
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF WISCONSIN
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

March 2012

A-77-12-00006

**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: March 6, 2012

Refer To:

To: Teresa Rojas
Senior Advisor
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Wisconsin for the Fiscal Year Ended June 30, 2010 (A-77-12-00006)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Wisconsin for the Fiscal Year ended June 30, 2010. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Wisconsin Legislative Audit Bureau 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 Wisconsin Legislative Audit Bureau 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 Inspection and Evaluation*.

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 Wisconsin Disability Determination Bureau (DDB) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDB is reimbursed for 100 percent of allowable costs. The Department of Health Services is the Wisconsin DDB's parent agency.

The single audit reported the Wisconsin Department of Administration (DOA) lapsed funds from the internal service funds, accounts, and billable cost pools to the State's

General Fund to help address budget shortfalls. Charges to the Federal Government, including SSA, generated these funds. The estimated Federal Government share of the lapsed funds was \$736,000¹ (Attachment A, Pages 1 through 3).

The corrective action plan indicates the State will reimburse the Federal Government once the final Federal share of lapsed funds is determined (Attachment A, Page 3).

The single audit identified multiple Federal programs, including SSA, responsible for resolving this finding. However, HHS informed us that it would resolve this finding on behalf of the Federal Government. Therefore, we are bringing this matter to your attention, but are not making a recommendation.

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (877) 405-7694, extension 18802.

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.

Attachments

cc:
Lynn Bernstein

¹ The single audit did not report the lapsed funds amounts by individual Federal program.

Finding WI-10-1: Lapses from Internal Service Funds

The State provides various services to other state agencies centrally through several internal service funds, accounts, and, in some cases, individually billable cost pools, administered by DOA. These services relate to centralized computer processing, telecommunications and networking, fleet, financial services, facilities operations and maintenance, procurement, and risk management. DOA is responsible for setting billing rates for these central services that are sufficient to recover its costs but not generate profits. DOA bills state agencies based on their levels of use. State agencies, in turn, charge user fees to state and federal accounts and seek reimbursement from the federal government for its share of the charges.

In prior audits, we reported that DOA has lapsed amounts from the internal service funds, accounts, and billable cost pools to the State's General Fund to help address budget shortfalls. We were concerned because federal rules require the State to return to the federal government the federal share of amounts used for other purposes, such as amounts lapsed to the State's General Fund.

During our current audit, we found that DOA has continued its practice of lapsing funds from internal service funds, accounts, and billable cost pools to the State's General Fund. These lapses were made in order for DOA to meet its own lapse requirements included in 2009 Wisconsin Acts 2 and 28. As discussed in our January 20, 2011, letter to the Joint Legislative Audit Committee, we questioned the appropriateness of lapses from certain appropriations with negative cash balances. In response, the State is taking steps to effectively reverse these lapses, thereby returning the lapsed amounts to the internal service funds, accounts, or billable cost pools.

However, as shown in Table 3, in June 2010 DOA lapsed a total of \$4.0 million from various internal service funds and accounts with positive cash balances that were generated, in part, from charges to the federal government. We estimate the federal share of these lapses to be \$736,000.

Table 3

**Lapses from Internal Service Funds to General Fund
June 2010**

Fund/Account	Amount Lapsed	Estimated Federal Share
Financial Services Fund	\$1,800,000	\$367,900
Risk Management Fund	2,000,000	361,000
Central Fuel Procurement	232,500	7,100
Total	<u>\$4,032,500</u>	<u>\$736,000</u>

The State could return the \$4.0 million from the General Fund to the internal service funds and accounts in order to avoid returning the federal share to the federal government. However, given current budget shortfalls, this may be unlikely. Therefore, the State will be required to return an estimated \$736,000 to the federal government for the federal share of the lapsed amounts. DOA has not formally notified the federal government of the lapses made in June 2010, and as indicated in its prior-year corrective action plan, does not plan to return the federal share until the federal government specifically directs it to do so. Because of the delay, it is likely that the State will incur interest charges in addition to the \$736,000 that must be returned. We question an estimated \$736,000, representing the federal share of amounts lapsed from internal service funds and accounts with positive cash balances to the State's General Fund, exclusive of any interest or penalties that may be charged.

☒ Recommendation

We recommend the Wisconsin Department of Administration resolve this issue with the federal government.

In prior audits, we have also reported concerns related to excess working capital reserve balances. For each internal service fund, account, and, in some cases, individually billable cost pool, federal rules outlined in OMB Circular A-87 allow DOA to maintain a working capital reserve balance of no more than 60 days' operating expenses. Ideally, in the event a working capital reserve balance exceeds the maximum allowed, the State would provide user rebates or reduce user rates to reduce the working capital reserve balance while also maximizing the amount of federal funds available for federal programs.

During our current audit, we determined that DOA had an excess working capital reserve balance of \$1.5 million as of June 30, 2009, in the Fleet Services internal service fund. We estimate the federal share of the excess balance to be \$99,650. DOA staff stated that the federal government typically allows the State at least one additional year before making a repayment determination for internal service funds that do not frequently have excess balances, such as the Fleet Services internal service fund, because the excess balance may be eliminated in the subsequent year. Therefore, we do not question any costs at this time because the calculations of the working capital reserve balances as of June 30, 2010, are not yet completed.

Finding WI-10-1: Lapses from Internal Service Funds

Multiple Programs

Questioned Costs: \$736,000

DOA Response and Corrective Action Plan: DOA acknowledges that it had continued the practice of lapsing funds from internal service funds to the State's General Fund to meet the requirements of state legislation, including lapsing funds in FY 2009-10 pursuant to 2009 Wisconsin Acts 2 and 28. As noted by the auditors, the State is taking steps to reverse the lapses from appropriations that had negative cash balances. Once this reversal has been completed and the final federal share of lapses has been determined, a transmittal letter showing the calculation of the federal share and imputed interest will be sent to the U.S. Department of Health and Human Services, Division of Cost Allocation. The transmittal letter will include a check for the entire amount due. This approach is intended to avoid additional interest or penalties that could result from delaying the payment of the amounts owed to the federal government.

Additionally, over the past several years, DOA has taken measures to reduce excess balances and maximize the federal funds available to federal programs. User rates are evaluated annually and some rates have been adjusted to mitigate the accumulation of funds. For example, DOA has provided user agencies with rebates, including a \$7.9 million rebate in FY 2009-10 for mainframe services in the Technology Services internal service fund.

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.