OFFICE OF THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE STATE OF NEW YORK FOR THE FISCAL YEAR ENDED MARCH 31, 2002

January 2004 A-77-04-00005

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: January 21, 2004 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 New York for the Fiscal Year Ended March 31, 2002 (A-77-04-00005)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of New York for the Fiscal Year ended March 31, 2002. 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. 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 KPMG LLP 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 New York 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 Social Services, Office of Temporary and Disability Assistance (OTDA) is the New York DDS' parent agency.

The single audit reported that OTDA:

1. Allocated costs to the New York DDS based on methodologies that were not approved by HHS' Division of Cost Allocation (DCA). The corrective action plan indicated that OTDA's cost allocation plan was approved by DCA subsequent to the audit period and costs were allocated to the DDS based on the approved plan. (Attachment A, pages 1 through 3).

2. Miscoded payroll and voucher expenses in its accounting system totaling $60,895. The miscoded expenses may have resulted in improper charges to various Federal programs, including SSA. The corrective action plan indicated that OTDA implemented an electronic timecard to ensure that payroll expenses are coded correctly and strengthened the voucher coding review process (Attachment A, pages 4 through 6).

We recommend that SSA:

1. Verify whether the indirect costs charged to the New York DDS during April 2001 through March 2002 were in accordance with the HHS approved cost allocation plan and collect any unallowable costs.

2. Determine if the miscoded expenses of $60,895 resulted in inappropriate charges to the New York DDS and collect any unallowable costs.

The single audit also disclosed that OTDA did not have procedures in place for electronic benefit transfer reconciliations that involved cash draws of Federal funds. Although this finding was not specifically identified to SSA, it may impact 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 (Attachment B, pages 1 and 2).

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

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Attachments

State Administrative Matching Grants for Food Stamp Program (10.561)
Temporary Assistance for Needy Families (93.558)
Child Support Enforcement (93.563)
Low Income Home Energy Assistance (93.568)
Child Care and Development Block Grant (93.575)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)
Foster Care - Title IV-E (93.658)
Adoption Assistance (93.659)
Social Services Block Grant (93.667)
Medical Assistance Program (93.778)
Social Security-Disability Insurance (96.001)

Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Reference: 02-07

Requirement

The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87, and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapters II, III and XIII, and 42 CFR Chapter IV Subchapter C; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency. (45 CFR Section 95.207)

Finding

The Offices and Department, on a quarterly basis, created Central Office Cost Allocation Claims (COCACs) which accumulated direct costs and allocated indirect costs through allocation accounts. All central office and certain local districts are assigned to an accumulator code.

The COCACs contained approximately $547 million in allocated costs covering approximately 59 separate allocation methodologies during the period April 1, 2001 through March 31, 2002. The methodologies were established to allocate overhead costs related to the programs formerly administered by Department of Social Services. Since January 1998, these programs have been administered by the Office of Temporary and Disability Assistance, the Office of Children and Family Services, and the Department of Health. Effective January 1998, the Offices and Department revised and implemented methodologies to reflect the current organizational structure of the two Human Service agencies. As part of our testwork, we analyzed the dates that the allocation methodologies were federally reviewed and noted that there were none that had been approved by the Federal government as of the Federal fiscal year ended March 31, 2002. As such, the Offices were allocating costs based on not yet approved methodologies.

In September 2002, the Office received approval for 23 allocation accounts and 24 program accounts for the Office of Temporary and Disability Assistance, as well as the approval of 18 sections of the Offices of Children and Family Services plan.

A similar finding was included in the prior year single audit report on page 30.

Questioned Costs

Cannot be determined

Recommendation

We recommend the Office strengthen policies and procedures to monitor ongoing compliance with the above requirement.

Questioned Costs

Cannot be determined.

III. Agency Response:

The Office of Children and Family Services (OCFS) along with the Office of Temporary and Disability Assistance (OTDA) submitted cost allocation plans to the Division Of Cost Allocation (DCA) as required.

KPMG is correct that as of the end date of the audit period, the plans were at DCA. The "Related Noncompliance" section states "the Offices and Department were not fully in compliance;" this statement is misleading since the regulation requires the State to submit the plans. The Offices have submitted plans as required, and are claiming consistent with the pending plans.

Subsequent to the audit period, a substantial number of the plans were approved by DCA for both OCFS and OTDA.

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Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Reference: 02-08

Requirement

An adequate accounting and statistical system must exist to support claims made under a cost allocation plan. (45 CFR, Subpart E)

Finding

The Offices and Department used the Central Office Cost Allocation System (COCAS) to capture personal service, non-personal service, and training costs for allocation to the various programs. The COCAS involved accumulating direct costs and allocating indirect costs through allocation accounts and required all central office and certain local districts to be assigned an accumulator code.

The Offices maintained a Payroll Allocation Cost System (PACS) whereby it is the responsibility of each employee to determine the accumulator code that best matched their work functions. This accumulator code is to be indicated on each of the employee's time sheets, which were reviewed and approved by the employee's supervisor. The accumulator code that was assigned on the time sheet was the accumulator code that was charged for the employee's time during that pay period, and as a result the accumulator code that was charged on the quarterly Central Office Cost Allocation Claim (COCAC). In the review of the employees' time sheets, we noted that all timesheets were missing the appropriate language certifying that the correct accumulator code was being charged.

During our test work, we selected a sample of 68 employees with total salaries of $3,447,484 from the PACS. We noted 2 individuals, with total annual salaries of $58,760, were coded to the incorrect accumulator code on the PACS. The personal service questionnaires returned by the employees supported the accumulator code the individual charged on their time sheet, which was different from that reported per the PACS. In addition we noted 2 time sheets were missing the accumulator code and 1 time sheet listed a different accumulator code than the PACS, but were correctly charged on the PACS.

In addition, we selected a sample of 55 vouchers for a total of $11,757,468. During our testwork we noted 2 vouchers totaling $2,135 that were coded to the incorrect accumulator code or were determined to be neither necessary nor reasonable to the program. One voucher for $880 was charged to the incorrect program and we were unable to determine if the second voucher for $1,255 was necessary and reasonable.

A similar finding was included in the prior year single audit report on page 32.

Recommendation

We recommend that the Offices and Department strengthen existing procedures to ensure the proper accumulator codes are being charged.

Related Noncompliance

Based on the above, the Offices and Department were not fully in compliance with the above described requirement.

Questioned Costs

Cannot be determined

Related Noncompliance

Based on the above, the Offices and Department were not fully in compliance with the above described requirement.

Questioned Costs

Cannot Be Determined

III. Agency Response:

KPMG undertook a sample of 68 payroll records and 55 vouchers. Based on the review of that sample KPMG recommended that OCFS strengthen procedures.

With regard to the Personal Service, we do not believe any of the cited deficiencies resulted in mischarges. There were some timing issues that were correctly manually. KPMG has raised the issue that the timesheets were missing the appropriate language certifying that the correct accumulator code was being charged. OTDA has implemented an electronic time card system which should eliminate all the cited deficiencies. Among other things, in transmitting the timesheet to the supervisor, the employee certifies that "all entries are proper and correct." Since the accumulator is a required field on the electronic timesheet, this provides the requisite certification. The auditors are correct that the OCFS timesheet does not provide a similar certification. However, OCFS will be implementing the same system during 2003-04 which will rectify the accumulator certification.

With regard to the OTPS, only 2 (both in OTDA) of 55 vouchers were questioned. Of those 2, OTDA agrees that 1 was incorrectly coded. The other was not incorrectly coded, but rather was questioned as to being necessary and reasonable. We believe it is and the citation should be removed. OTDA will be strengthening their review of voucher coding prior to the vouchers being entered into the accounting system.

Food Stamps (10.551)

Office of Temporary and Disability Assistance

Reference: 02-01

Requirement

States that use Electronic Benefit Transfer (EBT) must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported through the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the Food Stamp Program issuance files and settlement data to ensure that benefits are authorized by the state and that funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., on-line purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.12(a), 274.12(g)(1) and 274.12(j)(1)).

Finding

In order to process EBT transactions, the Office contracted with Citicorp for paying the retailers and with Gateway for collecting retailer and participant activity. The Office established a system to reconcile daily the State's benefit account with the EBT contractor records. During our review we noted there were no procedures in place to review the reconciliations to ensure they were completed accurately.

We noted 13 of 15 daily reconciliations sampled contained unresolved reconciling items. Differences were reported between the State's account and Citicorp's transaction records. The Office contends it has been in contact with Citicorp regarding the reconciling items, but neither the Office nor Citicorp have been able to determine the cause of the variances. The difference between Citicorp and the Office's account ranged from $(99,000) to $109,000.

A similar finding was included in the prior year single audit report on page 22.

Recommendation

We recommend that the Office establish policies and procedures to ensure compliance with the above requirement.

Related Noncompliance

Based on the above, the Office was not in compliance with the above requirement.

Questioned Costs

None

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.