
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF WASHINGTON
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

October 2008

A-77-09-00002

**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: October 3, 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 Washington for the Fiscal Year Ended June 30, 2007 (A-77-09-00002)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Washington for the Fiscal Year ended June 30, 2007. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Washington State Auditor performed the audit. We have not received the results of the desk review conducted by the Department of Health and Human Services (HHS). We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Washington State Auditor 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 Washington 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 and Health Services (DSHS) is the Washington DDS' parent agency.

The single audit reported that the Washington DDS did not comply with State and Federal regulations for contract procurement of consultative examinations (CE) from medical providers. Specifically, the competitive procurement process was not followed and written contracts did not exist (Attachment A, pages 1 through 4). The corrective action plan indicated that contracts are now in place for all CE providers (Attachment A, page 5).

We recommend that SSA verify that the Washington DDS is purchasing CEs in accordance with applicable State and Federal contract procurement regulations.

The single audit also disclosed the following findings that may impact the 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.

- DSHS did not have controls in place to ensure that interest penalties are refunded to the Government (Attachment B, pages 1 through 4).
- DSHS did not comply with Federal requirements for allocating employee salaries and wages in accordance with its cost allocation plan (Attachment B, pages 5 through 10).

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

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

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

07-17 The Department of Social and Health Services, Division of Disability Determination Services, did not comply with state and federal regulations when contracting for services paid with Social Security Disability Insurance Program funds.

Federal Awarding Agency:	U.S. Social Security Administration
Pass-Through Entity:	None
CFDA Number and Title:	96.001 Social Security Disability Insurance 96.006 Supplemental Security Income
Federal Award Number:	07-0404WADI00
Applicable Compliance Component:	Procurement
Questioned Cost Amount:	None

Background

The Department of Social and Health Services, Division of Disability Determination Services, administers the Social Security Disability Insurance Program (CFDA 96.001) with money from the U.S. Social Security Administration. This Program pays monthly cash benefits to eligible claimants to replace earnings lost due to physical or mental impairments that prevent the individual from working. In general, state agencies make initial disability determinations for the federal government, which then pays them, either in advance or in reimbursement, for the costs of making such determinations. During fiscal year 2007, the Division spent \$26,205,305 in federal funds to determine claimants' medical eligibility for disability benefits.

To assist in making proper determinations, the Division purchases medical examinations, X-ray services and laboratory tests to supplement evidence obtained from the claimants' physicians or other health care sources. These purchases are for personal services known as consultative evaluations and are obtained from two sources: individual medical professionals and companies that employ or subcontract with medical professionals. In state fiscal year 2007, the Division spent \$8,984,279 for consultative evaluations.

During our state fiscal year 2005 and 2006 audits, we reported a finding in this area because the Division did not follow state law on personal service contracts. The Division disagreed with the finding in 2005, stating it believed the services were client services, which are exempt from competitive procurement requirements. The Office of Financial Management was consulted regarding the proper classification for these services and in April 2006 determined services to claimants by physicians, psychologists, and psychiatrists are to be classified as personal services and subject to competitive procurement procedures.

Based on this determination, the Department concurred with the finding in 2006 and developed a plan to ensure compliance with the requirements. Due to the number of contracts affected, the Department set a completion date for compliance of October 2007. Our current audit covered July 1, 2006 through June 30, 2007.

Description of Condition

During this audit period, the Division did not comply with state regulations for contract procurement and therefore is not in compliance with federal regulations. During our review, we found:

For consultative evaluations by individual medical practitioners:

- No competitive procurement process was followed. The Division learned of interested providers informally. Many practitioners were paid amounts that substantially exceeded the threshold of \$20,000, requiring a formal competitive procurement process.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

Cause of Condition

The Department concurred with the prior audit finding and developed a plan to address the issue. However, the time required by the Department to complete the plan extended beyond our current audit period. For the period under audit, the Department was not in compliance with contracting requirements.

Effect of Condition

The Department cannot ensure the state's resources were used in the most economical manner possible. In addition, the state may not be adequately protected when more than \$8 million in services is purchased without written contracts and terms.

Recommendation

We recommend the Department ensure its staff is following its Corrective Action Plan by:

- Properly classifying consultative evaluation contracts as personal service contracts.
- Following appropriate competitive procurement procedures.
- Preparing and maintaining contract documentation for consultative evaluations by individual medical practitioners.

Department's Response

The Department agrees with this finding. As a result of the 2006 finding the Department developed a corrective action plan for converting the evaluation contracts from client services contracts to personal services contracts by

October 1, 2007. The department issued multiple requests for qualifications for various consultative services between May and September 2007, and awarded personal service contracts to all qualifying providers willing to accept the standard fees set by the department for the respective services. Personal service contracts were executed and in place for all doctors/professionals providing consultative services by October 1, 2007, the date established in the department's corrective action plan.

Auditor's Concluding Remarks

We appreciate the efforts the Department has made to resolve this issue. We look forward to reviewing the full implementation of its corrective action during our next audit.

Applicable Laws and Regulations

The U.S. Office of Management and Budget's *Cost Principles for State, Local and Indian Tribal Governments*, Circular A-87, Attachment A, Section C states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - c. Be authorized or not prohibited under State or local laws or regulations.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

20 CFR Section 437.36 - Procurement.

(a) States. When procuring property and services under a grant, a State must follow the same policies and procedures it uses for procurements from its non-Federal funds.

RCW 39.29.006 states in part:

(3) "Competitive solicitation" means a documented formal process providing an equal and open opportunity to qualified parties and culminating in a selection based on criteria which may include such factors as the consultant's fees or costs, ability, capacity, experience, reputation, responsiveness to time limitations, responsiveness to solicitation requirements, quality of previous performance, and compliance with statutes and rules relating to contracts or services.

(7) "Personal service" means professional or technical expertise provided by a consultant to accomplish a specific study, project, task, or other work statement.

RCW 39.29.011 states in part:

All personal service contracts shall be entered into pursuant to competitive solicitations, except for...

- (1) Emergency contracts;
- (2) Sole source contracts;
- (3) Contract amendments;
- (4) Contracts between a consultant and an agency of less than twenty thousand dollars. However, contracts of five thousand dollars or greater but less than twenty thousand dollars shall have documented evidence of competition. Agencies shall not structure contracts to evade these requirements.

The Office of Financial Management's *State Administrative and Accounting Manual*, states in Section 15.10.10:

Personal services are to be procured and awarded by state agencies in accordance with the requirements of Chapter 39.29 RCW.

Section 15.20.30.a states:

Competitive solicitation for contracts of \$20,000 or greater requires a documented, formal solicitation process as described in the following subsections. (*Auditor's note: Following this section are detailed regulations for this process.*)

Section 20.20.20 states in part:

Each agency director is responsible for establishing and maintaining an effective system of internal control throughout the agency.

The Office of Financial Management's *Guide to Personal Service Contracting*, Section 1.3, states in part:

Personal services are professional or technical services provided by a consultant to accomplish a specific study, project, task, or other work statement. Consultants, who provide personal services, serve state agencies as objective advisers by rendering professional opinions, judgments, or recommendations.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

Section 1.6 of the *Guide* lists as an example of personal services:

Medical and psychological services, including evaluation and consultative services

The Office of Financial Management's *Guide to Client Service Contracting*, Introduction, page 2, states in part:

Clients are those individuals the agency has statutory responsibility to serve, protect, or oversee.

**State of Washington
Corrective Action Plan**

**OMB Circular A-133 Audit
For the Fiscal Year Ended
June 30, 2007**

(This plan only addresses findings reportable under the revised OMB Circular A-133.)

Department of Social and Health Services (DSHS)

Fiscal Year	Finding Number	Finding and Corrective Action Plan					
07	17	Finding:	The Department of Social and Health Services, Division of Disability Determination Services, did not comply with state and federal regulations when contracting for services paid with Social Security Disability Insurance Program funds				
		Questioned Costs:	<table><tr><td><u>CFDA #</u></td><td><u>Amount</u></td></tr><tr><td>96.001, 96.006</td><td>\$0</td></tr></table>	<u>CFDA #</u>	<u>Amount</u>	96.001, 96.006	\$0
<u>CFDA #</u>	<u>Amount</u>						
96.001, 96.006	\$0						
		Status:	Corrective action complete				
		Corrective Action:	<p>The Division of Disability Determination Services (DDDS) sought a determination from the Office of Financial Management (OFM) regarding classification of contracts between DDDS and consultative providers. In April 2006, OFM issued a written determination classifying these contracts as personal service, rather than client service.</p> <p>In October 2007, DDDS identified prospective contractors through a Request for Qualification process, in accordance with RCW 39.29.040 and OFM guidelines. DDDS offers personal service contracts to all qualifying providers willing to accept standard fees published by the Department of Social and Health Services on the Internet Website at http://fortress.wa.gov/dshs/maa/DDDS/Fee%20Schedule.pdf.</p> <p>In October 2007, DDDS created contracts and began maintaining documentation records for consultative evaluations by individual medical practitioner / contractor in accordance with Department policies. By the end of October 2007, all doctors/professionals providing services for DDDS and its clients, with date of service of October 1, 2007 or later, have personal service contracts in place.</p> <p>The condition noted in this finding was previously reported in finding 06-34.</p>				
		Completion Date:	October 2007				

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

07-07 The Department of Social and Health Services, Office of Financial Recovery and Health and Recovery Services Administration, does not have internal controls to ensure that interest penalty collections are refunded to the federal government.

Federal Awarding Agency:	U.S. Department of Health and Human Services
Pass-Through Entity:	None
CFDA Number and Title:	Medicaid Cluster 93.775 State Medicaid Fraud Control Units 93.776 Hurricane Katrina Relief 93.777 State Survey and Certification of Health Care Providers and Suppliers 93.778 Medical Assistance Program (Medicaid; Title XIX)
Federal Award Number:	5-0705WA5028, 5-0705W5048
Applicable Compliance Component:	Allowable Costs/Cost Principles
Questioned Cost Amount:	\$268,381

Background

The state Medicaid program spent more than \$6 billion during fiscal year 2007, approximately half of which was paid with federal funds. Most Medicaid expenditures are payments to providers of medical treatment, prescriptions, medical equipment, home health care, and other services to Medicaid clients. Providers submit payment claims to the Department of Social and Health Services for these services. Not all claims submitted are allowable or accurate. The Department has a number of internal post-payment audit functions designed to identify and recover inappropriate payments to providers, referred to as overpayments. When an overpayment is identified and notification is sent to the provider, the Department may assess a 1 percent monthly interest penalty on the amount owed until the overpayment is recovered.

Federal law requires the Department to pay back the federal portion of overpayments to the federal government. This occurs by crediting the federal share of the overpayments on the Quarterly Statement of Medicaid Expenditures for the Medical Assistance Program, which is the reimbursement claim submitted to the U.S. Department of Health and Human Services.

A report issued in September of 2005 by the federal Department of Health and Human Services Office of Inspector General, stated the Department of Social and Health Services had not remitted the federal share of interest penalties collected in conjunction with provider overpayments. The review covered October 1, 2001 through December 31, 2002 and recommended that the Department "establish and implement adequate written policies and procedures for processing and reporting...interest penalty collections." The full report can be found at <http://oig.hhs.gov/oas/reports/region10/100400003.htm>.

Description of condition

As a result of the Inspector General's report, the Department paid back interest penalty collections through fiscal year 2006, and stated it would develop and follow policies and procedures to ensure future compliance. During our current audit we found the Department has not refunded the federal share of interest penalties collected from providers in fiscal year 2007. In addition, the Department was unable to provide policies or identify procedures it is using to ensure interest penalties are properly paid back.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

Cause of Condition

The Department did not have policies and procedures to ensure the federal share of interest penalties collected from the provider are refunded to the federal government.

Effect of Condition and Questioned Costs

For July 1, 2006 through June 30, 2007, the Department collected \$536,762 in interest penalties on overpayments from Medicaid providers. Half of this amount, or \$268,381, is the federal share of interest penalty collections. None of the interest penalty collections were refunded to the federal government. We are questioning this amount.

Recommendations

We recommend the Department:

- Refund \$268,381 to the federal government for unreported interest penalty collections. Additional interest may be assessed by the federal grantor since these funds were not remitted to the federal government in a timely manner.
- Establish and follow policies and procedures to ensure the federal share of interest penalty collected from providers is refunded to the federal government in an accurate and timely manner.

Department's Response:

The Department concurs with the finding that interest collections on overpayments were not remitted to the Federal government for Statewide Fiscal Year (SFY) 2007. The Department will work with the Federal liaison to determine the appropriate amount to remit to the federal grantor for SFY 2007.

The Department concurs with the finding that there are no policies or procedures for refunding interest penalties to the federal government. The Department's Office of Financial Recovery will establish and implement policies and procedures to ensure the federal share of interest penalties collected from providers is refunded to the federal government in a timely manner.

Auditor's Concluding Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

State Medicaid Manual
2500.1 Preparation of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Summary Sheet and Certification, Form HCFA-64. - Section A - Quarterly Status

Line 3 - Interest

Line 3.A - Received On Medicaid Recoveries. -Enter the Federal share of any interest received or earned on Medicaid recoveries during the quarter.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

42 CFR 433.312 Basic requirements for refunds.

(a) Basic rules.

(1) Except as provided in paragraph (b) of this section, the Medicaid agency has 60 days from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before the Federal share must be refunded to CMS.

(2) The agency must refund the Federal share of overpayments at the end of the 60-day period following discovery in accordance with the requirements of this subpart, whether or not the State has recovered the overpayment from the provider.

(b) Exception.

The agency is not required to refund the Federal share of an overpayment made to a provider when the State is unable to recover the overpayment amount because the provider has been determined bankrupt or out of business in accordance with Sec. 433.318.

(c) Applicability.

(1) The requirements of this subpart apply to overpayments made to Medicaid providers that occur and are discovered in any quarter that begins on or after October 1, 1985.

(2) The date upon which an overpayment occurs is the date upon which a State, using its normal method of reimbursement for a particular class of provider (e.g., check, interfund transfer), makes the payment involving unallowable costs to a provider.

42 CFR 433.318 Overpayments involving providers who are bankrupt or out of business.

(a) Basic rules. (1) The agency is not required to refund the Federal share of an overpayment made to a provider as required by Sec. 433.312(a) to the extent that the State is unable to recover the overpayment because the provider has been determined bankrupt or out of business in accordance with the provisions of this section...

(b) Overpayment debts that the State need not refund. Overpayments are considered debts that the State is unable to recover within the 60-day period following discovery if the following criteria are met:

(1) The provider has filed for bankruptcy, as specified in paragraph (c) of this section; or

(2) The provider has gone out of business and the State is unable to locate the provider and its assets, as specified in paragraph (d) of this section...

(e) Circumstances requiring refunds. If the 60-day recovery period has expired before an overpayment is found to be uncollectible under the provisions of this section, if the State recovers an overpayment amount under a court-approved discharge of bankruptcy, or if a bankruptcy petition is denied, the agency must refund the Federal share of the overpayment in accordance with the procedures specified in Sec. 433.320.

42 CFR 433.320 Procedures for refunds to CMS.

(a) Basic requirements.

(1) The agency must refund the Federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64).

(2) The Federal share of overpayments subject to recovery must be credited on the Form CMS-64 report submitted for the quarter in which the 60-day period following discovery, established in accordance with Sec. 433.316, ends.

(3) A credit on the Form CMS-64 must be made whether or not the overpayment has been recovered by the State from the provider.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

(b) Effect of reporting collections and submitting reduced expenditure claims.

- (1) The State is not required to refund the Federal share of an overpayment when the State reports a collection or submits an expenditure claim reduced by a discrete amount to recover an overpayment prior to the end of the 60-day period following discovery.
- (2) The State is not required to report on the Form CMS-64 any collections made on overpayment amounts for which the Federal share has been refunded previously.
- (3) If a State has refunded the Federal share of an overpayment as required under this subpart and the State subsequently makes recovery by reducing future provider payments by a discrete amount, the State need not reflect that reduction in its claim for Federal financial participation...

(d) Expiration of 60-day recovery period. If an overpayment has not been determined uncollectible in accordance with the requirements of Sec. 433.318 at the end of the 60-day period following discovery of the overpayment, the agency must refund the Federal share of the overpayment to CMS in accordance with the procedures specified in paragraph (a) of this section.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

07-18 The Department of Social and Health Services is not complying with federal requirements for allocating employee salaries and wages in accordance with its Public Assistance Agency Cost Allocation Plan.

Federal Awarding Agency:	U.S. Department of Health and Human Services U.S. Department of Education
Pass-Through Entity:	None
CFDA Number and Title:	84.126 – Vocational Rehabilitation 93.775 – Medical Assistance 93.563 – Child Support Enforcement
Federal Award Number:	Multiple
Applicable Compliance Component:	Allowable Costs/Cost Principles
Questioned Cost Amount:	\$ 162,924

Background

Federal regulations require the Department of Social and Health Services, a public welfare agency, to prepare and administer a Public Assistance Cost Allocation Plan. The Plan must provide a description of the procedures used in identifying, measuring and allocating all direct and indirect cost to each of the programs administered by state public assistance agencies. The Plan must be approved by the grantor.

All agency costs normally charged to federal awards, except those for financial assistance to recipients, medical vendor payments, and costs for services and goods provided directly to program recipients must be included in the Plan.

Cost allocation bases are used to accumulate and distribute administrative costs to the benefitting federal programs. These distributions may be based on caseloads, number of employees, employee time and activity reports, or other reasonable criteria.

An administrative cost is eligible for federal reimbursement only if the methodology used to account for and claim the cost is clearly identified as part of an approved Plan.

The Department's Financial Services Administration, Office of Accounting Services is responsible for developing and following the Plan. That Office submitted a written Plan in June of 2006 to the U.S. Department of Health and Human Services for use during fiscal year 2007. After a year of negotiations, the final plan was approved by in July 2007.

Description of Condition

The Department claimed federal reimbursement for employee salaries and benefits (administrative costs) that did not comply with the methodologies described in its approved Plan and did not comply with federal Office of Management and Budget Circular A-87 requirements regarding documentation for support of salaries and wages charged to federal awards

Specifically, we found nine employees whose salaries were distributed using an unapproved allocation base or whose salaries were charged directly to a federal grant program or programs without adequate timesheets or other documentation.

Circular A-87 requires monthly personnel activity reports such as timesheets when employees work on more than one federal program. This applies whether the employee's salary costs are charged directly to a grant, indirectly through a cost allocation process, or through a combination of methods.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

Economic Services Administration (ESA)

During fiscal year 2007 we found:

- \$25,255 of the State Tribal Relations Unit Administrator's salary was directly charged to the Child Support Enforcement Program. The Plan states employee salaries in the State Tribal Relations Unit will be allocated only through cost allocation base 482. The remainder of the administrator's salary was allocated through base 482, which was allowable.
- \$22,207 of a mail clerk's salary in the Yakima Community Service Office was direct charged to the Child Support Enforcement Program. The position is shared between the Economic Services Administration and the Children's Administration and as a result, the remainder of this mail person's salary was allocated through base 590 (a Children's Administration Base) which was allowable per the Plan.

The agency stated it used pieces mailed as the basis for the allocation. However, this allocation method was not approved in the Plan for the allocation of field staff salaries in the Community Services Offices.

- \$21,029 of a truck driver's salary in the Division of Employment and Assistance Programs was direct charged to the Vocational Rehabilitation Grant. The salary was also allocated through allocation base 642 and 643 which resulted in salary costs of \$562 being charged to the Medical Assistance program. The Plan required this division's staff salaries to be allocated through Base 476.

The agency devised a special allocation methodology for this position based on an agreement between 8 DSHS Administrations to each fund a fixed portion of this position's salary. This allocation method was never approved in the Plan.

- \$2,162 of the King County Community Service Office Manager's salary was directly charged to the Vocational Rehabilitation Grant. The Plan provided that this type of position would be allocated 100% through base 476. The remainder of this person's salary was allocated through cost allocation base 476 in accordance with the Plan.

Agency management used a semi-annual analysis of building square footage as the basis for the allocation. However, this allocation method was not approved in the Plan for use in allocating Community Service Office staff costs.

Health and Recovery Services Administration (HRSA)

A special assistant's salary was allocated 50% to a state funded allocation base in the Juvenile Rehabilitation Administration and 50% to cost allocation base 805 approved for use in the by the Mental Health Administration. Allocation through base 805 resulted in salary costs of \$35,348 being charged to the Medical Assistance program for fiscal year 2007.

The agency stated that the assistant was working on policies for both the Juvenile Rehabilitation Administration and the Mental Health Administration. However, no time and effort documentation was maintained to support the allocation to the two different indirect cost activities.

Indian Policy and Support Services

From December of 2006 through June 2007, we noted the salary and benefits for the regional director of Indian Policy and Support Services were:

- Directly charged to the federal Vocational Rehabilitation Program for \$8,005, and
- Allocated through Base 571, which resulted in \$4,990 being charged to the Medical Assistance program. Use of this base was not approved for the Indian Policy and Support Services section in the Plan.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

According to the Plan, employee salaries for Indian Policy and Support should have been allocated through Base 100 which was allocated across all federal and state programs agency wide. In addition, no time and effort documentation was maintained to support the allocation to both direct and indirect cost activities.

Aging and Disability Services Administration (ADSA)

\$2,781 of an office trainee's salary in the Aging and Disability Services Administration was directly charged to the Vocational Rehabilitation Grant. According to the Plan, this position should have been allocated through cost allocation base 710, which is where the remainder of this person's salary was charged.

Because this position was shared between Region 3 ADSA and the Vocational Rehabilitation Division, program management allocated the costs between base 710 and the Vocational Rehabilitation grant using the Full-Time Equivalents disbursed method of allocation. This allocation method was not approved for use in the ADSA or Vocational Rehabilitation section of the Plan.

Research and Data Analysis Section (RDA)

According to the Plan, employee salaries in the Research and Data Analysis section may be directly charged to federal programs if appropriate, or may be charged through Base 100 which allocates costs across all federal and state programs agency wide. We noted two employees whose salary costs were allocated consistent with the methods above, however the employees did not generate time and effort documentation (i.e. timesheets) to support the charges. We noted:

- \$20,691 of one staff member's salary was charged directly to the Medical Assistance program. The remainder of the person's salary was allocated through bases 571 and 710, which resulted in \$995 being charged to the Medical Assistance program.
- \$8,715 of one staff member's salary was charged directly to the Vocational Rehabilitation Grant. The remainder was allocated through bases 571 and 710, which resulted in \$10,184 being charged to the Medical Assistance Program.

Cause of Condition

While the Office of Accounting Services is responsible for development and implementation of the Plan, it is not required to ensure each position is set up to allocate costs in accordance with the Plan. In addition, the Department's Administrative Policy 19.50.01B, "Federal Compliance with Time Certifications for Positions Charged to Multiple Funding Sources", is unclear in some areas regarding how to comply with federal requirements.

Effect of Condition and Questioned Costs

When a public assistance agency charges federal programs outside of the methods approved in the Plan, federal grantors cannot be assured costs allocated to their programs are accurate and valid.

Further, without adequate time and effort certifications, federal grantors cannot be assured salaries and wages charged to their programs are accurate and valid. This could jeopardize future federal funding.

We are questioning the following costs because they were either allocated directly to federal programs without adequate time and effort documentation and or they were allocated through cost allocation bases that were not approved for their divisions' use in the Plan.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

Questioned Costs by Division:

	ESA	HRSA	Indian Policy	ADSA	RDA	Totals
Medicaid Cluster						
Federal	\$ 281	\$ 17,674	\$ 2,495		\$ 15,935	36,385
State Match	281	17,674	2,495		15,935	36,385
Child Support Enforcement						
Federal	31,325					31,325
State Match	16,137					16,137
Vocational Rehabilitation						
Federal	18,251		6,300	2,189	6,858	33,598
State Match	4,940		1,705	592	1,857	9,094
						\$ 162,924

Recommendations

We recommend the Department require the Office of Administrative Services to approve all personnel activity reports submitted by Administrations that allocate or direct charge to more than one federal grant or allocation base.

We also recommend the Department revise its Federal Time and Effort Policy to clarify how to comply with federal requirements.

The Department should consult with its federal grantors to determine if questioned costs should be repaid.

Department's Response

The Department concurs with the finding. The Department agrees that the costs for each of the positions identified by the auditor were not distributed as required by the Public Assistance Agency Cost Allocation Plan (PACAP) or were not listed as a category of position in the PACAP. The Office of Accounting Services will work with the identified DSHS Administrations to correctly distribute the identified costs and comply with federal regulations by:

- *Updating the PACAP to identify the position and the methodology used to allocate the costs associated with that position; or*
- *Updating the account coding associated with the position so that all costs are allocated according to the PACAP; or*
- *Ensuring recorded time and effort documentation is produced and maintained to support the charges associated with the position; or*
- *Reviewing the duties of the position in question to reconfirm whether the currently identified methodology is correct or if a more appropriate methodology needs to be applied; updating the PACAP to reflect any changes made to the methodology.*

The Office of Accounting Services will also continue to work with the Administrations to accurately code positions and assist them in implementing the requirements of the PACAP.

The Department disagrees with the following statements in the finding:

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - continued

“The Department claimed federal reimbursement for employee salaries and benefits (administrative costs) that did not comply with the methodologies described in its approved Plan and did not comply with federal Office of Management and Budget Circular A-87 requirements regarding documentation for support of salaries and wages charged to federal awards”

It is the department’s position that all the methodologies used by the department are listed in the approved PACAP. However, some of the individual positions tested by the auditors were not associated with a specific category of positions included in the PACAP. These omissions were an oversight and will be corrected with the next plan update.

The Department will review Administrative Policy 19.50.01B, “Federal Compliance with Time Certifications for Positions Charged to Multiple Funding Sources” and provide clearer instructions to the administrations on documentation requirements for the distribution of salaries and wages charged to multiple programs and work with each of the federal granting agencies to determine if any of the costs questioned above are to be returned.

Auditor’s Concluding Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department’s corrective action during our next audit.

Applicable laws and Regulations

Title 45 CFR 95 section 507 reads:

Plan requirements.

(a) The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall:

(1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency...

(4) The procedures used to identify, measure, and allocate all costs to each benefiting program and activity (including activities subject to different rates of FFP).

The U.S. Office of Management and Budget’s Circular A-87, Cost Principles for State, Local and Indian Tribal governments provides in:

Attachment A, Section C.3 of the Circular requires allocable costs to be chargeable or assignable in accordance with the relative benefits received.

Attachment B, Section 8(h) of the Circular states in part:

Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Federal Findings and Questioned Costs - concluded

(3) 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.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

...(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal award.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.