
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
MICHIGAN
DEPARTMENT OF HUMAN SERVICES
FOR THE 2-YEAR PERIOD ENDING
SEPTEMBER 30, 2008**

June 2010 A-77-10-00011

**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: June 17, 2010

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Michigan Department of Human Services for the 2-Year Period Ending September 30, 2008 (A-77-10-00011)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Michigan Department of Human Services (DHS) for the 2-year period ending September 30, 2008. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Michigan Office of the Auditor General performed the audit. The results of the desk review conducted by the Department of Health and Human Services (HHS) 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 Michigan Office of the Auditor General and the reviews performed by HHS. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspections*.

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 Michigan 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. DHS is the DDS' parent agency.

The single audit reported that DHS did not maintain the required certifications to support the payroll costs charged to SSA for four employees. Specifically, DHS did not properly document that the four employees worked solely on the SSA program (Attachment A, page 1). The corrective action plan indicates that a policy was issued that requires managers and supervisors of staff who are funded 100 percent by a single Federal funding source to submit semiannual certifications (Attachment A, Page 2). We recommend that SSA:

1. Determine if the payroll costs charged to SSA were appropriate and, if not, request a refund of the unallowable costs.
2. Verify that DHS is performing semiannual certifications of employees working solely on the SSA program.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- DHS did not establish and implement a comprehensive, up-to-date, and tested backup and disaster recovery plan for several of its critical automated information systems (Attachment B, Pages 1 and 2).
- DHS did not have effective internal controls to ensure Federal program compliance (Attachment B, Page 3).

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.



Patrick P. O'Carroll, Jr.

Attachments

FINDING (4310921)

21. Disability Insurance/Supplemental Security Income (SSI) Cluster, CFDA 96.001

Social Security Administration	Disability Insurance/SSI Cluster: CFDA 96.001 Social Security - Disability Insurance
Award Number: 05 04 MIDI 00 06 04 MIDI 00 06 04 MIDI 02 07 04 MIDI 00 08 04 MIDI 00	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$122,767

DHS's internal control over the Disability Insurance/SSI Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Disability Insurance/SSI Cluster awards.

Federal expenditures for the Disability Insurance/SSI Cluster totaled \$140.9 million for the two-year period ended September 30, 2008. We identified known questioned costs totaling \$122,767 and known and likely questioned costs totaling \$470,580.

DHS did not maintain the required certifications to support payroll costs charged for 4 employees. Because DHS did not properly document that these employees each worked solely on a single federal program, it was not in compliance with federal regulations regarding federal payroll documentation. We questioned costs totaling \$122,767.

For these 4 employees, DHS did not complete a semiannual certification and its pay period specific certification corresponding to the selected payroll period did not include an attestation statement that the employee worked 100% on the federal program. Also, for 3 of the 4 employees, the pay period specific certification was not signed by the employee's immediate supervisor. Therefore, the person signing the pay period specific certification may not have possessed firsthand knowledge of the work performed by the employee.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 CFR 225) requires employees who are expected to work solely on a single federal award to periodically certify that they did work solely on that program for the period covered by the certification. The certification must be prepared at least semiannually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

RECOMMENDATION

We recommend that DHS improve its internal control over the Disability Insurance/SSI Cluster to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Finding Number: 4310921
Finding Title: Disability Insurance/Supplemental Security
Income (SSI) Cluster, *CFDA* 96.001

Management Views: DHS agrees with the finding.

Planned Corrective Action: A policy was issued on July 23, 2008 that requires managers and supervisors of staff who are funded 100% by a single federal funding source to submit semiannual certifications to the Division of Accounting. The Division of Accounting will send out a list of those staff and the forms for each certification period.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Barbara Anders, Bureau of Adult and Family Services
Russ Hecko, Division of Accounting

FINDING (4310902)

2. Backup and Disaster Recovery Plans

DHS, in conjunction with the Michigan Department of Information Technology (MDIT), did not establish and implement comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems. As a result, DHS could not ensure uninterrupted business services and the preservation of critical financial and client data in the event of a disaster or other disruption.

Executive Order No. 2001-3 transferred the responsibility for all information technology services to MDIT. MDIT assists DHS in maintaining its automated information systems, including disaster recovery and business resumption services. DHS, as the business owner, retains responsibility for data processed through its automated systems, including those developed in conjunction with MDIT.

Our review of the backup and disaster recovery processes of significant DHS automated information systems used to support DHS's financial schedule and/or statement assertions and its compliance with federal laws and regulations disclosed:

- a. DHS and MDIT did not document backup and disaster recovery plans for 6 of 8 systems housed in the client/server environment.
- b. DHS and MDIT did not periodically review and update the backup and disaster recovery plans for 2 systems housed in the client/server environment and 6 systems housed in the mainframe environment that had documented backup and disaster recovery plans.
- c. DHS and MDIT did not periodically test backup and disaster recovery plans for any of the DHS systems we reviewed. Without periodic testing of backup and disaster recovery plans, DHS and MDIT cannot ensure that the plans will work as intended during a disruption and that critical systems and business processes can be resumed in a timely manner.
- d. DHS did not ensure that business resumption plans for its local offices addressed interruptions in services resulting from the unavailability of computer services. For example, DHS did not document the manual delivery of critical client services in cases in which computer and other electronic communication systems were unavailable.

*Secure Michigan Initiative**, a report issued by MDIT, recommends the establishment of documented and tested backup and disaster recovery plans to ensure that a department can recover and continue its operations in the event of a disaster. Also, the report indicates that one of the highest security risks in the

State relates to a lack of formal disaster recovery, business resumption, and business continuity planning and implementation.

We reported a similar condition in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that DHS and MDIT would develop disaster recovery plans, design an enterprise-wide strategy for establishing standards and requirements, and participate in the periodic testing of MDIT established disaster recovery plans.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS, IN CONJUNCTION WITH MDIT, ESTABLISH AND IMPLEMENT COMPREHENSIVE, UP-TO-DATE, AND TESTED BACKUP AND DISASTER RECOVERY PLANS FOR ITS CRITICAL AUTOMATED INFORMATION SYSTEMS.

FINDING (4310905)

5. Internal Control Over Federal Programs

DHS's internal control was not effective in ensuring federal program compliance. As a result, DHS has been subject to federal sanctions and disallowances in the past and is at risk of future significant federal sanctions and disallowances.

As described in the succeeding findings of this report, we identified known questioned costs of \$163.8 million and known and likely questioned costs totaling \$671.0 million. DHS expended a total of \$6.5 billion in federal awards during the two-year period ended September 30, 2008.

Internal control is a process designed to provide reasonable assurance regarding financial reporting, effectiveness* and efficiency* of operations, and compliance with laws and regulations.

Properly designed internal control supports effective methods to achieve federal program goals; increases efficiency by reducing the total resources needed to ensure that assets are safeguarded; and helps to ensure that sanctions, disallowances, and/or reductions of federal awards are avoided.

Our audit of DHS's 14 major federal programs and its SEFA for the two-year period ended September 30, 2008 disclosed:

- a. DHS did not provide the oversight necessary to ensure that its internal control over various organizational units of its major federal programs was properly designed and effective. As a result, DHS operated 5 of its 14 major federal programs in material noncompliance* with federal laws, regulations, contracts, and grant agreements. Our audit resulted in 2 adverse and 3 qualified opinions for the 14 major programs (see Findings 9, 12, 14, 16, and 17).
- b. DHS did not provide the oversight necessary to ensure that internal control weaknesses and resulting noncompliance of its federal programs disclosed in prior Single Audits were corrected effectively and in a timely manner. As a result, this audit report contains 27 (71%) of 38 recommendations repeated from our prior report for the two-year period ended September 30, 2006, many of which were also reported in earlier DHS Single Audits. In addition to this finding, see Findings 6 and 8 through 19.

Sections 18.1483 - 18.1485 of the *Michigan Compiled Laws* and Title 45, Parts 74 and 92 of the *Code of Federal Regulations (CFR)* state that DHS management is responsible for its internal control. These responsibilities include implementing a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; effective and efficient internal control techniques; and a system to ensure compliance with applicable laws and regulations. Also, DHS management is responsible for monitoring the system to ensure that it is functioning as described and is modified as appropriate for changes in the condition of the system.

We reported a similar condition in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it was continuing to implement corrective action.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPLEMENT EFFECTIVE INTERNAL CONTROL TO ENSURE FEDERAL PROGRAM COMPLIANCE.

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.