirect Costs* – Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- *Cost Documentation* – Costs must be documented in accordance with OMB Circular A-110 for non profit organizations and institutions of higher education or the A-102 Common Rule for State, local, and Indian tribal governments.

Condition

2 of the 30 other than personal services (OTPS) transactions selected for testwork were not supported by a related invoice. The Department's Monthly Expenditure Report indicates that the expenditures were paid in September 2004.

Cause

Supporting documentation could not be provided by the Department, due to a lack of controls regarding the paper filing of documents.

Effect

Payments were made for OTPS expenditures without maintaining the supporting invoices.

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Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Recommendation

We recommend that the Department maintain records and supporting documentation for the OTPS expenditures.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Known questioned costs are \$7,595, which is the amount of the OTPS expenditures without the supporting invoices. The total OTPS costs expended per the Schedule of Expenditures of Federal Awards was \$22,485,140 and the OTPS costs included in the sample was \$59,210.

View of Responsible Official

See management's corrective action plan.

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.