
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
HAWAII DEPARTMENT
OF HUMAN SERVICES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

February 2007 A-77-07-00007

**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 5, 2007

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Hawaii Department of Human Services for the Fiscal Year Ended June 30, 2005 (A-77-07-00007)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Hawaii Department of Human Services for the Fiscal Year ended June 30, 2005. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Grant Thornton 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 Grant Thornton 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 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 Hawaii 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 Hawaii DDS' parent agency.

Page 2 – Candace Skurnik

The single audit reported that overtime hours were inaccurately reported on the Time Report of Personnel Services (Form SSA-4514) (Attachment A, pages 1 and 2). The corrective action plan indicated that a supervisory review of the SSA-4514 would be performed prior to authorization by the DDS Administrator and prior to submittal to SSA (Attachment A, page 2).

We recommend SSA ensure that DHS implemented appropriate procedures to verify the accuracy of information on the SSA-4514.

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.

- Fixed assets were not properly recorded in the inventory records (Attachment B, pages 1 and 2).
- Vacation and sick leave records were not properly maintained (Attachment B, pages 2 and 3).

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



Patrick P. O'Carroll, Jr.

Attachments

Department of Human Services
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2005

Ref.
no.

Compliance and Internal Control Findings (continued)

In October of each year, the department's Management Services Office (MSO) sends a memo to the divisions requesting a list of subrecipients that were contracted during the previous year. The listing is used to identify the subrecipients for monitoring purposes.

During the prior-year audit, we noted that while MSO performed subrecipient monitoring for the different programs, no monitoring was done in 2004 on any of the subrecipients who received Child Care funds in 2003. Upon inquiry, we were informed that the program had not provided the names of these entities to the MSO because the program had considered the entities to be vendors and not subrecipients.

We recommended that the program seek guidance from the federal cognizant agency, oversight agency or the federal awarding agency as to the attributes of a subrecipient versus a vendor relationship as they relate to this specific program. Once such guidance is received, the program should evaluate each of its agreements and document the rationale for its decision.

In October 2005, the program received guidance from the Federal Agency indicating that they would consider the providers under the program's service agreements to be subrecipients. Accordingly, the program will consider these providers to be subrecipients in future contracts and supplemental agreements and comply with the applicable subrecipient monitoring requirements prospectively.

Recommendation

We recommend that the program evaluate each of its agreements, document the rationale for its decision and provide the names of the entities determined to be subrecipients to MSO to perform subrecipient monitoring in order to comply with the subrecipient monitoring requirements.

05-13 Improve the Accuracy of Reports

Federal agency: Social Security Administration
CFDA 96.001, Social Security – Disability Insurance (DI)

According to POMS DI 36506.230, the Form SSA-4514, Time Report of Personnel Services, is due quarterly to account for employee time. During our review of the quarterly reports, we noted that 2 out of 4 reports submitted during the year presented incorrect information.

- One report included additional overtime hours.
- One report did not include additional overtime hours as provided for in supporting documents.

The findings described above are primarily due to clerical error/oversight.

Department of Human Services
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2005

Ref. no. **Compliance and Internal Control Findings (continued)**

Recommendation

We recommend that DHS implement review procedures to ensure that information presented on required reports is complete and accurate before it is submitted to the Federal oversight agency.

Ref. no. 05-13 **Improve the Accuracy of Reports**

Auditor's Recommendation: We recommend that DHS implement review procedures to ensure that information presented on required reports is complete and accurate before it is submitted to the Federal oversight agency.

Corrective Action Taken or Planned: The Vocational Rehabilitation and Services to the Blind Division (VRSBD) Disability Determination Branch (DDB) Office and Section supervisors will review the accuracy of SSA-4514 forms prior to authorization by the DDB Administrator and prior to submittal to the Federal oversight agency.

Department of Human Services
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2005

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

Ref.

no. Internal Control Findings

05-1 Properly Record All Fixed Assets in the State Property Inventory Records

Divisions within the DHS are responsible for reporting the acquisition and disposal of fixed assets to the State Procurement Office on a quarterly basis to update the state property inventory records.

Section 103D-106 of the Hawaii Revised Statutes states in part, "...the administrative heads of the executive departments, and all other persons, offices, and boards of a public character...shall prepare and file with the administrator of the state procurement office an annual inventory return of state property in the possession, custody, control, or use of the officer making the return, or of the department or office of the government over which the officer presides...."

Although the DHS has implemented stricter departmental inventory procedures to properly report fixed asset purchases to the State Procurement Office, personnel did not always adhere to the established procedures.

The Department of Accounting and General Services (DAGS) uses the information from the state property inventory records to assist the DHS in compiling the department's fixed assets and depreciation information for the year. Based on this information, we noted the following conditions:

- The DHS changed the carrying value of items that were acquired in previous years to correctly state the cost of the assets. There were several instances where the items' carrying value was corrected with a net change to the fixed asset listing of \$(709,931).

The finding described above was primarily due to clerical error/oversight.

- There were several instances where the DHS did not perform inventory procedures on furniture and equipment items, resulting in an understatement to the fixed asset listing of \$(558,179).

The finding described above was due to a misunderstanding of whether the purchasing unit or the unit that maintains the items was responsible for performing inventory procedures.

Department of Human Services
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2005

Ref.

no. **Internal Control Findings (continued)**

- The State Department of Accounting and General Services (DAGS) Public Works Division is responsible for managing the capital improvement projects at the DHS's Office of Youth Services (OYS). The funding for these projects is budgeted for under the DAGS. The DAGS provides the OYS with a report on a monthly basis that includes the total expenditures incurred and the remaining allotment and encumbrance balances, by project, as of the month end. When the encumbrance balance for a project has been totally expended, the project has been completed and should be added to inventory. The OYS added Hawaii Youth Correctional Facility (HYCF) building and land improvement projects that were completed in prior years totaling \$2,430,266 to inventory. This resulted in an understatement to the fixed asset listing in prior years.

The finding described above was due to the oversight of the employee responsible for performing the inventory procedures.

Recommendation

To ensure that the state property inventory records are complete and accurate, the DHS should implement monitoring procedures to ensure that all appropriate personnel properly and accurately report all fixed asset acquisitions and dispositions to the State Procurement Office on a quarterly basis. The DHS should implement a process to review, in a timely manner, the transactions that are posted to the department property inventory records to ensure that the transactions were properly posted to the state property inventory records. The DHS's Property and Procurement Office issued an internal communication memorandum in November 2005 stating the purchasing unit of fixed asset items should be responsible for performing inventory procedures unless otherwise agreed upon.

05-2 Maintain Vacation and Sick Leave Records Properly

The DHS prepared a summary leave schedule to determine the amount of its accrued compensated absences liability and reported the liability to the State Comptroller. The liability was based on the balance of earned hours per individual leave records (Form DPS-7) multiplied by each employee's hourly salary rate. During our review of 44 leave records and one month of Form G-1, *Application for Leave of Absence*, we noted the following conditions:

- There were 9 instances where the accrued vacation leave hours on the summary leave schedule did not agree to the individual Form DPS-7. This resulted in an overstatement of accrued vacation leave totaling 140 hours or \$2,712.
- There were 5 instances where the accumulated sick leave hours on the summary leave schedule did not agree to the individual Form DPS-7. This resulted in an understatement and overstatement of accumulated sick leave totaling (11) hours or \$330, respectively.

Department of Human Services
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2005

Ref.
no.

Internal Control Findings (continued)

- There was 1 instance where the accrued compensatory time hours on the summary leave schedule did not agree to the individual Form DPS-7. This resulted in an understatement of accrued compensatory time totaling (1) hour or \$(25).
- There was 1 instance where an employee's accrued vacation leave hours carried forward from their 2004 to 2005 leave record exceeded the 720 hour limit. This resulted in an overstatement of accrued vacation leave totaling 20 hours or \$539.
- There were 23 instances where the Form G-1, *Application for Leave of Absence*, was authorized after the employee took vacation.
- There was 1 instance where there was no supervisor approval indicated on the Form G-1, *Application for Leave of Absence*.
- There were 2 instances where there was no supervisor approval date indicated on the Form G-1, *Application for Leave of Absence*.

The findings described above are primarily due to clerical error/oversight.

Although the DHS established procedures to conduct secondary reviews and random quality control reviews of leave records, it appears that the leave records were not always updated accurately on a timely basis.

Recommendation

We recognize that approvals of vacation could occur after the fact, such as when an employee must care for a dependent who becomes ill the night before. In those instances, we recommend that the employee's record be annotated to reflect that telephonic approval was given.

The DHS should increase the number of random quality control reviews of leave records and perform them periodically throughout the year to ensure that vacation and sick leave and compensatory time records are accurately maintained and reviewed on a timely basis. The reviews should include ensuring that there is a secondary review performed on the leave records by the supervisor of the employee responsible for maintaining the records. In addition, a secondary review of the summary leave schedule should be performed before reporting the balances to the State Comptroller, including ensuring that the beginning balances are correct.

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 Resource Management (ORM). 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 Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM 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.