
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF MONTANA
FOR THE 2-YEAR PERIOD
ENDED JUNE 30, 2009**

October 2010 A-77-11-00001

**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 21, 2010

Refer To:

To: Rebecca Tothero
Acting Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Montana for the 2-Year Period Ended June 30, 2009 (A-77-11-00001)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Montana for the 2-year period ended June 30, 2009. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Montana Legislative Auditor 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 Montana Legislative Auditor 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 Montana 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 Public Health and Human Services (DPHHS) is the DDS' parent agency.

The single audit reported:

- The Montana Department of Administration did not bill central service costs to State agencies in accordance with the relative benefit received, as required by Federal regulations (Attachment A, Page 1). The corrective action plan indicated that the Department would start billing agencies the amount approved in the Statewide Cost Allocation Plan (Attachment A, Page 4).
- DPHHS did not have sufficient controls to ensure supervisory compliance with Federal cash management requirements (Attachment A, Page 2). The corrective action plan indicated that instruction manuals and training plans were being developed (Attachment A, Page 4).
- DPHHS improperly charged settlement payments to terminated employees to various Federal programs (Attachment A, Page 3). The corrective action plan indicated that DPHHS drafted a policy that requires all settlement payments be paid with non-Federal funds. Further, the plan indicated that settlement payments made with Federal funds were corrected (Attachment A, Page 4).

We recommend that SSA:

1. Confirm that central service costs are billed to the Montana DDS in accordance with the Statewide Cost Allocation Plan.
2. Ensure that DPHHS developed sufficient controls for supervisory compliance with cash management requirements.
3. Verify that any SSA funds used for settlement payments to terminated employees were returned to SSA.

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 2-1: Various Federal Agencies
CFDA # Various
Grant # Various

Criteria: Federal regulations, 2 CFR 225.20, Appendix A, Section (C)(3a) require the Department of Administration (department) to charge costs to each cost objective of a Statewide Cost Allocation Plan in accordance with the relative benefits received.

Condition: The department billed central service costs to agencies at the lower of the amount estimated in its fiscal year budget or the amount in the approved Statewide Cost Allocation Plan.

Questioned Costs: We estimate costs billed to agencies based on percentages of the allocation amount greater than the lowest percentage billed to any agency exceeded \$10,000 in fiscal year 2007-08.

Context: The amount billed to agencies by the department varied from 4.98 to 100 percent in fiscal year 2007-08.

Effect: The department did not bill central service costs to various state agencies in accordance with the relative benefits received as required by federal regulations.

Cause: The decision to bill central service costs at the lower of plan or budget caused the relationship between cost and benefit established by the approved plan to not be reflected in the actual amounts paid by the agencies.

Recommendation: We recommend the Department of Administration charge the approved statewide cost allocation plan costs to state agencies and bill state agencies in proportion to the costs allocated in the plan.

Finding 2-15: U. S. Department Health and Human Services
CFDA # Various
Grant # Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal controls over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Per the Cash Management Improvement Act Agreement between the State of Montana and the Secretary of the Treasury CMIA 6.1.1 and 6.1.2, the State shall request Federal funds in accordance with appropriate cut-off times to ensure funds will be received and credited to a State account by times specified by funding techniques. The Public Health and Human Services Fiscal Services Division General Ledger policy further states, the general ledger supervisor will review all draws for compliance with Cash Management Improvement Act (CMIA) or common rule cash principles, daily, for their staff.

Condition: Fiscal staff initiating daily cash draws utilizes a daily cash sheet and a CMIA reconciliation worksheet to ensure compliance with CMIA provisions. In our review of the worksheets, we identified instances where the daily cash draw and reconciliation worksheets did not contain evidence of supervisory review.

Questioned Costs: No questioned costs identified.

Context: Of 32 daily cash sheets reviewed for evidence of supervisory review, we identified 10 in March 2008 and 16 in March 2009 which did not contain evidence of supervisory review. In the same time period, we also reviewed three programs' CMIA reconciliation worksheets of which four, two in each month, had not been reviewed by the supervisor.

Effect: Non-compliance with federal regulations.

Cause: Department management stated high employee turnover and vacant positions within the Fiscal Operations Bureau contributed to the internal control deficiencies. When turnover occurs, supervisors absorb vacant position responsibilities and train new staff in bureau operations. The additional responsibilities impaired supervisors from complying with internal control policies implemented by the department.

Recommendation: We recommend the Department of Public Health and Human Services enhance and enforce its internal controls to ensure compliance with federal cash management requirements.

Finding 2-37: U.S. Department of Health and Humans Services
CFDA # Various
CFDA #93.778 Medical Assistance Program,
CFDA #93.069 Public Health Emergency Preparedness, Various
Grant # 5U90TP816832-08
05-090508MT5048
Various

Criteria: Federal regulations, 2 CFR 225 Appendix B(16), state settlements resulting from violations, actual or alleged, are unallowable except when incurred as a result of compliance with specific provisions of a federal award or written instructions by the awarding agency authorizing in advance such payments.

Condition: When the Department of Public Health and Human Services (department) personnel find it necessary to terminate an employee, a payment may be offered to the employee to avoid future potential litigation. For the two fiscal years ended June 30, 2009, the department paid a total of \$149,250 to nine terminated employees for the purpose of preventing future potential litigation. Of this, we estimate \$65,802 was improperly charged to federal programs.

Questioned Costs: We question costs of \$65,802. Of these, \$10,000 was in fiscal year 2007-08 to CFDA #93.069 and grant #5U90TP816832-08 and \$11,250 was in fiscal year 2008-09 to CFDA #93.778 and grant #05-090508MT5048. The remaining \$44,552 was allocated in fiscal years 2007-08 and 2008-09 to various federal programs through a cost allocation process.

Context: During fiscal year 2007-08 and 2008-09, the department paid nine settlements, of which seven used federal funds to pay a portion of the settlement. The total amount of settlements paid was \$149,250 of which \$65,802 was charged to federal funds.

Effect: The department is not in compliance with federal regulations which resulted in unallowable costs.

Cause: Department personnel stated the department thought the payments were allowable since they were not mass payments as described in federal regulations regarding severance pay.

Recommendation: We recommend the Department of Public Health and Human Services comply with federal regulations and charge settlement expenditures to nonfederal funds.

Finding #	CFDA #	CAP – Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-1	Various	The Department of Administration (DOA) does not concur that the method used resulted in a questioned cost. Since the method used was approved by our federal negotiator and did not result in overbilling of the federal government, there should not be a related questioned cost. Beginning in FY 2010, the department will bill agencies the amounts approved in the Statewide Cost Allocation Plan.	Patricia McNamee, Financial Manager, DOA	Completed October 2009
Finding #2-15	Various	The Business and Financial Services Division is in the process of developing desk manuals for every position in the division. These desk manuals will include monitoring and verification procedures to facilitate timely error detection. In addition to desk manuals training plans for each position are being reviewed and updated. The completion of these desk manuals and strengthening of the divisions training programs will allow the division to more quickly respond to staff shortages and maintain quality work products.	Marie Matthews, Business and Financial Services Administrator	3/31/2010
Finding #2-37	93.778 93.069	The department has drafted a policy clarifying that all settlements must be paid by non-federal funds. All settlements identified during the audit have been corrected and the costs moved to the general fund.	Marie Matthews, Business and Financial Services Administrator	Completed

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.