
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF MASSACHUSETTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

November 2007

A-77-08-00002

**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: November 1, 2007

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Commonwealth of Massachusetts for the Fiscal Year Ended June 30, 2006 (A-77-08-00002)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Massachusetts for the Fiscal Year (FY) ended June 30, 2006. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Deloitte and Touche, 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 Deloitte and Touche, 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 Massachusetts Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The Massachusetts DDS is reimbursed for 100 percent of allowable costs. The Massachusetts Rehabilitation Commission (MRC) is the Massachusetts DDS' parent agency.

The single audit reported that MRC did not obtain periodic payroll certifications for employees that charge 100 percent of their time to SSA's disability programs as required by OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*. The corrective action plan indicated that an appropriate manager will perform the initial payroll certification which will include periodic certifications of payroll submissions (Attachment A, pages 1 and 2).

We recommend SSA ensure MRC establish policies and procedures to obtain periodic certifications for employees who charge 100 percent of their time to SSA's disability programs.

The single audit also identified that the State Comptroller's office did not credit an estimated \$1,654,086 in FY 2006 indirect cost overcharges to Federal programs on a timely basis. Although this finding was not specifically identified to SSA, it may have an impact on 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, 2, and 3).

Please send copies of the final Audit Clearance Document to Ken Bennett and Rona Lawson. If you have questions contact Ken Bennett at (816) 936-5593.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

Massachusetts Rehabilitation Commission Background

The Massachusetts Rehabilitation Commission (Commission) is authorized by Chapter 6, Section 74 of the Massachusetts General Laws. The primary mission of the Commission is to help people who are permanently disabled to live as independently as possible. The Vocational Rehabilitation Division provides educational opportunities, job placement, and training for those individuals who are capable of becoming gainfully employed. Disability Determination Services, organizationally part of Commission, works with the Social Security Administration in determining the eligibility of individuals for disability insurance. The disability insurance's objective is to replace part of the earnings lost because of a physical or mental impairment severe enough to prevent a person from working.

The Commission contracts for, and monitors, vocational rehabilitation programs throughout the Commonwealth. It also determines client eligibility for its programs at 25 area offices. Disability determinations are made through a network of physician consultants.

In fiscal year 2006, the Commission administered \$136 million. Federal funds amounted to approximately \$88 million. The federal funding to the Commission is detailed in the accompanying Schedule of Expenditure of Federal Awards.

The Commission's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
96.001	Social Security – Disability Insurance
96.006	Supplemental Security Income

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 29: Payroll Certifications not Obtained for Federally-Funded Programs

The Massachusetts Rehabilitation Commission (Commission) did not obtain periodic payroll certifications for employees that charge 100% of their time, to the Rehabilitation Services Vocational Rehabilitation Grants to States and Social Security - Disability Insurance Grant as required by OMB Circular A-87. Our review of 27 employee payroll transactions totaling \$42,440 disclosed that the Commission did not obtain periodic payroll certifications for individuals charging 100% of their time to a federal program.

OMB Circular A-87, Attachment B, Section 8h(3), requires periodic certifications as follows:

Where employees are expected to work solely on a single Federal Award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

For fiscal year 2006, 462 employees charged 100% of their time to the Vocational Rehabilitation Grant totaling \$24,099,814 in salaries and 224 employees charged 100% of their time to the Social Security - Disability Insurance Grant totaling \$13,065,293 in salaries. By not obtaining the periodic payroll certifications for salaries charged to federal awards, there is no assurance that the costs charged to the federal awards are appropriate.

Commission management was not aware of this federal requirement. (*Department of Education – Vocational Rehabilitation Program 84.126; Social Security Administration – Disability Insurance Program 96.001*)

Recommendation

The Commission should establish policies and procedures that require periodic certifications for those employees who charge 100% of their time to a federal program to comply with OMB Circular A-87.

Department Corrective Action Plan

The Commission will comply with the requirement. We may have been unaware of the requirement since it has never been raised as an issue in all the years we have received a single audit. We do not see this as a problematic issue since all employees are hired to work within certain programs and are paid from that program's funding source.

We have brought this issue to the attention of the Executive Office of Human Services (Human Services) human resources department since this issue may impact other agencies, within Human Services, and they may wish to initiate a standard procedure for this certification.

Our initial certification will include periodic certifications by an appropriate manager of our routine payroll submissions and is expected to be completed by 9/30/06.

Responsible person: John Kepple CFO
Implementation date: 9/30/06

Office of the State Comptroller Findings on Compliance with Rules and Regulations

Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner

The Office of the State Comptroller did not credit an estimated \$1,654,086 in fiscal year 2006 overcharges to federal programs on a timely basis. In addition, the bases and adjustments identified for two federally funded accounts could not be verified.

The Office of the State Comptroller (Office) is responsible for providing information to program MMARS to assess all applicable appropriation accounts for fringe and indirect costs using the approved rates and bases developed and negotiated in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. The Office is also responsible for performing a reconciliation to ensure fringe and indirect charges in the schedule of expenditures of federal awards are allowable. If any overcharges are noted, the Office is accountable for posting adjustments to eliminate those overcharges. While there were no over recoveries for fringe benefits that needed adjustment for fiscal year 2006, there were over recoveries for indirect costs. Those over recoveries were not adjusted on a timely basis. Management believes the federal overcharges will be deducted in fiscal year 2007.

During testing, 30 items were selected to determine whether the bases, indirect cost charges, and proposed adjustments were appropriately computed. In two (2) of those instances, the bases and the adjustments identified, could not be agreed to the detail supporting the calculations. While Office staff indicated that there was a timing difference between the bases provided and the amounts computed for adjustment, reconciliations between them could not be provided. Additionally, the 2 programs affected were also identified by the Office as having the following over recoveries:

- Contract payments in excess of \$250,000 for the Department of Mental Retardation are required to be removed from the direct cost base in computing indirect charges. That calculation identified an over recovery of \$1,486,025 for the Medical Assistance Program CFDA# 93.778., which was not made on a timely basis.
- The state Department of Education has three approved indirect cost rates which vary depending on the federal award. Contract payments in excess of \$25,000 are required to be removed from the direct cost base in computing indirect charges. That calculation identified an over recovery of \$52,036 for the Title I Grants to Local Educational Agencies Program CFDA# 84.010 and \$116,025 for the Grants for State Assessments and Related Activities Program CFDA# 84.369, which were not made on a timely basis.

Since supporting documentation reconciling the bases and the amounts proposed for adjustment was not provided, it could not readily be determined whether the over recoveries of \$1,486,025 and \$116,025, totaling \$1,602,050 were accurate.

The Office implemented a new accounting system during fiscal year 2005. Due to the level of detail required under the new system and the lack of a report which summarizes expenses by object code, each appropriation account must be queried to determine whether the approved indirect cost rate was applied to the appropriate base. As a result, reconciliations did not occur on a timely basis after year-end. Additionally, the delay in performing reconciliations, affects the information available in MMARS. Payments recorded during the accounts receivable period then can be used to propose adjustments. This created a timing difference between the cutoff date for computing the bases and that for proposing adjustments.

**Office of the State Comptroller
Findings on Compliance with Rules and Regulations**

**Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner
(continued)**

It was also noted that some general fund and trust accounts, such as those for the Departments of Mental Health, Mental Retardation, Revenue, Massachusetts Highway, and the Executive Office of Human Services are used as a basis to bill federal agencies. Often the amounts reimbursed are only a portion of the actual expenditures made. The reimbursements received are recorded in revenue accounts which are identified on the Schedule of Expenditures of Federal Awards (SEFA). To avoid duplication, the appropriations from which the expenditures were made are not identified on the SEFA. As a result, it was difficult to specifically identify which appropriation accounts charged with indirect costs were federally reimbursed. Accordingly, an estimated total of \$1,654,086 (\$1,486,025, \$52,036, and \$116,025) in over recovered indirect costs for fiscal year 2006 was identified for these programs. (*Department of Education- Title I Grants to Local Educational Agencies Program 84.010, Grants for State Assessments and Related Activities 84.369; Department of Health and Human Services - Medical Assistance Program 93.778; Fiscal Year 2004; 2005 Single Audit Finding 14*)

Recommendation

A new report should be created which will expedite the review of approved rates and bases programmed in MMARS. In addition, the Office of the Comptroller should consider redirecting resources to performing the year-end reconciliation and post any adjustments on a timely basis to ensure amounts in the schedule of expenditures of federal awards and revenue in the financial statements are properly stated. Finally, the computation of the bases and the proposed adjustments should be made at a single point in time.

The Office of the Comptroller should also establish a mechanism to identify which appropriation accounts are ultimately reimbursed by a specific federal program. A link should be created between the revenue account on the SEFA and the accounts which were used as a basis for billing that revenue.

Department Corrective Action Plan

The Department of Mental Health's Medical Assistance Program has been removed from the FY2007 indirect cost chargeback. The indirect costs credited to this program in FY2006 account for 90% of the finding. The indirect chargeback program cannot limit assessments to an expenditure threshold for contracts. Since assessable expenditures under this account are made from only a few major subcontracts, indirect costs will be separately determined and assessed before the close of the fiscal year rather than assessing all contract expenditures and crediting the indirect on ineligible contract expenditures at year-end.

To facilitate the reconciliation of the indirect cost chargeback, a series of reports will be designed that will accumulate assessable expenditures and indirect charges by account and compare those charges to approved costs. The reports will reduce much of the reconciliation effort by accumulating monthly expenditures for those object codes that are eligible for indirect assessment and calculating the difference between indirect costs based on the federally approved rate and actual indirect charges. The reports will allow periodic and year-end reconciliations to focus on (1) monitoring contract expenditures that are not subject to indirect, and (2) investigating the reasons for any difference between actual charges and approved costs. The later being primarily under-charges created as a result of implementing higher approved rates after the start of the fiscal year.

**Office of the State Comptroller
Findings on Compliance with Rules and Regulations**

**Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner
(continued)**

Department Corrective Action Plan (continued)

Upon the reports being in production, monthly reconciliations will ensue immediately and credits will be applied.

Responsible person: Marybeth Shaughnessy-Newell, Director of Accounting
Fred DeMinico, Unit Manager of Accounting
Implementation date: June 30, 2007

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.