OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE STATE OF COLORADO FOR THE FISCAL YEAR ENDED JUNE 30, 2003

December 2004 **A-77-05-00004**

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 7, 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 Colorado for the Fiscal Year Ended June 30, 2003 (A-77-05-00004)

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, 2003. 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. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Colorado 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 the State Treasurer did not evaluate the reasonableness of payment clearance patterns when it changed financial institutions. The Cash Management Improvement Act requires that payment clearance patterns be reviewed when a State changes financial institutions to prevent untimely draws of Federal funds and interest liabilities to the Federal government. The corrective action plan indicated that the State Treasurer will calculate new clearance patterns for payments issued by the State when data for a complete fiscal year are available (Attachment A, pages 1 through 3).

We recommend SSA verify that payment clearance patterns were reviewed by the State Treasurer for reasonableness.

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 over the accounting function were weak, specifically, legal spending limits were circumvented, reconciliations were not adequate, expenditure information was not properly reported, and payroll documentation was not adequate (see Attachment B, pages 1 through 3).

- Supporting exhibits for year end financial reports were inaccurate (see Attachment B, pages 4 through 7).

- Supervisory controls over employee timesheets and payroll were not adequate (see Attachment B, pages 7 and 8).

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

Steven L. Schaeffer

Steven L. Schaeffer

Attachments

Office of the State Treasurer

Introduction

The Office of the State Treasurer (Treasury) is established by the State Constitution. The Treasurer is an elected official who serves a four-year term. Please refer to the introduction in the Office of the State Treasurer chapter within the Financial Statement Findings section for additional background information.

The following was prepared by the public accounting firm of Grant Thornton, LLP, which performed the Fiscal Year 2003 audit work at the Office of the State Treasurer.

Cash Management Improvement Act

The Cash Management Improvement Act (CMIA) regulates the transfer of funds between federal and state agencies for federal grants. The CMIA regulations require the State to match the disbursement of state general funds for federal programs with federal reimbursement. States are required to enter into a Treasury-State Agreement (Agreement) with the U.S. Treasury. This Agreement specifies the procedures that the State will follow to carry out the matching of disbursements and reimbursements.

The State has completed the fourth year of the current Agreement. The Agreement lasts five years (through Fiscal Year 2004) and may be modified by either party.

Treasury changed financial institutions in Fiscal Year 2003. Under the provisions of the CMIA, Treasury should evaluate the reasonableness of clearance patterns for payments issued by the State whenever a significant change, as defined in the CMIA, occurs. A change in financial institutions would be a significant change because clearance patterns could be significantly different.

Without a review of clearance patterns, the State could potentially earn interest on federal funds in excess of amounts allowable by the federal government, which would result in a liability to the United States Treasury. On the other hand, if the State drew down federal funds later than allowable by the federal government, the State could potentially lose interest. An evaluation of clearance patterns under the new financial institution would ensure that the State has achieved interest neutrality as required by the Act.

(See Appendix A, Treasury, for listing of applicable CFDA Nos.; Cash Management.)

Recommendation No. 76:

The Office of the State Treasurer should review and evaluate the reasonableness of the clearance patterns for payments issued by the State, given the change in financial institutions during Fiscal Year 2003.

Office of the State Treasurer Response:

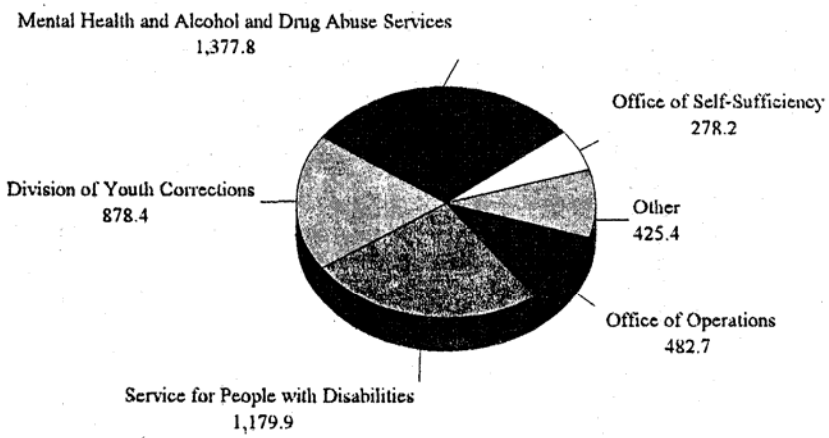
Agree. The Office of the State Treasurer will calculate new clearance patterns for payments issued by the State in the third quarter of 2004 after payment data for a complete fiscal year become available.

Implementation date: September 2004.

FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
		Office of the State Treasurer				
24	104	Adjust the Fiscal Year 2004 allocations to counties to correct the Fiscal Year 2003 error related to vehicle registration data and implement review procedures over Highway Users Tax Funds distributions to ensure that the amounts are calculated correctly before issuing the payments to State agencies and local governments.	N/A	Agree	9/2004	N/A
76	226	Review and evaluate the reasonableness of the clearance patterns for payments issued by the State, given the change in financial institutions during Fiscal Year 2003.	10.551,10.553, 10.555, 10.557, 10.558, 10.561, 14.228, 14.871, 17.207, 17.225,17.253, 17.258, 17.259, 17.260,17.261, 20.205, 66.802, 84.010, 84.126 84.027, 84.340, 93.558, 93.563, 93.568, 93.575, 93.596, 93.658, 93.667, 93.767, 93.778, 93.959, 96.001 (C) USDA, HUD, DOL, DOT, EPA, DOE, HHS, SSA	Agree	9/2004	Doug Windes (303)866-3253
		Department of Transportation				
25	113	Implement a secure program to track and reconcile credit card purchases.	N/A	Agree	9/2004	N/A

Department of Human Services
Fiscal Year 2003 Full-Time Equivalents (FTE) by Major Areas



Source: Joint Budget Committee Fiscal Year 2004 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 seven areas where improvements could assist the Department in effectively managing its responsibilities — five related to financial controls and two related to federal awards. Please refer to the Department of Human Services chapter in the Federal Awards Findings section for recommendations related to federal awards.

Accounting Oversight and Controls

The Department of Human Services' Office of Operations includes the Divisions of Accounting, Facilities Management, Procurement, and County Allocations. Staff within the Division of Accounting are responsible for performing all accounting-related functions for the Department, including entering and approving all expenditure transactions on the State's accounting system (COFRS); preparing and submitting year-end reports, or "exhibits," to the State Controller's Office for preparation of the State's financial statements and related disclosures; tracking and requesting federal reimbursement for federal grant program expenditures; preparing and submitting

Recommendation No. 5:

The Department of Human Services should strengthen overall accounting controls by:

a. Providing ongoing staff training in critical areas including accounting-related statutory requirements and legal obligations.

b. Establishing written procedures for all basic accounting functions and requiring that adequate documentation be maintained for all entries.

c. Implementing the appropriate level of supervisory review over all accounting activities.

d. Reviewing all programs to ensure that the expenditures are properly recorded in compliance with spending authority.

Department of Human Services Response:

Agree. Due to the turnover in key staff positions and increased demands for information from the Joint Budget Committee and the Office of State Planning and Budgeting during year-end close and the audit, the necessary levels of training and supervision were not provided to accounting staff new to their positions. To remedy the situation, which continues with nine additional retirements to date in Fiscal Year 2004, the Division of Accounting is working with the State Controller's Office to provide additional training to all staff. An effort will be made to make staff aware of the Department's Accounting Manual which covers all basic accounting functions, and additional emphasis will be placed on state and federal laws and regulations. In the area of exhibit preparation and submission, the Deputy Controller will review all exhibits prior to their submission to the State Controller's Office and the auditors. Additional emphasis will be placed on close supervision for employees new to their positions and deadlines for submission of information to the auditors will be monitored and followed-up on a weekly basis. In addition to the regular review of expenditures for propriety during the fiscal year, increased emphasis will be placed on review of entries made to programs at year-end.

Implementation date: October 2004.

financial reports for federal programs; and ensuring the proper management and recording of the Department's capital assets. The Division was allocated 130 FTE and $6.7 million for staff salaries and benefits for Fiscal Year 2003.

During our Fiscal Year 2003 audit, we continued to identify problems with the Division's controls over the accounting function. Overall, we have two primary concerns. First, we are concerned with the lack of adherence to statutory requirements that are directly related to the Division of Accounting's responsibilities. Specifically, during Fiscal Year 2003 we found that the Department circumvented legal spending limits related to federal reimbursements received for Title IV-E, discussed in the next section, and we have noted instances of circumvention of spending limits related to the use of unused year-end accounts payable accruals and indirect cost recoveries in recent years. Second, we are concerned with the Department's inability to remedy long-standing weaknesses in accounting controls, such as lack of adequate reconciliations and other procedures related to capital assets to ensure assets are safeguarded, inaccuracies in exhibits submitted for the preparation of the State's annual financial statements, and inadequate documentation to ensure the appropriateness and accuracy of payroll. These areas are all addressed separately in this report. While the Department has agreed to address these weaknesses in prior years, the problems remain and, in the cases of capital assets and exhibit preparation, have worsened. Further, throughout the audit we found that the Department was unable to provide requested documentation in a timely manner.

The problems we identified point to a lack of adequate staff knowledge and training in critical areas. The Department reports that budget cuts and staff turnover have exacerbated the Division's problems. For example, 25 accounting staff, or 19 percent of the Division's appropriated 130 FTE, retired or left the Division for other reasons during Fiscal Year 2003. Further, the Division lost 10 of its appropriated FTE due to budget cuts during the fiscal year. However, strong accounting controls become even more critical when budgets are cut and staff are required to perform new duties. The Department should address basic issues, such as establishing adequate written procedures to ensure accounting functions are performed properly, including appropriate levels of oversight and review of the Division's activities, and requiring that sufficient documentation be maintained to support transactions entered into COFRS in all instances.

The Department of Human Services is one of the State's largest department in terms of both annual expenditures and number of employees. Its operations are complex, involving many federal and state programs, and it maintains a wide variety of activities throughout the State. It is essential that the Department take immediate steps to strengthen overall accounting controls.

Year 2004 and that the results of the inventories are reconciled to the financial records and necessary adjustments made.

Implementation date: July 2004.

d. Agree. All capital asset procedures are currently being reviewed and revised. An emphasis will be made in the procedures and during training sessions prior to year-end close on timely preparation of accurate capital asset reconciliations.

   Implementation date: July 2004.

e. Agree. Fiscal Year 2003 was the year following implementation of the new reporting standards for fixed assets. After implementation in Fiscal Year 2002, the State Controller's Office noted that incorrect expenditure accounts had been used to record microcomputer capital lease payments. Use of the incorrect accounts had continued into Fiscal Year 2003. The new capital asset supervisor placed a high priority on correcting the miscodings, researching where and how the microcomputer leases should be recorded, and developing a database to track microcomputer lease payments and balances. Due to the short time span available for making corrections, the supervisor prepared the entries necessary to get the liabilities correct at June 30. In some cases, the calculations made to arrive at the needed entry were not documented for inclusion with the entries. Currently, proper documentation is being prepared and attached to all entries for capital leases.

   Implementation date: April 2004.

f. Agree. Requests for federal reimbursement of outstanding construction expenditures at the Fitzsimons State Veterans Nursing Home project were brought up-to-date in November 2003. Subsequent requests have been made in a timely manner. The final request should be made by March 31, 2004.

   Implementation date: March 31, 2004.

Exhibit Preparation

At the end of the fiscal year, the State Controller's Office requires that each department submit financial and financial-related information that aids the preparation of the State's financial statements and footnote disclosures. The State Controller's Office requires that all departments submit this information on uniform reports, or "exhibits." During Fiscal Year 2003 we reviewed exhibits prepared and submitted to the State Controller by the Department of Human Services' 13 agencies and found the following errors.

The Department submitted 146 exhibits to the State Controller's Office for Fiscal Year 2003. Forty-nine percent of the exhibits (71 of 146) required at least one revision. Further, 32 of the 71 revised exhibits, or nearly half, were revised due to errors or omissions we identified through our audit. For example, we requested that the Department prepare revised exhibits due to the following problems:

- **Schedule of Federal Assistance (Exhibit K):** This exhibit shows the federal receipts and expenditures for the Department's administration of grant programs, and it is the basis for the State's Schedule of Expenditures of Federal Funds (SEFA) submitted to the federal government each year. We found that $14 million in expenditures for the Low-Income Energy Assistance Program were misclassified on the Department's Exhibit K for its largest agency.

- **Schedule of Capital Leases (Exhibit F1):** The Department is required to report all capital leases on this exhibit. We found the Department did not include the total amount of capital assets under lease, as required by the Fiscal Procedures Manual, for the 15 exhibits submitted. The dollar amount of the exclusions ranged from about $3,000 to $9.4 million, with total exclusions of approximately $10.2 million.

- **Cash on Hand or Deposited With Financial Institutions (Exhibit M):** This exhibit is used to report an agency's cash that is held by a financial institution other than the State Treasurer. In order to meet financial statement disclosures, the State must indicate how safe public funds are (e.g., whether the funds are insured by the Federal Deposit Insurance Corporation, or secured by other means) by classifying these funds into risk categories. We noted three instances in which the Department did not classify funds in the proper risk category. The total of these classification errors was about $9.4 million.

- **Schedule of Changes in Capital Assets for Governmental Funds and Internal Service Funds (Exhibit W1):** This exhibit presents the additions and deletions of capital assets for the fiscal year. We identified three exhibits containing amounts that did not agree to the State's accounting system, COFRS. These errors ranged from approximately $5,400 to $1.8 million and totaled about $1.9 million.

In Fiscal Year 2002 we also identified problems with the Department's preparation and submission of year-end exhibits. Specifically, we found through our testwork that 16 percent of the exhibits contained errors and required revisions. The increase in this error rate to 45 percent for Fiscal Year 2003 indicates the Department is continuing to have difficulties ensuring the information on the exhibits is complete and accurate. The Department should improve controls over the preparation of its exhibits in order to ensure the State's financial statements and related footnotes are accurate and that time required to correct and revise exhibits is minimized.

The Fiscal Procedures Manual provides general descriptions for the preparation of exhibits and the State Controller's Office conducts annual training related to changes in the manual. However, the Department should institute an annual internal training program to be conducted prior to year-end that would address Department-specific issues and provide specific guidance to those Department staff preparing exhibits. Further, the Department should institute a secondary review process for all exhibits prepared to ensure the accuracy prior to submission to the State Controller's Office.

Recommendation No. 8:

The Department of Human Services should improve controls over the preparation of exhibits to increase the accuracy of information submitted to the State Controller's Office and to lessen staff time required to correct and revise exhibits by:

a. Developing and conducting training prior to year-end for staff preparing exhibits.

b. Instituting a secondary review process over all exhibits to ensure their accuracy prior to submission.

Department of Human Services Response:

Agree. Due to medical leave followed by retirement in April of the staff person who had responsibility for exhibits, there was little training time for the person assigned to this position. As a result, exhibits were not begun far enough in advance of the deadline to allow for a proper review prior to submission. It should also be noted that, due to a misunderstanding, several of the exhibits were given to the audit team prior to their submission to the State Controller's Office. Many of the errors noted by the auditors were corrected prior to submission to the State Controller's Office. Several other exhibits submitted to the State Controller's Office had to be revised and resubmitted. For Fiscal Year 2004, training on the preparation of exhibits will be presented by the State Controller's Office and preparation of the exhibits will begin as soon as is reasonable after year-end. The Deputy Controller will perform a detailed review of all exhibits prior to their submission to either the auditors or the State Controller's Office.

Implementation date: September 2004.

Payroll Controls

During Fiscal Year 2003 the Department of Human Services employed over 4,600 full-time equivalents (FTE) and expended over $219.3 million in total payroll costs, representing about 14 percent of the total departmental expenditures. We performed testwork to determine the adequacy of the Department's controls over payroll and noted an area in which the controls need to be improved. Specifically, 21 of the 41 employee time sheets reviewed (51 percent) were not dated by either the employee or the supervisor. We also noted that 9 of the 41 time sheets (22 percent) containing both signatures and dates were dated 20 days or more after the end of the previous pay period.

The Department currently does not require time sheets to be signed within a specified period of time after the end of the pay period or that employees and supervisors provide the date when signing time-sheets. Thus, payroll errors and necessary adjustments may not be identified in a timely manner. Establishing a time-frame for signature, or certification, and requiring that certifications be dated would provide more assurance that payroll is accurate and that necessary adjustments are identified and made timely.

Recommendation No. 9:

The Department of Human Services should improve payroll controls by:

a. Monitoring time sheets to ensure they are dated by both the employee and the supervisor.

b. Establishing a time frame during which time sheets must be certified by the employee and supervisor and requiring that certifications be dated.

Department of Human Services Response:

a. Agree. The Department will revise Timekeeping Policy V-4 to include required date fields for employee and supervisor signatures when certifying timesheets. The Division of Accounting will institute a new practice of reviewing a sample of timesheets from each district on a rotating basis to ensure certification. Required timesheets for the units selected for a designated month will be reviewed for the proper signatures and dates. All exceptions will be reported to the assigned timekeeper, the appropriate Office Manager and Division Director for follow-up.

   Implementation date: March 2004.

b. Agree. The Department will revise Timekeeping Policy V-4 to include a required timeframe for certification of timesheets. The timeframe established will be within 20 days after the close of a Kronos pay period.

   Implementation date: March 2004.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Executive Operations (OEO). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.