OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE
STATE OF COLORADO
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002

December 2003 A-77-04-00004

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: December 2, 2003 Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Colorado for the Fiscal Year Ended June 30, 2002 (A-77-04-00004)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Colorado for the Fiscal Year ended June 30, 2002. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Colorado State Auditor 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 State Auditor 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 Colorado 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 Human Services (DHS) is the Colorado DDS' parent agency.

The single audit reported that cash draws for the DDS were not in compliance with the Cash Management Improvement Act (CMIA) agreement. The corrective action plan indicated that CMIA training is being provided to staff and new CMIA procedures are being developed (Attachment A, pages 1 through 4).

We recommend that SSA ensure DHS has implemented procedures for DDS draws of Federal funds in accordance with 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.

- Year end financial reports were not complete and accurate (Attachment B, pages 1 through 4).

- The Department of Personnel and Administration did not (1) segregate payroll duties, (2) have adequate supervisory controls over payroll calculations, and (3) review weekly and bi-weekly payroll reports for accuracy (Attachment B, pages 5 through 9).

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

Steven L. Schaeffer

Steven L. Schaeffer

Attachments

Department of Human Services

Introduction

The Department of Human Services is responsible, by statute, for managing, administering, overseeing, and delivering human services in the State. While many of these services are provided through county departments of social services, the Department is also responsible for the direct operation of a number of facilities that provide direct services, including mental health institutes, nursing homes, and youth corrections. Please refer to page 37 in the Financial Statement Findings section for additional background information.

Compliance With the Cash Management Improvement Act

In Fiscal Year 2002 the Department of Human Services (DHS) expended $753 million for the administration of 75 federal programs, including programs at four of the State's nursing homes. The Department operates on a reimbursement basis with the federal government, fronting general fund dollars for federal programs prior to requesting federal reimbursement for the appropriate share. This reimbursement process is governed by the federal Cash Management Improvement Act (CMIA). The purpose of CMIA is to minimize the time between when a state makes an expenditure and when the federal reimbursement is received so neither party incurs a loss of interest on the funds. In other words, the intent is that the payment issued by the Department should clear the State's bank on the same day the federal reimbursement is received for the related expenditure.

According to CMIA, the State must enter into a formal agreement with the federal Treasury Department to establish reimbursement schedules for selected federal programs awarded to the State. Under Colorado's agreement, 13 of the Department's programs were covered under CMIA for Fiscal Year 2002. Per the agreement, the Department should draw down federal funds three business days after expenditures are incurred or payments are mailed, depending on the method of payment (electronic funds transfer or warrants, respectively). In practice, this means that the Department should request reimbursement for a qualifying expenditure the third day after an electronic funds transfer (EFT) transaction is approved on COFRS or four days after a payment voucher for a warrant is approved on COFRS. The 13 programs covered under CMIA accounted for approximately $624 million, or 83 percent of the Department's total federal expenditures in Fiscal Year 2002.

During our prior years' audits, we have identified ongoing problems with the Department's cash management related to federal programs. Specifically, in Fiscal Year 2001 we found problems with the Department's draw patterns for all of its 14 programs covered under the CMIA Agreement. For example, we found that the Department's receivable balances for each of these programs represented as much as five months of expenditures outstanding. During our Fiscal Year 2002 audit, we found that the Department made a concerted effort during the year to address its cash management problems, including improving its monitoring and oversight of federal drawdowns. The Department implemented a detailed tracking system showing the transactions automatically generated by COFRS, which aided the Department in becoming aware of timeliness issues related to federal drawdowns and enabled it to investigate problems sooner. While the results of our testwork discussed below indicate that the Department has made substantial improvements in cash management, they indicate the Department should further ensure that all draws for EFT payments are made timely and in accordance with the CMIA agreement.

Results of Draw Pattern Testing

In order to determine if the Department followed the draw pattern contained in the formal agreement during Fiscal Year 2002, we tested a sample of 87 warrant and electronic funds transfers for CMIA-covered federal grants. Specifically, we determined the number of days between when the federal expenditure was incurred or when the warrant was mailed, depending on the type of payment, and when federal reimbursement was requested, or the "draw pattern." The results of our testwork are contained in the following table.

Colorado Department of Human Services
Cash Management Patterns
Fiscal Year 2002

Draw Pattern in Days

Electronic Funds Transfer[1]	Sample Transactions			Warrants[2]	Sample Transactions		
	Number	%	Dollars		Number	%	Dollars
0-1 days	0	0%	$0	0-1 days	0	0%	$0
2 days	0	0%	$0	2 days	35	66%	$959,000
3 days (required under CMIA agreement)	12	35%	$1,438,000	3 days (required under CMIA agreement)	13	24%	$41,000
4 days	20	59%	$110,000	4 days	3	6%	$49,000
8 days	2	6%	$14,000	5 days	2	4%	$18,000
TOTAL	34			TOTAL	53		

Source: Office of the State Auditor analysis of Department and COFRS data.
[1] Per the State's agreement with the federal Treasury Department, the Department should request reimbursement of federal funds three days after payments are made through Electronic Funds Transfers (EFTs).
[2] Per the State's agreement with the federal Treasury Department and our discussions with Department and COFRS staff regarding the timeframe required for warrant payments, the Department should request federal funds reimbursement three days after warrant payments are mailed.

For EFT payments, our testwork indicates that in some instances the Department is fronting state general funds longer than required by the draw schedule contained in the formal CMIA agreement. In 65 percent of the items tested, federal draws were requested within four or eight days rather than three days as required. From the perspective of the federal government, this is not an issue because federal funds are not being requested sooner than specified in the CMIA agreement. Rather, the delay means that the State is about one to five days behind in requesting federal funds and thus loses interest on those funds for that period.

On the other hand, for warrant payments, the Department requested federal reimbursement one day earlier than allowed by the draw schedule for 66 percent of the transactions tested. This means that the State could be required to pay interest to the federal government on the early payments.

According to the terms of the CMIA agreement and guidance the Department has received from the Office of the State Treasurer, the Department should draw federal funds three days after EFT payments are approved on COFRS and four days after warrants are approved on COFRS. However, Department staff indicate that they currently use the three-day draw schedule for both types of payments. Thus, the

Department should revise its existing federal draw procedures for warrant payments to ensure draws are made in compliance with the CMIA agreement. Further, the Department should continue to improve its draw patterns for EFT payments to lessen the potential loss of interest to the State.

(CFDA Nos. 10.551, 10.555, 10.561, 84.126, 93.558, 93.563, 93.568, 93.575, 93.596, 93.658, 93.667, 93.959, 96.001; Food Stamps, National School Lunch Program, State Administrative Matching Grants for Food Stamp Program, Rehabilitation Services - Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families, Child Support Enforcement, Low-Income Home Energy Assistance, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Foster Care - Title IV-E, Social Services Block Grant, Block Grants for Prevention and Treatment of Substance Abuse, Social Security - Disability Insurance; Cash Management)

Recommendation No. 61:

The Department of Human Services should continue to improve its cash management for federal programs by ensuring federal draws are made timely and in accordance with the CMIA agreement. This should include revising its federal draw procedures for warrant payments to reflect the requirements of the CMIA agreement.

Department of Human Services Response:

Agree. The Department of Human Services will continue to work toward processing federal drawdowns so that the cash is received from the federal treasury on the same day as the cash leaves the State's bank account for federal expenditures. This will be done by meeting with the Division of Information Technology to ensure that all parties understand the relationship and timing of document processing from the time a request for payment is entered into the State's accounting system through the date a warrant is sent out or a request is sent to the bank to transfer payment electronically. The Department will also meet with the appropriate personnel at the Office of the State Treasurer to gain an understanding of when the cash is received by the State's bank in relation to when the federal drawdown request is made. The Department's drawdown procedures will be modified accordingly and staff will be trained. We will also work with the Office of the State Treasurer to clarify wording in the federal/state agreement to reflect the flow of documents and cash.

Implementation Date: March 31, 2003.

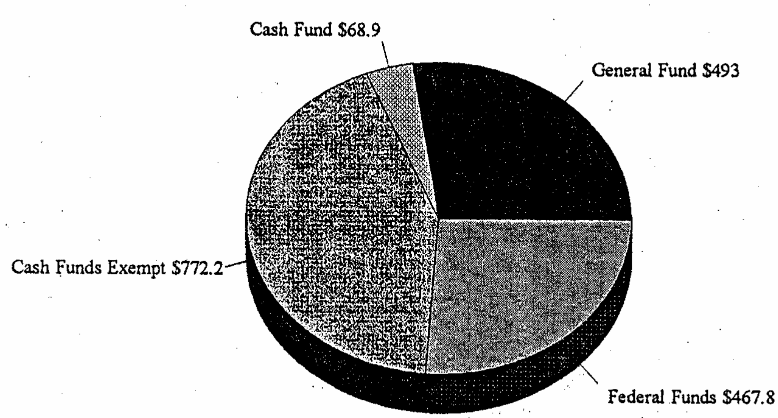
Department of Human Services

Introduction

The Department of Human Services was created on July 1, 1994, to manage, administer, oversee, and deliver human services in the State. The Department supervises the administration of the State's public assistance and welfare programs throughout the State. Most of these programs are administered through local county departments of social services. In addition to these programs, the Department is responsible for operating a number of facilities that provide direct services, including mental health institutes, nursing homes, and youth corrections. In Fiscal Year 2002 the Department expended approximately $1.8 billion and had 4,748.4 full-time equivalents (FTE). The following charts show the operating budget by funding source and the divisions/offices with the largest number of FTE, respectively, for Fiscal Year 2002:

Department of Human Services

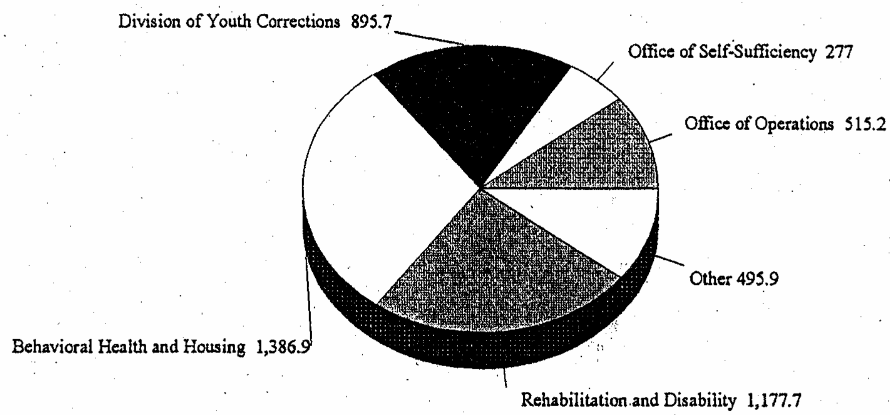
Fiscal Year 2002 Operating Budget by Funding Source (In Millions)



Source: Joint Budget Committee Fiscal Year 2002 Appropriations Report.

Department of Human Services

Divisions With the Largest Number of Full-Time Equivalents (FTE)



Source: Joint Budget Committee Fiscal Year 2002 Appropriations Report.

We reviewed and tested the Department's internal accounting and administrative controls and evaluated compliance with state and federal rules and regulations. Generally, we found that the Department has adequate administrative and internal controls in place to oversee its operations and meet state and federal requirements. We identified four areas where improvements could assist the Department in effectively managing its responsibilities - one related to financial statement issues and three related to federal awards. Please refer to page 177 in the Federal Awards Findings section for recommendations related to federal awards.

Preparation of Department Exhibits

At the end of each fiscal year, the State Controller's Office requires all agencies to prepare and submit reports, or "exhibits," for use in compiling the statewide financial statements and required footnote disclosures. Exhibits provide information such as significant accounting estimates made by agencies, detailed information on federal receipts and expenditures, and schedules of capital lease payments. Within each department, each agency is responsible for preparing its own exhibits. During our Fiscal Year 2002 audit we tested the exhibits submitted by the 12 agencies within the Department of Human Services and found that in some instances the information reported was not correct.

We tested 68 exhibits submitted by the Department. We noted that 11 of the 68 exhibits contained errors. Specifically, errors or omissions were found on the following exhibits:

- **Reporting for Risk Financing and Related Insurance Issues:** This exhibit reports the detail of agencies' arrangements for insuring against risks. DHS was self-insured for workers' compensation between July 1985 and June 1990 and is required to submit this exhibit for pending or ongoing claims. We found that because Department staff failed to make an accounting adjustment, the Department's liability for insurance would have been understated by approximately $150,000 at June 30, 2002.

- **Schedule of Changes in Long-Term Liabilities:** This exhibit reports the changes in long-term liabilities from the previous fiscal year-end. Out of the 12 agencies within DHS that submitted this exhibit, only 2 submitted the exhibit in the format as prescribed in the Fiscal Procedures Manual published by the State Controller's Office. The remaining 10 agencies indicated they deleted one section of the exhibit prior to submission because they had no information to include in that section. However, this section should have been included because it reports amounts due to other funds, and without the section, it was unclear whether the Department had any amounts to report.

- **Schedule of Capital Leases:** The exhibit reports information on payment schedules for capital assets acquired under lease financing. We noted in two instances that amounts recorded on the exhibit did not agree to the amount reported on the State's accounting system, COFRS. These errors totaled approximately $1,100.

- **Schedule of Federal Assistance:** This exhibit is used for the preparation of the State's Schedule of Expenditures of Federal Awards (SEFA). The SEFA reports all expenditures related to federal grants awarded to the State for the current fiscal year. We identified four errors on the initial and revised exhibits prepared by the Department for its largest agency and one state nursing home. In three cases, expenditures totaling approximately $14,000, $124,000, and $15.5 million, respectively, were classified under the wrong federal program. In the fourth case, the beginning accounts receivable balance was less than the amount recorded on COFRS by $300.

- **Major Accounting Estimates in Excess of $1 Million:** This exhibit provides information for major accounting estimates recorded at fiscal year-end. We found that accounts payable reported on the exhibit were erroneously understated by about $363,000 compared with amounts reported on COFRS.

The Department submitted revised exhibits to the State Controller's Office to correct the identified errors. It is important that the Department improve controls over the preparation of exhibits because this information is the basis for disclosing critical information to users in the footnotes of the State's financial statements, and the submission of revisions can contribute to delays in the timely preparation of the State's financial statements. Improvements would also reduce the need for accounting staff to spend additional time preparing revised exhibits.

Recommendation No. 3:

The Department of Human Services should improve controls over the preparation of fiscal year-end exhibits submitted to the State Controller's Office to ensure that information is accurate and complete.

Department of Human Services Response:

Agree. The Department of Human Services will enforce the procedure to have someone other than the preparer review each exhibit before submission to the State Controller's Office beginning August 1, 2003.

Department of Personnel and Administration

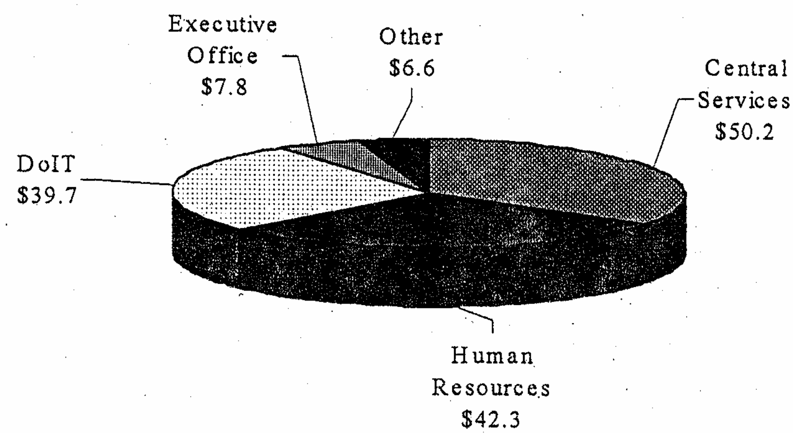
Introduction

The Department of Personnel and Administration's primary function is to support the business needs of state government. The Department administers the classified personnel system, which includes approximately 28,000 full-time employees, (excluding the Department of Higher Education), and provides general support services for other state agencies. The Department of Personnel and Administration includes the following divisions:

- Executive Office
- Human Resources
- Personnel Board
- Central Services
- Finance and Procurement
- Information Technologies (DoIT)
- Administrative Hearings

The Department was appropriated total funds of $146.6 million and 589 full-time equivalent staff (FTE) for Fiscal Year 2002. Approximately 9.7 percent of the funding is from general funds and 90.3 percent is from cash funds. Cash funds include, but are not limited to, vehicle and building rentals, copying, printing, graphic design, and mail services. The following chart shows the operating budget by division during Fiscal Year 2002.

Department of Personnel and Administration
Fiscal Year 2002 Operating Budget by Division
(In Millions)



Source: Joint Budget Committee Fiscal Year 2003 Appropriations Report.

Payroll Processing

In Fiscal Year 2002 the Department of Personnel and Administration had an actual annual gross payroll of approximately \$26.6 million for its 528 full-time employees and an annual gross payroll of approximately \$1.2 million for its 46 part-time employees. During our Fiscal Year 2002 audit we reviewed controls over the monthly and biweekly payroll process. We found three problems as follows:

- Payroll duties were not segregated. One employee directly associated with processing payroll was also reconciling the payroll expense. This employee was also responsible for entering, reviewing, and correcting payroll information without supervisory review.

  The same problem existed during our Fiscal Year 2001 audit. The Department agreed the payroll process duties should be segregated and moved this function from the Division of Human Resources to the Executive

Office where the Department believed there was adequate staff to allow for the proper segregation. However, during our current audit, we found that the duties were still being performed by one employee. Duties related to review of payroll should be separated from those related to data entry functions. Segregating duties in the payroll area is essential for reducing errors and controlling irregularities.

- Withholding documentation contained inconsistencies or was missing information. We reviewed 60 employee files and found nine instances where the marital status and/or the number of personal allowances to be taken on the W-4 (tax withholding) form did not agree with the information on the Colorado Payroll Personnel System. We also found one instance where the W-4 was missing from the employee's file. However, the Department had entered tax withholding information into the Colorado Payroll Personnel System for this employee.

- Biweekly payroll contained calculation errors. We reviewed the manual biweekly payroll calculations for one pay period for 32 employees. Ten out of the thirty-two employee biweekly calculations were incorrect. In total, the employees were underpaid by approximately $275 in gross pay. These errors occurred in the manual calculation of shift differential and overtime pay. We found the Department's internal reconciliation process detected nine of the underpayments. These errors were corrected in the pay period immediately following the payroll in which the errors occurred. One error was not detected until we brought it to the Department's attention. These errors could have been detected earlier if a supervisory review had been in place prior to payroll distribution.

- Compensating controls are inadequate. In our Fiscal Year 2001 audit report, we recommended that all divisions receive and review their payroll expense reports and that each division confirm the accuracy of its monthly and biweekly payroll. This was to compensate for the lack of segregation in the payroll processing section. During our current audit we found that the Department provides the divisions with payroll expense reports, which include the employee's name; gross amount of salary; and number of regular, overtime, and shift differential hours. While the division payroll liaisons were reviewing payroll expense reports to determine whether employees were valid, they were not reviewing the regular, overtime, and shift differential hours worked.

Recommendation No. 13:

The Department ofPersonnel and Administration should improve the payroll function by:

a. Segregating the payroll processing and reconciliation duties.

b. Reviewing employee personnel files and reconfirming that withholding documentation is accurate and complete.

c. Implementing adequate supervisory reviews over the payroll calculation.

d. Ensuring adequate compensating controls are in place if payroll duties are not segregated.

Department of Personnel and Administration Response:

a. Agree. To be implemented March 1, 2003. Vacancies and turnover in the Executive Office have prevented the Department from providing the proper segregation of duties in this area. Staffing has stabilized and we are now in the process of designing, documenting, and implementing adequate controls over payroll. In addition, we will be performing quarterly internal audits of the payroll function. Based on the findings of these audits, procedures will be refined and implemented as necessary.

b. Agree. Implemented September 2002. Each department employee was required to submit updated W-4 data to the Executive Office. This information was then used to update all personnel files within the Department.

c. Agree. To be implemented March 1, 2003. The Department is implementing internal controls over the payroll function that include an independent review of payroll calculations. In addition, we will be performing quarterly internal audits of the payroll function. Based on the findings of these audits, procedures will be refined and implemented as necessary.

d. Agree. Implemented January 2003. Procedures have been refined to allow for adequate compensating controls. Payroll liaisons throughout the

Department independently review monthly and biweekly payroll expense distribution reports to ensure employees are paid appropriately.

Procedures and Controls Over Payment Vouchers

Central Collections, an agency within the Department of Personnel and Administration, is responsible for collecting debts owed to state agencies and local governments and disbursing collections to them. The agency's internal debt collection system, Columbia Ultimate Business System (CUBS), managed 670 client agencies and 867,000 accounts totaling $650 million as of June 30, 2002. In Fiscal Year 2002 Central Collections collected nearly $10.5 million in debts owed and made payments to entities in the amount of $8.7 million. The difference of $1.8 million represents collections fees to Central Collections and private collection companies.

The Department's central accounting staff within the Executive Office (EO) is responsible for reviewing supporting documentation, such as detailed billing information, and approving disbursements of payments to state agencies and local governments. We found that the EO approved Central Collection's payments without reviewing supporting documentation. The same problem existed in our 2001 audit, and at that time the EO agreed to implement procedures to review supporting documentation before approving payments. During our Fiscal Year 2002 audit, EO staff reported that they had asked Central Collections to attach supporting documents to all payment vouchers submitted for approval. However, due to the large volume of documentation required to support individual payment vouchers, Central Collections was not submitting all the documentation necessary to enable EO to determine if a payment was appropriate.

According to EO staff, the Department has considered alternative procedures for determining the appropriateness of payments related to Central Collections, such as conducting periodic internal audits of Central Collections, establishing segregation of duties among staff within Central Collections to allow the agency to approve its own payments, or a combination of both. However, as of the end of our audit, the Department had not implemented alternative procedures. Although we did not find errors related to Central Collections payments during our Fiscal Year 2002 audit, the Department should establish a method for determining the appropriateness of Central Collections payments in order to mitigate the risk of errors.

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.