
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

February 2003

A-77-03-00009

**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: February 10, 2003

Refer To:

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

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Rhode Island for the Fiscal Year Ended June 30, 2001 (A-77-03-00009)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Rhode Island 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 action.

The Rhode Island Auditor General 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 the Auditor General 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 Rhode Island 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 Rhode Island Department of Human Services (DHS) is the Rhode Island DDS' parent agency.

The single audit reported the following findings:

1. The State did not have a statewide fixed asset inventory system; and therefore, could not identify equipment purchased with Federal funds. The corrective action plan indicated that physical inventories of existing assets were conducted and a compilation of fixed asset data was in progress (Attachment A, pages 1, 3, and 5).
2. DHS did not adhere to draw techniques specified in the Cash Management Improvement Act (CMIA) agreement for draws of Federal funds. The corrective action plan indicated that Federal cash management responsibilities may be centralized in one State department to ensure compliance with the CMIA agreement (Attachment A, pages 3, 4, and 6).


We recommend SSA ensure:

1. The DDS has a system in place to record fixed assets purchased with SSA funds.
2. DHS has implemented procedures for DDS draws of Federal funds in accordance with funding techniques established in the CMIA agreement.

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

- Controls were inadequate over the State Accounting System and the Payroll Accounting System regarding password access to computer systems (Attachment B, pages 1 and 2).
- DHS did not have certifications to identify and exclude from its procurement process those subcontractors and subrecipients barred from participation in Federal programs (Attachment B, page 3 and 4).

Please send copies of the final Audit Clearance Document to Mark Bailey in Kansas City and Paul Wood in Baltimore. If you have questions contact Mark Bailey at (816) 936-5591.


Steven L. Schaeffer

Attachments

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II - Financial Statement Findings

Finding 2001-1

GENERAL FIXED ASSETS ACCOUNT GROUP

The State has not accumulated historical information concerning the cost and classification of its investment in fixed assets. This information is required by generally accepted accounting principles to be presented in the General-Purpose Financial Statements by inclusion of a General Fixed Assets Account Group. Due to the omission of the General Fixed Assets Account Group, we qualified our opinion on the State's general-purpose financial statements.

A statewide fixed asset inventory system is needed to provide adequate controls over the State's substantial investment in fixed assets and to prepare financial statements in conformance with generally accepted accounting principles. Further, Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's lack of adequate fixed asset inventory records impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

Policies and procedures have been developed and the process to inventory and accumulate fixed asset information was underway during fiscal 2001. The State should continue its efforts to accumulate and record the cost of all new fixed assets purchased and inventory and assign a value to all other assets.

RECOMMENDATION

2001-1 Continue to implement systems and procedures necessary to accumulate and record the information needed to prepare financial statements in accordance with generally accepted accounting principles.

Finding 2001-2

CONTROL OVER LONG TERM OBLIGATIONS

The State lacks adequate accounting controls to accumulate all long-term obligations for inclusion in the General Long Term Debt Account Group within the general-purpose financial statements. Controls are also inadequate to ensure all required payments are made when due.

The State's debt service accounting system includes only information for certain general obligation bonds (current-interest bonds), representing approximately one-half of the total obligations reported in the General Long-Term Debt Account Group. Obligations not recorded

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III - Federal Award Findings and Questioned Costs

TABLE OF FINDINGS BY FEDERAL PROGRAM (continued)

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Student Financial Assistance Cluster: continued		
Federal Pell Grant Program	84.063	01-29, 01-33
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None Reported
Nursing Student Loans	93.364	None Reported
Title I Grants to Local Educational Agencies	84.010	01-9, 01-27
Special Education Cluster:		
Special Education - Grants to States	84.027	01-9, 01-27
Special Education - Preschool Grants	84.173	01-9, 01-27
Federal Family Education Loans (Guaranty Agency)	84.032	01-28
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	01-8, 01-9, 01-34
Class Size Reduction	84.340	01-9, 01-27, 01-35
Temporary Assistance for Need Families	93.558	01-9, 01-12, 01-36, 01-37
Child Support Enforcement	93.563	01-8, 01-9, 01-38, 01-39, 01-40
Low-Income Home Energy Assistance	93.568	01-9, 01-41, 01-42, 01-43
Community Services Block Grant	93.569	01-9, 01-44, 01-45
Child Care Cluster:		
Child Care and Development Block Grant	93.575	01-9, 01-44, 01-46
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	01-9, 01-46
Foster Care - Title IV-E	93.658	01-9, 01-47, 01-48
Social Services Block Grant	93.667	01-9, 01-45, 01-49
State Children's Insurance Program	93.767	01-9, 01-50, 01-51
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	01-9, 01-52
State Survey and Certification of Health Care Providers and Suppliers	93.777	01-9
Medical Assistance Program	93.778	01-9, 01-49, 01-51, 01-52, 01-53, 01-54, 01-55, 01-56, 01-57, 01-58, 01-59, 01-60
Block Grants for Prevention and Treatment of Substance Abuse	93.959	01-9, 01-61, 01-62
Disability Insurance/SSI Cluster:		
Social Security - Disability Insurance	96.001	01-8, 01-9
Research and Development Cluster	Various	01-63

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III - Federal Award Findings and Questioned Costs

Finding 2001-8

VARIOUS PROGRAMS - refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2001-1 (Section II - Financial Statement Findings), the State lacked statewide systems and procedures to adequately control its substantial investment in fixed assets and to prepare its financial statements in conformance with generally accepted accounting principles. This impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

Because of the lack of a statewide inventory system and related controls over fixed assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Questioned Costs: None

Finding 2001-9

VARIOUS PROGRAMS - refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

The State is required to draw cash for federal programs in accordance with the federal Cash Management Improvement Act (Act) and related regulations at 31 CFR Part 205. For most larger federal programs, the State is required to follow the specific provisions of an agreement entered into by the State and the US Treasury pursuant to the Act and related regulations. In the event the State does not comply with the provisions of the Treasury/State agreement in drawing cash for federal programs, it must pay interest for the period the funds were on hand prior to disbursement. For federal programs not included in the agreement, the State is required to minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III - Federal Award Findings and Questioned Costs

The State developed the Cash Management System (CMS) as part of the State accounting system to provide information enabling its departments and agencies to draw federal funds in compliance with the Treasury/State agreement. Of the 22 programs we tested as major programs that are subject to the Treasury/State agreement, eleven programs did not consistently adhere to the techniques specified in the agreement to draw federal cash. In those instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted.

Each department is responsible for drawing federal funds for the programs it manages. The State does not have procedures to centrally administer or monitor compliance with federal cash management requirements.

We believe responsibility for drawing federal funds should be vested in the Office of the General Treasurer where compliance with cash management for federal programs should be integrated with other cash management objectives. In instances where funds are now drawn less frequently than permitted, compliance with the agreement will enhance the State's cash management. Further, overall compliance with the agreement will minimize or eliminate any State interest liability payable to the federal government.

Questioned Costs: None

RECOMMENDATION

2001-9 Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.

Finding 2001-10

FOOD DISTRIBUTION - CFDA 10.550

Administered by: Department of Corrections - State Warehouse

CHILD NUTRITION CLUSTER:

School.-Breakfast Program - CFDA 10.553

National School Lunch Program - CFDA 10.555

Summer Food Service Program for Children - CFDA 10.559

Administered by: Rhode Island Department of Education (RIDE)

INVENTORY OF DONATED FOOD COMMODITIES

Under the Food Distribution grant (CFDA# 10.550), the USDA makes agricultural commodities available for use in the operation of all child nutrition programs except the Special

Corrective Action Plan -
Findings Included in 2001 Single Audit Report

Finding 2001-1

Corrective Action:

The Division of Accounts and Control has issued statewide policies and procedures to record all new fixed asset acquisitions since July 1, 1998. Two staff people have completed physical inventories of existing fixed assets (excluding infrastructure) and the inventory of state owned land and buildings. The state automobile fleet has been brought into the fixed asset reporting system. The accumulation of fixed asset data is planned to be completed in phases: land and buildings; all other fixed assets; infrastructure assets. This effort will be completed by June 30, 2002.

Contact person: Lawrence Franklin, Jr., State Controller
Telephone: 401-222-6731; Fax: 401-222-6437;
e-mail:lfrankli@doa.state.ri.us

Finding 2001-2

Corrective Action:

The Department of Administration has acquired new integrated, accounting software. The software we acquired does not have a module for debt and debt service accounting. We will be researching the functionality of other commercial, off-the-shelf software for this purpose to integrate with our general accounting software. Presently, the implementation of the general accounting software is underway and is planned to be implemented statewide at July 1, 2001. During this implementation, the Division of Accounts and Control will research debt accounting software, prepare a budget request to acquire it, and plan its implementation.

Contact person: Lawrence Franklin, Jr., State Controller
Telephone: 401-222-6731; Fax: 401-222-6437;
e-mail:lfrankli@doa.state.ri.us

Finding 2001-3

Corrective Action:

No corrective action is planned since a new statewide accounting system was implemented July 1, 2001.

Contact person: Lawrence Franklin, Jr., State Controller
Telephone: 401-222-6731; Fax: 401-222-6437;
e-mail:lfrankli @doa.state.ri.us

Corrective Action Plan -
Findings Included in 2001 Single Audit Report

Finding 2001-8

Corrective Action:

See Corrective Action for Finding 2001-1.

Finding 2001-9

Corrective Action:

The Department of Administration will continue to explore with the General Treasurer the possibility of vesting responsibility for federal cash management within the Office of the General Treasurer.

Contact person: Lawrence Franklin, Jr., State Controller
Telephone: 401-222-6731; Fax: 401-222-6437;
e-mail: lfrankli@doa.state.ri.us

Finding 2001-10

Corrective Action:

1. Conduct of monthly physical inventory of all USDA commodities, and will reconcile discrepancies as needed.

This procedure had been put in place in the last fiscal year. However, whenever there is any staff absences during the time set aside for inventorying the remaining staff are invariably pulled away from inventorying in order to perform other "immediate need" warehouse duties. The Department will be unable to establish an immediate backup plan due to the current state revenues fiscal situation. However, the Department is moving ahead with a plan to enhance the staffing of the Central Distribution Center through the utilization of inmate assistance. This plan may take up to a year to be fully implemented. Once implemented, we will be able to insure that staff are available for this regular physical inventorying requirement.

2. Reduction of order filling errors.

Ideally, there are three points of verification of proper order filling.

1. The warehouse worker selects the proper items.
2. The warehouse supervisor verifies that the items selected match the items requested.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II - Financial Statement Findings

in the debt service accounting system include capital appreciation bonds, multi-modal rate bonds, lease obligations, certificates of participation, compensated absences, and arbitrage rebate liabilities. The debt service accounting system is incapable of accepting data for certain categories of long-term obligations and consequently these obligations are recorded on a variety of independent subsystems without centralized control.

A new subsidiary accounting system is required to capture all categories of long-term obligations, detail all debt service requirements to maturity and prompt payments on the required dates. This subsidiary accounting system should be capable of interfacing with the new statewide accounting system implemented July 1, 2001. This will provide information necessary for financial reporting purposes, and generally improve control over the State's long-term obligations.

RECOMMENDATION

- 2001-2 Acquire a new subsidiary accounting system to account for all long-term general obligations of the State and improve controls over financial reporting and debt service payments.

Finding 2001-3

PASSWORD ACCESS CONTROLS OVER THE STATE ACCOUNTING SYSTEM

The Government On-Line Data Entry Network (GOLDEN) component of the State accounting system is used to process disbursements to vendors and record receipts. The GOLDEN system allows data entry of vendor payment information at the agency level rather than at the Office of Accounts and Control.

We found the GOLDEN system lacks adequate controls to ensure that user access is necessary, appropriate to their duties, and sufficiently restricted. These controls are important to maintaining adequate security of any computer system application. We found the following instances of individuals with inappropriate system access.

- Certain computer programmers in the Office of Library and Information Services have access to the GOLDEN system which provides them with the ability to prepare and approve disbursements as well as prepare and approve receipt vouchers. Programmers should not have continued access to the system once it is placed in production but instead should only have access to a test system where system modifications are designed and tested before production.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II - Financial Statement Findings

- Certain accounting personnel in the Office of Accounts and Control have access allowing them to both initiate and approve vouchers for payment.

Segregation of duties is maintained in the State accounting system by requiring agencies to prepare vouchers on-line but submit a signed and authorized hard-copy voucher, along with supporting documentation, to the pre-audit section within the Office of Accounts and Control. The pre-audit section reviews the voucher and supporting documentation, checks for appropriate authorized signature and approves vouchers for payment. Segregating voucher preparation from the pre-audit approval function is a key internal control in the State accounting system. No individual should have the ability to both initiate and approve the same transactions within the accounting system.

These control weaknesses existed during fiscal 2001, however, new control procedures are operational with the implementation of new statewide accounting system on July 1, 2001.

Finding 2001-4

PASSWORD ACCESS CONTROLS OVER THE PAYROLL ACCOUNTING SYSTEM

Payroll data for the majority of State employees is entered on-line to the payroll accounting system at the department or agency level.

We reviewed the controls over data entry for the State payroll accounting system and found that established procedures do not mandate the assignment of unique passwords for each user to control and restrict access to the system. Computer work stations used to enter payroll data at some larger State agencies were not in secure locations. Further, the existing password control system does not record password information within the data files to identify individuals making specific file changes thereby providing a clear audit trail.

System access controls need to be improved by requiring each user to have a unique password and by utilizing the password to track all transactions initiated by an individual user.

RECOMMENDATIONS

- | | |
|---------|---|
| 2001-4a | Require that each individual have a unique password to appropriately restrict access to the system. |
| 2001-4b | Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III - Federal Award Findings and Questioned Costs

Hospital fiscal year ending in:	Number of settlement reports not yet received
1994	1
1995	1
1996	3
1997	5
1998	9
1999	10

Most hospitals claim that staffing limitations prevent them from filing cost reports timely. The section of the General Laws requiring settlement reports provides no mechanism to enforce compliance.

Questioned Costs: None

RECOMMENDATION

2001-57 Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.

Finding 2001-58

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services, (DHS)

SUSPENSION AND DEBARMENT

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

The department included provision for suspension and debarment certifications in its standard contracts effective in January 2000, however, most contracts will not be compliant with this provision until renewal.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III - Federal Award Findings and Questioned Costs

Previously, the department had not required providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medical Assistance Program. Revised provider agreements including the suspension and debarment certifications were mailed to all providers in November 2000. During our testing of claims paid in fiscal 2001, we found that 46 out of 91 providers tested did not have updated provider agreements in place which contained the required suspension and debarment certifications.

Questioned Costs: None

RECOMMENDATION

2001-58 Review and strengthen procedures designed to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.

Finding 2001-59

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

DRUG USE REVIEW PROGRAM

Federal regulation (42 CFR 456.712) requires the State to prepare and submit, on an annual basis, a report summarizing specific information regarding the agency's Drug Use Review Program. Examples of the types of information required include a description of the nature and scope of the prospective and retrospective drug review programs, a summary of the educational interventions used, and an outline of the objectives, scope, and goals of the drug use review and surveillance and utilization functions.

DHS has not submitted the required reports for fiscal years 1998, 1999 and 2000.

Questioned Costs: None

RECOMMENDATION

2001-59 Prepare and submit the required Medicaid Drug Use Review Agency Report annually.

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.