
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
GOVERNMENT OF THE
DISTRICT OF COLUMBIA
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2005**

February 2007

A-77-07-00008

**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 27, 2007

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Government of the District of Columbia for the Fiscal Year Ended September 30, 2005 (A-77-07-00008)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Government of the District of Columbia for the Fiscal Year ended September 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.

BDO Seidman, 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 BDO Seidman, LLP and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

For single audit purposes, the Office of Management and Budget (OMB) assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The District of Columbia's 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 District of Columbia DDS' parent agency.

The single audit reported that two State Agency Reports of Obligations (SSA-4513) and one Time Report of Personnel Services (SSA-4514) were not submitted to SSA timely. The corrective action plan indicated that DHS would implement a new process to ensure reports are submitted to SSA timely (see Attachment A).

We recommend SSA verify that DHS' new process has resulted in the timely submission of the SSA-4513 and 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.

- Documentation to support procurement transactions could not be located and data input errors were noted on award types and amounts (Attachment B, pages 1 through 4).
- Payment for property items or services were not made timely as required by the Quick Payment Act of 1984 (Attachment B, pages 5 and 6).
- Documentation for payroll costs was not maintained as required by OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* (Attachment B, pages 7 and 8).

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

Government of the District of Columbia

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

District Agency – Department of Human Services (DHS)

| <u>No.</u> | <u>Program</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|------------|--|-------------------------------|-------------------------|
| 2005-14 | Social Security Administration Social Security – Disability Insurance CFDA Number 96.001 | Reporting | Not Determinable |

Criteria or Specific Requirement – All of the aforementioned programs have certain due dates for their financial and program related reports.

Condition – We noted 2 Financial Status Reports (SSA-45-13) and 1 Time Report (SSA-45-14) were not submitted timely.

Context – Condition identified per review of DHS' compliance with the grantor agencies' reporting requirements.

Effect – DHS is not in compliance with reporting requirements. Failure to submit reports timely may result in reductions in grant awards.

Cause – Some of the data in the reports is program-related information. If the program managers do not submit the information timely, it will delay the submission of reports.

Recommendation – DHS must strengthen its controls to ensure reports are submitted timely as established by the respective federal agency's reporting requirements.

Views of Responsible Officials and Planned Corrective Actions – Although the financial status reports are prepared by the staff within the Department of Human Services - Office of the Chief Financial Office, the reports do contain programmatic information. The program information required to complete the report was not received timely resulting in a late submission. However to prevent future late submission, the following corrective plan will be implemented:

- a. 10 days prior to the due date of the report, the program will be sent an e-mail reminding them of the programmatic information required to complete the report. This e-mail will request that the information be provided within the next 5 five business days.
- b. A log will be maintained of the due date of each financial status report and will be signed off by the Supervisory Accountant upon the completing the review of the reports. This log will be reviewed by Accounting Officer and the AFO to ensure that all reports have been completed and reviewed and is ready for signature and subsequent mailing.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

A quarterly adjustment will be done on the claimant receivable. For claimants, the quarterly report will include a detailed list of the accounts that comprise the current receivable balance, the date the claim was established, and the activities that occurred during the quarter.

The adjusting entries were entered in SOAR and are reflected in the financial statements. The financial statements are not overstated. Management will inspect the account balances closely and reconcile the accounts receivable and post to SOAR on a monthly basis to minimize the risk of future material misstatements.

- As of September 30, 2004, revenues for Temporary Emergency Unemployment Compensation (TEUC) benefits were posted twice, resulting in a \$6.3 million overstatement in amounts due from the Federal government, revenue, and restricted net assets for unemployment compensation benefits. None of this revenue was collected in fiscal year 2005.

The financial statements from fiscal year 2004 will be restated to show what the account balances would have been if the transaction had been recorded correctly.

Management's Response:

Management concurs with this finding.

2005-03 Noncompliance with Procurement Regulations

The District's procurement transactions are primarily governed by statute, as well as rules and regulations outlined in the District of Columbia Municipal Regulations (DCMR). In addition, the Mayor, Chief Financial Officer, and Director of the Office of Contracting and Procurement (OCP) can issue directives, orders, and memorandums governing procurement actions.

We noted the following findings during our audit process:

Procurement Files Review

- One (1) procurement file was not provided.
- For two (2) transactions selected, the files did not contain relevant documentation to support the amount awarded.
- For one (1) contract modification for information technology services, the sole source determination and finding document and the requisition was not signed by the Contracting Officer.
- Evidence of Council approval for contracts over \$1,000,000 was not documented for two (2) contracts selected for testing.
- We also noted that at Child and Family Services Agency (CFSA), a requisition provided did not agree to the contract awarded and changes were made to the document which were unexplainable by the Agency's contracting personnel.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Section 1203.7 of the DCMR states that files shall be maintained at organizational levels that ensure effective documentation of contracts, ready accessibility to principal users, and conformance with any regulations or procedures for file location and maintenance.

We recommend that OCP review its current controls over document maintenance and retrieval. Special focus should be placed on ensuring that all agencies conform to the regulations and are accountable at a centralized level. Management at the contracting offices should perform a periodic review and design checklists which must be approved by supervisory personnel prior to being filed.

Management's Response:

The Document Maintenance and Retrieval City-Wide initiative that is projected to begin implementation in fiscal year 2007 will provide for the centralized record system that is recommended. It will be designed to interface with the Procurement Automated Support System (PASS) so as to compile PASS documents into a centralized electronic file. In the interim, OCP will revise its current policy and contract file checklist to provide for increased quality control. Supervisors will be required to review contract files upon award and certify that the files contain requisite documents. The contract file checklist will be modified to contain a signature line for the supervisor's signature. Additionally, accuracy and completeness of contract files will be an evaluation factor in annual supervisor and contract specialist performance evaluations.

Database Review

- We noted data input errors relating to procurement type, award amounts, award period, etc.
- The database contained contracts with the same contract number and different vendor names, award dates, and procurement methods.
- For some contracts selected, the database did not identify the procurement method and contract numbers used.
- We noted that some contracts covering the same vendor, award date, and amounts were entered multiple times.
- We noted that one (1) grant was included as a contract and as such we were unable to test the applicable requirements.
- We noted that the Department of Mental Health (DMH) and CFSA do not have databases which track all contracts; instead contracts are entered into an Excel spreadsheet for which the agencies could not confirm its completeness.

We recommend that the District strengthen controls over its contracting database. It is critical that periodic reviews are conducted during the year to ensure the integrity of the database. Commodity managers should be responsible for the review of the information and a report documenting any errors and their disposition should be communicated to senior management.

We also recommend that the District consider the design and maintenance of a centralized tracking system with information that identifies the amount and status of each contract entered into.

Government of the District of Columbia

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Management's Response:

OCP recognizes the need to further strengthen controls over its contracting database and to have a centralized tracking system. This will be accomplished when the Contract Compliance and Sourcing Modules are incorporated into PASS to make it a fully functional electronic procurement system. In the interim, OCP will improve the integrity of its Contract Activity Database (CADS) by retraining personnel on its use and by enforcing our quality control requirements for monthly reviews of data entered into the database.

Compliance with Regulations as outlined in the DCMR

- Twelve (12) contracts were in excess of the \$1,000,000 ceiling but there was no evidence of approval from the Council.
- Sixteen (16) transactions were recorded as accrued expenses but were not supported by valid task orders prior to the services being rendered. Thirteen (13) of these transactions were recorded by DMH and three (3) by the District of Columbia Public Schools (DCPS).
- Support for twelve (12) contracts which exceeded the dollar threshold for small purchases was not provided.
- Seven (7) contracts lacked documentation in support of the rationale to limit competition (4 were identified during our work performed at CFSA and 3 were identified during our work performed at OCP).
- The determination and findings was not provided for a sole source contract. Hence we were unable to test whether the rationale to limit competition was reasonable.
- Documentation to indicate the history of procurement was missing from one (1) file at CFSA.

Purchase Order Splitting

- Three (3) vendors, for which short-term purchase orders were individually less than \$1,000,000 but cumulatively totaling over \$1,000,000 each, were issued to the same vendor for similar services within a twelve month period.
- Invoice splitting appeared to exist with twenty (20) vendors who provided similar services with different purchase orders.

We recommend that OCP and all independent agencies review their current contracting procedures with special focus on the contracting officers or designees and their responsibilities for ensuring compliance with contract dollar limitations and the approval process. The commodity managers should meet with senior procurement personnel to review the status of certain contracts during the year and action should be taken to remedy deficiencies cited.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Management's Response:

OCP has implemented measures to ensure adherence to policies regarding contract dollar limits and Council review requirements and shall continue to focus on compliance in these areas. We do, however, consider the finding on splitting contracts to be due to a difference in interpretation.

The issuance of multiple purchase orders or contracts to a vendor does not automatically constitute a splitting of requirements for either Council review or small purchase limitation purposes. D.C. Official Code sec. 1-204.51(b)(1) modifies the District's Home Rule Act to include the requirement for Council review of million dollar contracts. The provision specifically states:

No contract involving expenditures in excess of \$1,000,000 during a 12-month period may be made unless the Mayor submits the contract to the Council for its approval and the Council approves the contract (in accordance with criteria established by the Council).

The Council's criteria are set forth in D.C. Official Code sec. 2-301.05a, of which subsection (a) states:

Pursuant to §1-204.51 ("FRMAA"), prior to the award of a multiyear contract or a contract in excess of \$1,000,000 during a 12-month period, the Mayor (or executive independent agency) shall submit the proposed contract to the Council for review and approval in accordance with the criteria established in this section.

Each of the quoted provisions references a contract that during a 12-month period exceeds one million dollars. Neither provision requires, either explicitly or implicitly, that all purchases to a particular vendor during a 12-month period be totaled and that the total be used as a basis for determining whether Council review is necessary. The statutory provisions are clear that the requirement for review is determined on a contract-by-contract basis.

While neither provision mentions a prohibition against splitting of contracts, OCP applies a good faith approach and does not split contracts to avoid Council review. If OCP reasonably believes that a contract will exceed one million dollars, OCP obtains Council review and approval. On the other hand, if OCP awards two contracts for similar goods or services during the course of a 12-month period to the same contractor, and the two contracts total over one million dollars, Council review is not automatically invoked. As mentioned above, the Council review requirements are on a contract-by-contract basis and each contract should be considered separately.

If the fact that the two contracts are for similar goods or services raises a concern, there are still additional factors to be considered, since splitting of contracts requires an element of intent to do so. The provisions referenced above do not set forth what these additional factors are; however, by analogy to the relevant factors for determining whether purchases have been split to avoid small purchase thresholds, examples of these other factors include:

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

(1) Did the contracting officer have advance knowledge of the total requirement? (2) Were the requirements separated into smaller contracts simply to avoid Council review and approval? (3) Was there a valid reason to separate a larger requirement into smaller contracts, such as lack of available funding to procure the total requirement? (4) Was the total requirement separated into smaller contracts to enable small, local, or disadvantaged businesses to participate in the procurement? [See Nash and Cibinic, Formation of Government Contracts, Third Edition, 1998, at p. 988-989]

Taking into account that the Council provisions require review on a contract-by-contract basis and not by aggregation of dollar amounts of multiple contracts, and that there are many factors to look at in determining whether a contracting officer intentionally split a contract to avoid Council review, it is clear that all contracts awarded in a 12-month period should not be aggregated to determine whether Council review is required. Further, it is clear that contracts for similar goods or services during a 12-month period should not be aggregated merely because they are for similar goods or services, unless there is an assessment of factors such as those listed above and there is a determination that a contracting officer intentionally split the contracts.

As to small purchases and whether purchases were split to keep them within the small purchase threshold, a similar analysis applies. D.C. Official Code §2-303.21 sets forth the small purchase limits of \$500,000 for the Metropolitan Police Department and the Office of the Chief Technology Officer and \$100,000 for all other agencies. It further states that:

Procurement requirements shall not be parceled, split, divided, or purchased over a period of time in order not to exceed the dollar limitation for use of these small purchase procedures.

This provision does not define what constitutes whether requirements are "parceled, split, divided, or purchased over a period of time," but it does include the element of "intent" by stating that they cannot be split "in order not to exceed the dollar limitation for use of these procedures." The element of intent requires an examination of factors similar to those described above in the discussion of determining whether contracts were split to avoid Council review. [See Nash and Cibinic, Formation of Government Contracts, Third Edition, 1998, at p. 988-989]. Again, it is not appropriate to simply total all purchases to a vendor, even if the purchases are for similar goods or services, and reach the conclusion that the purchases were split to avoid small purchase thresholds.

2005-04 Noncompliance with the Quick Payment Act

The Quick Payment Act of 1984 states, in part, the following:

In accordance with rules and regulations issued by the Mayor of the District of Columbia ("Mayor"), each agency of the District of Columbia government ("District"), under the direct control of the Mayor, which acquires property or services from a business concern but which does not make payment for each complete delivered item of property or service by the required payment date shall pay an interest penalty to the business concern in accordance with this section on the amount of the payment which is due.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Specifically, the due dates required are as follows:

- The date on which payment is due under the terms of the contract for the provision of the property or service;
- 30 calendar days after receipt of a proper invoice for the amount of payment due;
- In the case of meat or a meat food product, a date not exceeding seven calendar days after the date of delivery of the meat or meat food product; and
- In the case of agricultural commodities, a date not exceeding seven calendar days after the date of delivery of the commodities.

Furthermore, the act addresses various requirements for payment of interest penalties and includes provisions regarding required reports as follows:

- Each District agency shall file with the Mayor a detailed report on any interest penalty payments made.
- The report shall include the numbers, amounts, and frequency of interest penalty payments, and the reasons the payments were not avoided by prompt payment, and shall be delivered to the Mayor within 60 days after the conclusion of each fiscal year.
- The Mayor shall submit to the Council within 120 days after the conclusion of each fiscal year a report on District agency compliance with the requirements.

For the year ended September 30, 2005, we noted many instances where the District failed to comply with the Quick Payment Act.

Management's Response:

Payments to suppliers of goods or services should not be made without certification that the goods and or services have been received. Vendor payments associated with procurement activities are initiated through the Procurement Automated Support System (PASS). Payments are approved only after program operations have recorded the receipt of goods or services in PASS. PASS will not generate the payments until the receipt is recorded. The "receipt of goods and services recordation process" has not always been timely, and has occasionally resulted in untimely payments to vendors. The OCFO staff has increased its efforts to assist program operations in the timely recording of the receipt of goods/services. We are confident that the OCFO's support will significantly improve the timeliness of payments to vendors.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

District Agency – Department of Human Services (DHS)

| <u>No.</u> | <u>Program</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|------------|---|-------------------------------|-------------------------|
| 2005-09 | U.S. Department of Health and Human Services Child Care Mandatory & Matching Funds of the Child Care Development Fund CFDA Number 93.596 | Allowable Costs | \$73,418 |

Criteria or Specific Requirement – OMB Circular A-87 cost principles state that charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, should be based on payroll documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official(s) of the government entity.

Condition – Appropriate documentation supporting payroll costs, as specified by OMB Circular A-87, was not maintained for 1 of the employees selected for testing.

Context – Condition identified per review of DHS' compliance with specified requirements and this appears to be an isolated incident. Questioned costs represent total payroll costs charged to the federal program for this employee.

Effect – DHS is not in compliance with the payroll effort reporting and certification requirements of OMB Circular A-87.

Cause – Management has not incorporated a formal process to allocate hours worked by employees among the various programs on which the employees worked.

Recommendation – Where employees work solely on a single federal program, charges for their salaries and wages should be supported by periodic certifications in accordance with OMB Circular A-87. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports or equivalent documents in accordance with OMB Circular A-87.

Views of Responsible Officials and Planned Corrective Actions – The Deputy Administrator for Programs (formerly Deputy Director in fiscal year 2005) for the Early Care and Education Administration (formerly the Office of Early Childhood Development) is responsible for the overall program operations of the Administration. The Infants and Toddlers with Disabilities Office (formerly Early Intervention Program Division) is one of the programs in the ECEA. The ITDO is the designated District of Columbia State Part C Office and is responsible for administering the Individuals with Disabilities Education Act (IDEA). It is 100 percent federally funded by the U.S. Department of Education, Office of Special Education Programs.

As a result of the retirement of the program manager for the ITDO (EIPD) on September 30, 2004, the Deputy Administrator for Programs (Deputy Administrator) functions as the acting program manager until such a time a new program manager is hired.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2005

During this interim period, a portion of the Deputy Administrator's time (20 percent from 10/1/04 – 3/31/05 and 40 percent from 4/1/05 – 9/30/05) was allocated to the ITDO, and was certified accordingly on the OMB A-87 certifications. During this time period, the Deputy Administrator continued to carry out all responsibilities required by the Child Care and Development Fund State Block Grant by working additional hours throughout work weeks. The allocation of time was an estimate based on activities documented on calendars. The additional hours of work were documented on the Administration's daily sign-in/out sheets. The corrective action plan is as follows:

- a. Effective December 1, 2005, the Deputy Administrator documents time spent by program on daily time sheets; the time sheets were certified by the Administrator.
- b. The ECEA has selected a program manager for the ITDO and expects the new program manager to report to duty before September 30, 2006.

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.