
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF CONNECTICUT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

February 2008

A-77-08-00010

**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 13, 2008

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Connecticut for the Fiscal Year Ended June 30, 2006 (A-77-08-00010)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Connecticut for the Fiscal Year 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.

The Auditors of Public Accounts 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 the Auditors of Public Accounts 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 Connecticut Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Department of Social Services (DSS) is the Connecticut DDS' parent agency.

The single audit reported:

1. Indirect costs were not equitably allocated to Federal awards, including SSA's disability programs in accordance with the relative benefits received (Attachment, Pages 1 through 4). DSS responded, in part, that its accounting system coding structure does not allow the distribution of costs to all benefiting components (Attachment, Pages 4 and 5).
2. Expenditures were not allocated to Federal and State programs in accordance with the federally approved cost allocation plan because of expenditure coding problems. As a result, costs were not always allocated to the correct programs (Attachment, Pages 6 through 9). DSS responded that it has implemented procedures to identify and correct errors in expenditure coding (Attachment, Page 10).

We recommend SSA:

1. Work with DSS to ensure that indirect costs are equitably allocated to the Connecticut DDS.
2. Verify that DSS implemented expenditure coding procedures that will ensure only allowable costs are charged to its programs.

Please send copies of the final Audit Clearance Document to Ken Bennett. If you have any 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.

Attachment

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Grants funds are used for services for individuals who meet the income requirements defined by the State. In addition, the Department should obtain supporting documentation for those clients in which it does not have medical diagnoses on file.

Agency Response: "The Department agrees with the finding. In late 2004, the Department began maintaining all original application/redetermination forms for all clients. Prior to that, the Department maintained only the current eligibility forms therefore for the audit period many of the older applications were not available. In addition the diagnosis and doctor signatures were not found because subsequent CADAP redeterminations did not require the doctor to again provide the diagnosis code nor his signature.

Income is self-reported for CADAP with no verification provided. All CADAP applicants are required to complete an application for Title XIX. At that point in time, verification of income is completed. Currently there is no mechanism in place to support this function under CADAP. The Department is developing a computer work screen to capture this information but at this time it has not been completed."

III.A.22. Allowable Costs/Cost Principles – Cost Allocation Plan

Medical Assistance Program (Medicaid, Title XIX) (CFDA # 93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA # 93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

Child Support Enforcement (Title IV-D) (CFDA # 93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006



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Federal Award Numbers: 0504CT4004 and 0604CT4004
State Children's Insurance Program (SCHIP) (CFDA # 93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5021 and 05-0605CT5021

State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Number: 4CT400400

Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H126A050007 and H126A060007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 04-0504CTDI00 and 04-0604CTDI00

Background: The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). Each expenditure transaction is assigned an expenditure code. The State's accounting system accumulates the expenditures by the recorded expenditure codes and generates the reports that DSS uses to record the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to Federal and State programs as specified in the Department's Federally approved Cost Allocation Plan (CAP). Costs are allocated to programs based on the allocation basis assigned to the respective cost pools. The Department contracted with a vendor to develop the Cost Allocation Plan.

Criteria: The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. For a cost to be allowable under Federal awards they must meet the following general criteria:

- Be allocable to Federal awards under the provisions of OMB Circular A-87. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.
- Be accorded consistent treatment. A cost may not be assigned to a

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Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

- Be adequately documented.

Title 45 Code of Federal Regulations Part 95 Section 517 provides that for the State to claim Federal financial participation for costs associated with a program it must do so only in accordance with its approved cost allocation plan.

Condition:

1. Our review of some of the allocation bases used in the Department's Cost Allocation Plan disclosed the following:
 - The administrative overhead costs (for example, utilities and office lease) accumulated by some of the Department's Regional Offices were not being allocated to all benefiting Federal and State programs. The Department has employees working under the Ombudsman Unit and the Rehabilitation Services Unit at some of the Regional Offices. The administrative overhead costs related to these Regional Offices are not being allocated to the Ombudsman Unit or the Rehabilitation Unit. Costs accumulated in these units would be subsequently allocated to Federal and State programs based on these units respective assigned allocation bases.
 - Costs accumulated in the HIPAA (Health Insurance Portability and Accountability Act) Compliance cost pool are being allocated only to the Medicaid program. However, costs related to HIPAA would benefit all programs administered by the Department that have medical information.
2. The Department's Cost Allocation Plan consists of a two-step process to allocate Department costs. The costs for certain organization units are first allocated to all units and programs. The costs that were allocated to each unit during the first step are then allocated to Federal and State programs. The allocation of the costs in the second step is affected by the hierarchy of the units. For example, a unit listed second in the hierarchy could receive costs from the first unit listed in the hierarchy but would not receive costs from the unit listed third in the hierarchy. Our review disclosed that the hierarchy used in the Department's CAP did not always provide an equitable basis for allocating costs to all benefiting programs.
3. The Department provided us a report of the random moment time study conducted by the Department for the quarter ended December 31, 2005.



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This report consisted of 2,898 responses received from applicable Department employees. This report listed the time of the observation, the Department employee, comments, client case number, and the program code. The comments, the client case number, and the program code were provided by the employee. We reviewed 26 observations to determine whether the program code provided by the employee is appropriate based on the comments provided by the employee and the programs associated with the listed client case number. Our review disclosed three observations in which the program codes do not appear to be reasonable. In two cases, the program codes did not coincide with the services received by the clients. In one case the comments stated that the employee was working on an application in which a client applied for services under three different programs; however, the employee selected a program code that applied to only one program.

Effect: Some costs are not being allocated to Federal awards in accordance with the relative benefits received. The above errors did not have a significant effect to the gross expenditures made under the Federal programs administered by the Department. The effect, for the most part, is a reassignment of costs from one Federal program to another.

Cause: For conditions 1 and 2, the errors were related to the Department's automated cost allocation process developed by the vendor. For condition 3, it appears that the employees made clerical errors in recording the correct program code.

Recommendation: The Department of Social Services should use statistics that would provide a proper base for distributing costs to benefiting programs and would thus will produce an equitable result in consideration of relative benefits derived.

Agency Response: "The Department agrees in part with the finding.

Administrative Overhead Cost Distribution: The current Chart of Accounts and Core-CT [State Accounting System] coding structure does not allow Regional Office Ombudsman and Regional Office Vocational Rehabilitation Services to accept inbound costs from Regional Office overhead.

HIPAA costs allocated to Medicaid: The allocation basis used to allocate HIPAA costs pools was changed from direct allocation to Medicaid to Department Allocation (FTE [Full Time Equivalent]) with the submission of the new Public Assistance Cost Allocation Plan, effective July 1, 2006.

Inequities in Two Step Allocation Process: The double iteration (or step-down) approach to cost allocation is a commonly accepted and Federally



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approved methodology for allocating indirect costs. Through the double iteration of indirect costs, all entities receive an appropriate and proportionate share of allocated costs. Because central service departments provide services to other central service departments, a double step-down procedure allows all central service departments to allocate costs to all other central service departments. Since the central service departments cannot simultaneously allocate their costs, the process must be done sequentially, one department after another. The second allocation allows for the equitable allocation of the costs the central service departments receive from one another. The order of Central Service Departments in MAXCARS [Cost Allocation System] is based on the Chart of Accounts and organizational structures of the Department, which seems to be the most equitable manner for establishing the structure of the step-down allocation.

RMS Observations: The Department does not agree that EMS [Eligibility Management System] should be used to identify programs for purposes of random moment sampling. Nevertheless the contractor is looking at its quality assurance procedures to ensure the accuracy of the RMS data. In addition the Department is pursuing staff training to improve the validity of our sampling process.”

Auditors' Concluding Comments:

Administrative Overhead Cost Distribution: Although there is no reporting relationship between the Ombudsman Unit and the Rehabilitation Services Unit and the Regional Office, OMB Circular A-87 provides that costs should be allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received. We noted that the staff of the Ombudsman Unit and Rehabilitation Services Unit are physically located at some of the Regional Offices. Administrative costs (for example, rent and utilities) for operating these Regional Offices are not being allocated to the two units. As a result the programs administered by these two units are not receiving all applicable administrative costs in accordance with the relative benefits received.

Inequities in Two Step Allocation Process: Our review did not question the two step approach. Our review disclosed that the hierarchy used by the Department to allocate costs did not always result in an equitable distribution of costs. There were instances in which some programs were not receiving all of their entitled costs and other instances in which programs received more costs than they should.

RMS Observations: Our condition did not indicate that the Eligibility Management System should be used as a basis to identify which programs should be coded. Our review disclosed that based on the available



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information provided, three RMS codes provided by three employees do not appear to be reasonable.

III.A.23. Allowable Costs/Cost Principles – Expenditure Transactions

Medical Assistance Program (Medicaid, Title XIX) (CFDA # 93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
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Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
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Federal Award Numbers: G0501CTTANF and G0601CTTANF

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA # 93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

Child Support Enforcement (Title IV-D) (CFDA # 93.563)
Federal Award Agency: Department of Health and Human Services
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Federal Award Numbers: 0504CT4004 and 0604CT4004

State Children's Insurance Program (SCHIP) (CFDA # 93.767)
Federal Award Agency: Department of Health and Human Services
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State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)
Federal Awarding Agency: Department of Health and Human Services
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Federal Award Number: 4CT400400

Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H126A050007 and H126A060007



Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 04-0504CTDI00 and 04-0604CTDI00

Background: The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). Each expenditure is assigned an expenditure code. The State's accounting system accumulates the expenditures by the recorded codes and generates the reports that DSS uses to record the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to the programs as specified in the Cost Allocation Plan.

We tested a sample of 40 non-payroll expenditures and a sample of 40 payroll transactions. Our tests disclosed errors with one payroll transaction and three non-payroll transactions.

Criteria: The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. For a cost to be allowable under Federal awards, they must meet the following general criteria:

- Be allocable to Federal awards under the provisions of OMB Circular A-87. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be adequately documented.

Condition: We sampled 40 non-payroll transactions totaling \$689,527. This sample was randomly selected from expenditure transactions totaling \$78,688,232 made during the fiscal year ended June 30, 2006. These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of these 40 payments disclosed the following:

- One expenditure for \$48 was not assigned the proper expenditure code. This expenditure was for the mileage reimbursement for an employee of



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the Department. The improper coding of this expenditure resulted in the expenditure being allocated to the incorrect cost pool. This expenditure was allocated to all programs administered by the Department. However, the employee worked in a unit that only worked on some of these programs.

- One expenditure for \$320 claimed for Federal reimbursement was not reasonable or necessary to administer Federal programs. The expenditure was for the payment of property taxes for out-of-State land that was signed over to the Department in 1984 by a client of the Department. The land is currently not being used by the Department and is not benefiting any Federal programs administered by the Department.

Based on processing the above exceptions through the Department's Cost Allocation Plan, we determined questioned costs were charged to Federal programs as follows:

Program	Net Improper Allocation	Questioned Costs / (Unclaimed Costs)
TANF	39	*10
Medicaid	112	56
SCHIP	11	*7
Food Stamps	86	43
Child Support Enforcement	5	4
Vocational Rehabilitation Services	3	3
Disability Insurance	3	3
Miscellaneous State Grants	61	NA
Net Total	<u>\$320</u>	<u>\$116</u>

The questioned costs are based on the Federal programs' financial participation rates except for the TANF program, which is based on the percentage used by the Department to claim a portion of the total administrative costs allocated to TANF. The net total of \$320 was the result of removing the allocated costs related to the \$320 exception from all Federal programs because this expenditure was improper for Federal reimbursement whereas the \$48 exception was reallocated to the Federal programs based on adjusting the expenditure code.

*Although we identified questioned costs totaling \$10 and \$7 made to TANF and SCHIP, respectively, we noted that the Department did

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expend additional State funds that could be claimed for Federal reimbursement under these two programs, so the total amount eligible for Federal reimbursement would probably not change as a result of these questioned costs.

In addition, we sampled 40 payroll expenditure transactions totaling \$97,867. This sample was randomly selected from payroll transactions that totaled \$117,981,955 that were made during the fiscal year ended June 30, 2006. These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of payments disclosed the following condition:

- One payroll expenditure transaction for \$2,938 was not assigned the proper expenditure code. The expenditure was coded to the Child Care Unit and allocated entirely to the Child Care Program. However, the employee worked on both the Child Care and TANF programs. We could not determine the amount of costs that should have gone to each program. However, the Department did expend additional State funds that could be claimed for Federal reimbursement under CCDF.

Effect:

The Department's controls are not always providing reasonable assurance that allowable costs are being claimed under the proper Federal programs. We determined that questioned costs in the amounts of \$56, \$43, \$4, \$3, and \$3 were charged to the Medicaid, Food Stamps, Child Support Enforcement, Vocational Rehabilitation, and Social Security-Disability Insurance programs, respectively.

We could not determine the amount of questioned costs charged to the Child Care program for the payroll expenditure that was coded incorrectly. Although this error would result in questioned costs charged to the Child Care Cluster, we noted that the Department did expend additional State funds that could be claimed for Federal reimbursement, so the total amount eligible for Federal reimbursement would probably not change as a result of these questioned costs.

Cause:

The Department did not have adequate procedures in place to ensure that expenditure transactions are properly coded and that only allowable expenditures are charged to Federal awards.

Recommendation:

The Department of Social Services should ensure that expenditures claimed under Federal awards are only allocated to benefiting Federal programs in accordance with the provisions of Office of Management and Budget Circular A-87.



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Agency Response: "The Department agrees with this finding.

The audit issues cited primarily revolve around the proper coding of expenditure transactions and payroll transactions and their subsequent treatment under the Department's cost allocation plan. Responsibility for coding of expenditure transactions resides with the staff processing payment requests. These errors occurred because staff used the wrong expenditure coding or made data entry errors. In the area of payroll coding issues, the Department has a comprehensive process for identifying errors. Directors are now being requested to review coding of staff on a quarterly basis to identify any necessary corrections. In addition, during the past year, the Financial Management Division has held individual meetings with Directors to discuss their coding and to work with them to address any issues that needed attention."

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.