
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF MASSACHUSETTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

November 2008

A-77-09-00003

**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 5, 2008

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, 2007 (A-77-09-00003)

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, 2007. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

KPMG, 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 KPMG, 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 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 the Commonwealth of Massachusetts did not adhere to the Treasury-State Agreement (TSA) when drawing down Federal funds (Attachment A, pages 1 and 2). The corrective action plan indicated that the Commonwealth will work with the U.S. Treasury to determine whether a better draw down technique is necessary (Attachment A, page 3).

We recommend that SSA verify that the Commonwealth of Massachusetts is drawing funds related to Social Security disability determinations in accordance with the TSA.

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.

- User access to the Massachusetts Management Accounting and Reporting System was not properly restricted (Attachment B, page 1).
- Policies and procedures for managing equipment were not followed and accordingly inventory lists were not complete, accurate, or timely. (Attachment B, pages 2, 3, and 4).
- Uncashed checks with issuance dates greater than 180 days were not refunded to participating Federal programs in accordance with Federal regulations (Attachment B, pages 5 and 6).

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

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

Patrick P. O'Carroll, Jr.

Attachments

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the State Comptroller

Special Supplemental Nutrition Program for Women, Infants and Children (10.557)

Child and Adult Care Food Program (10.558)

National School Lunch Program (10.555)

Title 1 Grants to Local Educational Agencies (84.010)

Special Education Grants to States (84.027)

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Improving Teacher Quality State Grants (84.367)

Highway Planning and Construction (20.205)

Immunization Grants (93.268)

Child Support Enforcement (93.563)

Low-Income Home Energy Assistance (93.568)

Social Security Disability Insurance (96.001)

Federal Award Number:	4MA700702	Federal Award Year:	2007
	4MA700702		2006
	IN109044		2006
	IN109044		2007
	IN202044		2006
	IN202044		2007
	IN109844		2006
	IN109844		2007
	IN109744		2006
	IN109744		2007
	S010A050021		2006
	S010A050021A		2006
	S010A060021		2007
	S010A060021A		2007
	H027A040076		2005
	H027A040076A		2005
	H027A050076		2006
	H027A050076A		2006
	H027A060076		2007
	H027A060076A		2007
	H173A0500039		2006
	H173A0600039		2007
	S367A0500020		2006
	S367A0500020A		2006
	S367A0600020		2007
	S367A0600020A		2007
	H126A070028E		2006-2008
	H126A060028D		2005-2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

H126A050028D	2004-2006
G0601MASAVP	2007
G0504MAHMR	2007
G0704MA4004	2007

**U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Transportation
U.S. Department of Health and Human Services
Social Security Administration**

Reference: 2007-50

Requirement

A Treasury-State agreement documents the accepted funding techniques and methods for calculating interest agreed upon by us and a State and identifies the Federal assistance programs governed by this subpart A. If anything in a Treasury-State agreement is inconsistent with this subpart A, that part of the Treasury-State agreement will not have any effect and this subpart A will govern. (31 CFR 205.6 (a))

Finding

For certain Federal programs the Commonwealth has implemented a central draw process. The process, using the State's accounting system MMARS, identified Federal disbursements on a daily basis. Each Friday the weekly disbursements are aggregated and reports are generated to identify amounts by payment system, letter of credit and other pertinent information so funds can be draw the following Tuesday or Wednesday.

During our audit we noted that the Commonwealth's Treasury-State Agreement (TSA) for the programs above states for payments to vendors and employees (payroll) the State must drawdown funds from the United States Treasury using the average clearance technique as defined in the TSA except for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) which uses the actual clearance, zero balance accounting same day payment technique.

The average clearance technique is defined such that the Commonwealth requests funds such that they are deposited by ACH on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified in Exhibit II of the TSA. The dollar-weighted average day of clearance for each of the programs is 3 days except for WIC which is zero days.

Our audit procedures noted that the central draw process used by the Commonwealth does not replicate the average clearance or actual clearance, zero balance accounting same day payment techniques defined in the TSA. However, we noted that the central draw technique used by the Commonwealth does not draw down Federal funds in advance of disbursement or the dollar-weighted average day of clearance.

Recommendation

We recommend that the Commonwealth should strengthen existing policies and procedures to ensure that the Treasury-State agreement drawdown techniques agree with the actual methods used to drawdown Federal funds.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Related Noncompliance

Based on the above, the Commonwealth was not fully in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Section 6.2.1 of the Treasury State Agreement describes the thirteen Standard Funding Techniques (listed below) that are to be implemented for all transfers of funds to which the funding technique are applied.

Section 6.2.4 of the TSA establishes the terms under which State Unique Funding Techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.

The Commonwealth works with the US-Treasury – Financial Management Service (FMS,) annually in March to update the Treasury – State Agreement. As part of this process, we will describe our current business practice to FMS and see if there is a better technique prescribed under the general and permanent rules of Code of Federal Regulations (CFR), Section 31 and part 205.

Should a change be necessary, we will make the change for our FY09 filing due June 30, 2008 and any FY08 change needed before then.

Contact: Kevin Moran, Bureau Director, Office of the State Comptroller

Implementation Date: March – June 2008.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Commonwealth of Massachusetts

User Access Controls and Internal Control

Reference: 2007-05

Finding

“Department Fiscal – All Functions” (DFISC) security role in the MMARS application is provided by CTR to individuals after obtaining documented approval by the authorized department security officer. DFISC provides the user with access rights that result in segregation of duties conflicts as the users can initiate, process, and record transactions without intervention by another user.

Manual approval and monitoring controls designed to prevent and/or detect inappropriate activity via these accounts are the responsibility of department management. The number of users with DFISC level access to MMARS appears excessive as there are approximately 500 DFISC user accounts across all departments.

Lack of adequate enforcement of segregation of duties via logical access restrictions within the MMARS application increases the risk that unauthorized and/or inappropriate transactions are processed. The lack of an effective process for monitoring the activity of users who have this level of access increases the risk that unauthorized and/or inappropriate transactions are not detected timely or at all.

Recommendation

CTR management should perform a recertification of all DFISC accounts within the MMARS application to ensure that access is commensurate with users’ job responsibilities and take timely action to remediate exceptions.

CTR management should work with the individual departments to ensure that adequate manual controls are in place and operating effectively to prevent and/or detect inappropriate use of DFISC accounts.

Views of Responsible Officials

The DFISC role was specifically developed during MMARS implementation with the advice of CTR management, Department Advisors and audit team input to meet the needs of department managers that have very few staff or are highly decentralized. To acknowledge the level of access contained in this role, the security unit has taken a number of steps to educate Department Heads as they assign this role. CTR security staff has updated security policy to highlight the powerful nature of the DFISC role. CTR staff initiated a project to review DFISC access at the department level. The security unit has met with a number of departments individually to provide guidance on segregation of duties as well as conducting an annual briefing for Security Officers. The Quality Assurance Bureau receives a report of department user profiles prior to any site visits and monitors the use of DFISC roles as part of its review of department activity.

Responsible Official: Joan Shea, Deputy Comptroller

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Massachusetts Rehabilitation Commission

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Federal Award Number:	H126A070028E	Federal Award Year:	2006-2008
	H126A060028D		2005-2007
	H126A050028D		2004-2006

U.S. Department of Education

Reference: 2007-22

Requirement

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. (4) Adequate maintenance procedures must be developed to keep the property in good condition. (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return (34CFR 80.32(d)).

Finding

The Commonwealth has established policies and procedures relative to equipment acquisition, maintenance, and disposition that allow Commonwealth Departments to be in compliance with Federal regulations.

Our testwork disclosed that MRC was not in compliance with the Commonwealth's policies and procedures and its own internal policies and procedures for the recording and reconciling of capital assets maintained by the program. MRC maintained two inventory lists for Non-GAAP capital assets consisting of furniture and equipment and EDP equipment purchased with program funds. A physical inventory of program capital assets was attempted from September 2006 to April 2007; however the physical inventory was not completed.

Our audit procedures disclosed that the inventory lists were not completely or accurately maintained and capital assets were not properly inventoried in all instances as follows:

- The inventory listing had not been updated on a timely basis. For example, we noted that fiscal year 2007 purchases, amounting to \$23,662 have not been recorded.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- The inventory listing, totaling \$2,408,051 consisting of 7,224 individual items as of June 30, 2007 was not accurately and completely maintained. Our review noted:
 - 1,513 out of 7,224 (21%) items had no location recorded.
 - 1,537 out of 7,224 (21%) items had no acquisition date
 - 566 out of 7,224 (8%) items had no unique identification tag.
 - 1,462 out of 7,224 (20%) items did not indicate a dollar value.

Our review of the EDP equipment inventory records and the results of the incomplete physical inventory taken in September, 2006 disclosed the following:

- 77 items could not be found, however, only four were removed from the inventory listing. The four that were removed were not reported to the Office of the State Auditor (OSA) as required by the Commonwealth's policies and procedures. The four items confirmed missing consisted of two computer laptops and two monitors.
- 50 items, consisting of nine computer desktops, one computer laptop, three servers, 18 monitors, 18 printers and one computer router, were found but not recorded on the inventory listing. The inventory record did not indicate the dollar value of these items.
- 37 instances were disclosed where the same identification tag number was recorded in multiple instances either for the same item or different items.

As a result, the total value of the assets reported on its EDP inventory listing totaling \$1,324,580 and consisting of 2,106 items as of June 30, 2007 was not accurate. MRC stated that, due to a hiring freeze in administrative operations, staff had to be reassigned to and focused on, ongoing daily operations. Consequently, inventory management was not given a high priority. During the audit, MRC began the process of updating and correcting its records to ensure that they are complete and accurate. Commission personnel informed us that a complete physical inventory would be conducted starting in September 2007.

Recommendation

We recommend that the Department follow Commonwealth and Department policies and procedures relative to equipment in order to comply with Federal regulations.

Related Noncompliance

The Department was not fully in compliance with the requirement above

Questioned Costs

None.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

The agency is in full agreement that there are improvements that need to be made in its equipment and EDP inventory as noted in the audit. The criteria information that has been provided is helpful as we go forward and for the most part is available or is part of our inventory procedures, but it is unlikely that we would be able to tie most of our equipment to an acquisition date. Most of our equipment is over 10 years old.

This is the first audit finding that indicated we were subject to all of these criteria areas for maintaining equipment records.

The agency will continue to work on its inventory reconciliation in order to comply with the state guidelines on equipment inventory. The agency recognizes that maintaining and reconciling an inventory of over 7,000 items in our equipment inventory alone requires a significant effort, is subject to error and the personnel costs to maintain the inventory can be significant. We will review our current inventory procedures as to the value of the equipment that we include in our inventory in order to determine if it is feasible to utilize the state Non-GAAP fixed asset standard of (1) a useful life of more than one year and (2) an original cost between \$1,000 and \$49,999. We would request consultation and guidance prior to a change in our inventory accounting, but would expect that our inventory would be in full compliance by the next audit review if this change were implemented.

We have developed a work plan to address the EDP inventory deficiencies and are continuing to work through other equipment reconciliation items. We feel that we will continue to have this type of finding unless we address the question as to what is included in the agency inventory to meet the requirement. We will plan for another inventory in January or February in order to determine the impact of our reconciliation.

Agency downsizing, loss of key staff in our administration office, and other high priority ongoing required activities have stretched our abilities to keep up with this requirement to the extent necessary for full compliance.

Contact: John Kepple, CFO

Implementation Date: On or about June 30, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the State Treasurer

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5148	Federal Award Year:	2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-51

Requirement

If a check remains uncashed beyond a period of 180 days from the date it was issued; i.e., the date of the check, it will no longer be regarded as an allowable program expenditure. If the State has claimed and received Federal Financial Participation (FFP) for the amount of the uncashed check, it must refund the amount of FFP received. (2) At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency must refund all FFP that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter. If an uncashed check is cashed after the refund is made, the State may file a claim. The claim will be considered to be an adjustment to the costs for the quarter in which the check was originally claimed. This claim will be paid if otherwise allowed by the Act and the regulations issued pursuant to the Act. (3) If the State does not refund the appropriate amount as specified in paragraph (c)(2) of this section, the amount will be disallowed. (d) (1) If the State has claimed and received FFP for the amount of a cancelled (voided) check, it must refund the amount of FFP received. (2) At the end of each calendar quarter, the State agency must identify those checks which were cancelled (voided). The State must refund all FFP that it received for cancelled (voided) checks by adjusting the Quarterly Statement of Expenditures for that quarter. (3) If the State does not refund the appropriate amount as specified in paragraph (d)(2) of this section, the amount will be disallowed (42 CFR 433.40 (c) and (d)).

Finding

The Executive Office relied on the Office of the State Treasurer to provide the value of uncashed and purged checks on a quarterly basis to be included on the CMS-64 report. During our testwork we reviewed two quarterly CMS-64 reports and noted the following:

- For the quarter ending September 30, 2006, the dates of the outstanding checks ranged from August 2, 2004 through June 29, 2005 and had a value of \$340,398.
- For the quarter ending June 30, 2007 there were no outstanding checks reported.

For the Federal fiscal third quarter ended June 30, 2007, total outstanding checks reported had a value of \$712,631.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Based on our review, it does not appear that the Federal participation of uncashed checks with issuance dates greater than 180 days are refunded in accordance with Federal regulations.

Questioned costs cannot be determined as the value of checks outstanding beyond 180 days that should have been refunded but were not was not available.

Recommendation

We recommend that the Office of the State Treasurer modify their existing policies and procedures to ensure that the Executive office receives the appropriate information to ensure checks that remain uncashed beyond a period of 180 days are refunded as required by Federal requirements.

Related Noncompliance

Based on the above the Office of the State Treasurer was not fully in compliance with the requirement above.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

The Office of State Treasurer (Treasury) has updated our procedures to ensure that the list of checks purged from the 0398 and 1776 disbursement accounts into the Unpaid Check Fund (UPCF) is communicated on a monthly basis to the Executive Office of Health and Human Service (EOHHS). EOHHS has agreed to restate its requirements in a letter to the Treasury and is evaluating the process for purging checks after 180 days to ensure compliance with both the State Laws regarding the Unpaid Check Fund (General Law: Chapter 29 Section 32) and Federal Laws.

Contact: Catherine Moriarty, Director of Compliance, EOHHS

Implementation Date: February 2008

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.