
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF MONTANA
FOR THE 2-YEAR PERIOD
ENDED JUNE 30, 2007**

February 2009

A-77-09-00006

**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: February 4, 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 Montana for the 2-Year Period Ended June 30, 2007 (A-77-09-00006)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Montana for the 2-year period 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 Montana Legislative Audit Division 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 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 the Legislative Audit Division 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 Montana Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The Montana DDS is reimbursed for 100 percent of allowable costs. The Social and Rehabilitation Services Division (SRS) is the Montana DDS' parent agency.

The single audit reported:

1. Volume discount rebates totaling \$32,597 from credit card companies for the State's purchase card and State-wide fueling network programs were not credited to the appropriate Federal award programs (Attachment A, Pages 1 and 2). The corrective action plan indicates the State has implemented a process, with the Federal Government's approval, where the Federal share of the rebates will be paid to HHS (Attachment A, Page 9).
2. The Montana Department of Administration did not have appropriate controls over the contractor that prepared the Montana Statewide Cost Allocation Plan (SWCAP). Specifically, controls did not exist to ensure the SWCAP was submitted in a timely manner and prepared in accordance with Federal regulations (Attachment A, Pages 3 and 4). The corrective action plan indicates that the Montana Department of Administration has assumed the SWCAP preparation process (Attachment A, Page 9).
3. State policies and procedures regarding limits for the accumulation of employee vacation leave were not followed, resulting in unallowable costs of \$57,777 being charged to various Federal agencies (Attachment A, Pages 5 and 6). The corrective action plan indicates that policies and procedures will be followed to ensure compliance with State laws (Attachment A, Page 10).
4. Funds from a partial federally funded employee group benefit plan account were inappropriately used for costs associated with the voluntary employee healthcare reimbursement fund (Attachment A, Pages 7 and 8). The corrective action plan indicates that the Department of Administration is seeking sufficient revenue to reimburse the fund (Attachment A, Page 11).

We recommend that SSA:

1. Determine whether recovery of SSA's portion of the \$32,597 in volume discount rebates identified in the single audit and future rebates is appropriate based on the agreement between HHS and the State of Montana.
2. Ensure the Montana Department of Administration has developed adequate controls over the accurate and timely completion of the SWCAP.
3. Determine the portion of the \$57,777 from excess vacation leave that was charged to SSA and recover the unallowable costs.
4. Verify that the employee group benefit plan was reimbursed.

Page 3 – Candace Skurnik

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions contact Shannon Agee at (816) 936-5590.

A handwritten signature in black ink, reading "Patrick P. O'Carroll, Jr." with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachment

Section III – Federal Award Findings and Questioned Costs

Finding 2-4: Various Federal Agencies

CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section (C)(1)(i), requires that costs paid with federal funds must be net of all applicable credits to be allowable under federal awards. Federal regulation, 2 CFR 225, Appendix A, Section (C)(4)(a), describes applicable credits as those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to federal awards. Such transactions include purchase discounts and rebates.

Condition: In fiscal year 2005-06, the Department of Administration (department) changed the way the state's purchasing card and statewide fueling network programs were funded. Both of these programs are Internal Service Funds and should be funded with user charges. The programs were funded in fiscal year 2005-06 with volume discount rebates from credit card companies involved in the programs. During the fiscal year, the department received volume discount rebates of \$93,492 and \$15,165, respectively, in excess of costs in the procurement card and fueling network card programs but did not allocate the rebates back to the paying entity. A portion of the rebates resulted from purchases charged to federal funds. We reported this issue to the department in October 2006. In June 2007 the department remitted a portion of the fiscal year 2005-06 rebates to the U.S. Department of Health and Human Services. The department plans to calculate and remit the federal share of fiscal year rebates in October 2007.

Questioned Costs: In fiscal year 2005-06, operating expenditures from federal funds totaled approximately 30 percent of total state operating expenditures. As a result we question costs of 30 percent of the total excess rebates, or \$32,597 paid from all federal programs using the procurement card. In June 2007 the department remitted \$19,540 to the U.S. Department of Health and Human Services.

Context: The volume discounts based on card usage generate revenue in excess of the department's costs. The department keeps all rebates even though it is the users of the cards that are enabling the department to receive the rebates. Rebates are earned through transaction volume and prompt payment.

Effect: The department is not in compliance with federal requirements, which resulted in rebates not being allocated back to the paying federal funds and questioned costs.

Cause: Department personnel stated the volume discounts come from the credit card servicers, not the merchants who sold the goods or services to state agencies. As a result, the department believes these payments constitute an incentive payment to induce the department to conduct credit card activity with the servicer rather than a reduction of the good or service purchased. We believe the volume discounts are an applicable credit because the discount is a percentage of total credit card purchases and off-sets the cost of providing the service. Department management further stated that developing and maintaining the data necessary to properly allocate the rebates could be expensive. The department cannot identify the funding source from the credit card statements, and does not have access to data from which to allocate the rebate to federal funding sources.

Recommendation: We recommend the Department of Administration allocate volume discount rebates from credit card companies to federal expenditures as required by federal regulations.

Section III – Federal Award Findings and Questioned Costs

Finding 2-5: Various Federal Agencies

CFDA # Various

Criteria: OMB Circular A-133, Section .300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that have a material effect on each of its federal programs. Under provisions of the contract for the preparation, submission, and negotiation of the state's annual Statewide Cost Allocation Plan (SWCAP), the consultant is required to maintain records of the SWCAP and supporting information. Federal regulation, 2 CFR 225, Appendix C, Section (D)(4), requires all cost allocation plans be submitted within six months prior to the beginning of each of the state's fiscal years in which it proposes to claim central service costs. Extensions may be granted on a case-by-case basis.

Condition: The department contracts with an outside party to prepare and submit the state's annual SWCAP. The department does not have adequate controls to ensure the SWCAP is submitted in a timely manner or accurately prepared, according to federal regulations, by the outside party. The Montana Single Audit Report for the two fiscal years ended June 30, 2005, included a recommendation to the department regarding the timeliness and accuracy of the SWCAP. We determined the recommendation had not been implemented as of the end of fiscal year 2006-07. We noted the department had plans to develop specific procedures for the next submitted SWCAP to address the control portion of the recommendation and ensure the SWCAP is accurately completed. However, the department continued using the fiscal year 2002-03 SWCAP through fiscal year 2006-07.

Questioned Costs: No questioned costs identified.

Context: The fiscal year 2005-06 SWCAP was submitted five months after the extension deadline. The fiscal year 2006-07 SWCAP was submitted 16 days after the extension deadline.

Effect: The department is not in compliance with federal regulations regarding the timely submission of the SWCAP. The untimely submission of the annual SWCAP has not affected the review and approval process as the federal government is behind schedule on

their review of SWCAPs. The department received approval of their fiscal year 2003-04 and 2004-05 SWCAPs in fiscal year 2006-07.

Cause: Contractor personnel stated another formal extension was not requested for the 2005-06 SWCAP at the end of October 2005, but they had verbally discussed the current SWCAP with the federal agent.

Recommendation: We recommend the Department of Administration develop adequate controls to ensure the SWCAP is accurately completed and submitted timely in accordance with federal regulations.

Section III – Federal Award Findings and Questioned Costs

Finding 2-18: Various Federal Programs
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C (1)(c), indicates expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. Section 2-18-617, MCA, limits the accumulation of employee vacation leave to twice the amount an employee earns in a calendar year. Leave accumulated above these amounts at the end of the calendar year is considered excess and must be used by the employee within the first 90 days of the next calendar year. If the employee requests and management denies the use of excess leave during the 90-day period, forfeiture of the leave may be delayed until the end of the calendar year. In no case does the law allow excess vacation leave to be held past the end of a calendar year.

Condition: The Department of Public Health and Human Services (department) has historically allowed excess vacation leave to be carried forward rather than forfeited as required by state law. In an effort to manage employees' excess vacation leave balances, the department implemented an excess leave policy in February 2004. This policy allows the carry forward and use of excess vacation leave beyond the amount allowed by state law. The department allowed 11 employees to carry forward excess annual leave until January 2007 when excess leave was finally forfeited.

Of the 11 employees allowed to carry forward excess annual leave:

- ♦ Two employees used various amounts of their excess vacation leave in calendar years 2005 and 2006 instead of forfeiting the leave as required by state law. The value of excess leave used in calendar years 2005 and 2006 was \$22,150.
- ♦ The department paid bonuses totaling \$129,000 to five employees under the department's broadband pay plan during calendar years 2005, 2006, and 2007. The bonuses were paid at various times during those years and each payment was calculated using the employees' pay rate times the amount of excess leave that was forfeited.
- ♦ Two employees were paid excess vacation leave upon termination:
 - » One employee had excess vacation leave balances dating back to calendar year 2000. The department allowed the employee's excess leave balance to increase each year until the employee resigned in December 2005. At that time, the employee's accumulated leave balance was 1,713 hours.

The maximum leave this employee could have legally accumulated as of December 2005 was 768 hours. The employee's total accumulated leave balance of 1,713 hours, including the 945 hours of excess vacation leave, was included in the final termination payout calculations. The dollar value of the excess vacation leave paid to this employee in calendar year 2005 was approximately \$41,600.

- » A second employee's termination pay included approximately 100 hours of excess vacation leave totaling \$2,100 in calendar year 2005.

Questioned Costs: The excess vacation leave paid to the department's employees was allocated to federal programs through direct charges or through its cost allocation plan. Approximately \$55,000 in excess vacation leave payments was allocated to various federal programs. The value of excess leave used by department employee's resulted in \$2,777 being charged to federal programs. We question a total of \$57,777 in costs charged to various federal programs in calendar years 2005, 2006, and 2007.

Context: Out of approximately 2,800 employees, the department allowed 11 employees to carry forward annual leave in excess of the amount allowed under state law. As of January 2007, the department does not have any employees with accumulated vacation leave balances in excess of the amount allowed under state law and policy.

Effect: Paying employees bonuses for vacation leave amounts in excess of those allowed by law circumvents the leave forfeiture provisions of state law. Since the amounts paid to the department's employees and the value of the excess vacation leave used by the department's employees is not allowable under state law, it is not allowable under federal regulations.

Cause: Department management said they implemented an excess vacation leave plan in February 2004 to eliminate the excess vacation leave recorded on the departments' records. As part of the department's plan to reduce excess leave, management paid bonuses to employees under the department's broadband pay plan. Management said the broadband pay plan allows employees to be compensated for extra effort and a job well done. They said the excess vacation leave was used as a basis for the bonus calculations since they needed a way to value the employees' extra effort. However, only the department's top management personnel with excess vacation leave balances were paid bonuses.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Continue to enhance compliance with state law related to vacation leave, and
- B. Charge only allowable leave costs to federal programs.

Section III – Federal Award Findings and Questioned Costs

Finding 2-41: Various Federal Agencies

CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C(1)(c), states that expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. Section 2-18-812(3), MCA, requires all reserve funds and premiums paid to the state employee group benefit plan account within the state self-insurance fund to be expended for claims under the plan.

Condition: VEBA is a voluntary plan employees can elect to participate in to pay health care costs. Once the election is made, a designated number of sick leave hours can be converted to a contribution to the member's account. In order to fund the start up costs of the plan, the Department of Administration (department) received a loan. The department made transfers, which were not for claims, from the employee group benefit plan account to VEBA during the audit period to repay the balance of the loan and fund operating costs. The employee group benefit plan account is an Internal Service Fund funded by premiums paid. A portion of those premiums were paid with federal dollars.

Questioned Costs: We question the department's use of federal funds to pay VEBA program startup costs, estimated at \$65,038.

Context: In fiscal year 2004-05, \$150,000 was transferred to VEBA. In fiscal year 2005-06, an additional \$232,576 was transferred. Of the total \$382,576 transferred, \$252,911 was used to pay off the balance of the loan.

Effect: As a result of the transfers, the department is not in compliance with the restriction in statute on what state employee group benefit funds can be expended on or how the plan can pay administrative expenses. Additionally, since the employee group benefits fund is an Internal Service Fund and fees must be commensurate with costs, the transfer could result in increased fees to cover the cost of the transfer and therefore forcing all state employee health plan participants to essentially pay a portion of the operating costs of a voluntary account.

Cause: During fiscal years 2004-05 and 2005-06 the department did not have enough funds to pay off the balance of the loan and to operate the VEBA plan. The Health Care

and Benefits Division personnel determined a transfer from the employee group benefits reserve funds to the VEBA fund would be the best way to benefit the employees or retirees who ultimately had paid into the reserve fund.

Recommendation: We recommend:

- A. The Department of Administration limit group benefit expenses to plan claims and fund the volunteer employee benefit account from plan revenue as required by state law.
- B. The VEBA fund reimburse the group benefits fund \$382,576 for the transfers made in fiscal years 2004-05 and 2005-06.

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-1	12.400, 12.401	The Department of Military Affairs (DMA) has established procedures to ensure compliance with bidding requirements and appropriate segregation of duties.	John Wheeler and Dan Hubber, Military Affairs	Completed
Finding #2-2	97.067, 97.004	The DMA has established procedures to ensure that only allowable costs are charged to federal programs.	Dan McGowan, DES Military Affairs	Completed
Finding #2-3	12.400, 12.401	The DMA has a certification clause in all contracts to ensure contractors are not suspended or debarred.	Dan Hubber, Military Affairs	Completed
Finding #2-4	Various	The Department of Administration (DOA) has implemented a process, with the federal government's approval, that provides an annual payment to the Federal Department of Health and Human Services for the estimated federal share of the rebate.	Paul Christofferson, Administrator Fin. Serv. Div.	Completed
Finding #2-5	Various	The DOA assumed the SWCAP preparation process, implemented a SWCAP checklist and is either current on the submission of plans or has received extensions from the federal government for the related plans.	Paul Christofferson, Administrator Fin. Serv. Div.	Completed
Finding #2-6	66.458, 66.468	A check of the Debarred and Suspended Parties list has been added to the Loan Closing Checklist of both loan programs.	Dean Rude, Department of Environmental Quality (DEQ), Chief Financial Officer	Completed
Finding #2-7	Various	1) DEQ moved the \$130,560 discount from the Internal Service Fund to the General Fund and appropriate State and Federal Special Revenue Funds. 2) Accounting personnel responsible for processing worker's compensation discounts and refunds have been educated on the requirements of MOM 2-8070, Volume Discounts.	Dave Hamer, Accounting Manager, DEQ	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007**

Finding #	CFDA #	CAP Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-17	10.557	The local agency whose charts did not contain the required documentation is working with DPHHS to proceed through a corrective action plan specific to their organization. This agency will be monitored at least quarterly until DPHHS determines that the contractor is in full compliance with all WIC program requirements and has fully remedied the documentation deficiencies in all participant files.	Joan Bowsher, DPHHS	6/30/2008
Finding #2-18	Various	The DPHHS will continue to comply with existing policies and procedures to ensure compliance with the related state laws. The department will discuss cost allowability with our federal granting agencies.	Bill Kloker, DPHHS	Completed 6/30/2008
Finding #2-19	93.558	The Human and Community Services Division increased training, clarified policy, and increased scrutiny by regional policy specialists. Placing the new Deficit Reduction Act work participation requirements into place prompted even further review of policy, procedure, and monitoring functions.	Linda Snedigar, DPHHS	Completed
Finding #2-20	93.778	Procedures have been modified requiring the completion of drug utilization reporting within 60 days required by federal regulation.	Daniel Peterson, DPHHS	Completed
Finding #2-21	Various	Department of Labor and Industry (DOLI) staff have been made aware of the policies regarding excess leave. Periodic reports will be run by payroll staff to monitor employees accruing excess leave, and to determine that such leave is either taken or forfeited per the policy.	Shane Sieret, Chief, Fiscal Support Bureau, DOLI	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-40 (continued)		Furthermore, the reserve amount questioned by the auditors is less than 5% of the total plan expenditures in fiscal 2006-07. Our analysis and documentation indicates the reserve level is reasonable when compared with the risks of administering a self-insured plan. Operating an insurance plan in accordance with actuarial principles is the minimum standard set by state and federal law; it is the bar below which the plan must not fall. The plan, while utilizing an actuary, must retain its responsibility and obligation to set the reserve at an amount we believe to be sufficient to pay plan obligations under our unique circumstances. Anything less would be irresponsible and could negatively impact the health insurance coverage of over 16,000 MUS employees, retirees, and their eligible dependents.		
Finding #2-41	Various	A. The DOA has implemented steps to comply with this recommendation. Legislation has been proposed and passed to permit additional funding sources for the program to enable self-sufficiency. Changes in administration of the program to reduce operating expenditures are being implemented. B. Based on changes outlined in A. above, the Department is seeking to increase revenue sufficient to permit the recommended reimbursement to the group benefits fund.	Connie Welsh, Health Care and Benefits, DOA	6/30/2009
Finding #2-42	97.004 97.067	The Department of Military Affairs (DMA) has assigned responsibility for reviewing sub recipient audits and taking necessary action as required by federal regulations.	Dan McGowan, DES Administrator Military Affairs	Completed
Finding #2-43	12.401	The DMA has developed procedures to ensure valid contracts are in effect prior to incurring expenditures.	Dan Hubber, Military Affairs	Completed

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.