
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

July 2012 A-77-12-00009

**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: July 31, 2012

Refer To:

To: Amy Thompson
Senior Advisor
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2010 (A-77-12-00009)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Illinois 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.

KPMG, LLP 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 KPMG, LLP 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 Illinois 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 Illinois Department of Human Service (IDHS) is the Illinois DDS' parent agency.

The single audit reported weaknesses in the State's allocation of internal service fund charges to various Federal programs, including SSA. Specifically, procedures were not adequate to identify internal service fund balances that exceeded the maximum amount

allowable (Attachment A, Pages 1 through 3). The corrective action plan indicated that adjustments will be made annually to reduce exposure to excess balances (Attachment A, Page 4).

We recommended corrective action to SSA on this finding in a prior report.¹ SSA's resolution of the prior recommendation determined that HHS routinely reviews potential charges to the DDS from the internal service funds as part of its indirect cost negotiations. Further, HHS reports that its Division of Cost Allocation will work with the State to confirm that procedures are strengthened to ensure internal service fund balances comply with Federal requirements. Therefore, we are bringing this matter to your attention, but are not making a recommendation.

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 SSA, OIG, Management Advisory Report, *Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2009 (A-77-11-00006)*, December 2010.

Finding 10-103 *Inadequate Process for Monitoring Internal Service Fund Balances*

DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided. Because these rates are estimates and may be charged to the State's federal programs, DCMS is required to evaluate the fund balances within the internal service funds to ensure they do not exceed 60 days of cash expenses for normal operations incurred for the period.

During our audit, we noted DCMS had accumulated fund balances in its Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) funds in excess of amounts allowed under OMB Circular A-87. The excess fund balances, including prior year carryforward balances were estimated to be \$3,276,605 and \$7,582,053 as of June 30, 2010 for the CRF and SSRF, respectively.

Additionally, we noted DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items:

- Commission income totaling \$88,000 earned in CRF was reported as revenue in the 2009 GAAP basis financial statements, but was reported for federal purposes in 2008;
- Lease payments in the Facilities Management Revolving Fund (FMRF) totaling \$220,000 were reported for the 2008 GAAP basis financial statements but was reported for federal purposes in 2009;
- Accounts payable in the SSRF and FMRF totaling \$2,555,000 and \$1,121,100, respectively, was reported for the 2008 GAAP basis financial statements but was reported for federal purposes in 2009;
- Accounts payable in the SSRF totaling \$4,675,900 was reported in the 2009 GAAP basis financial statements but was not reported for federal purposes in 2009.
- Equipment totaling \$4,140,000 and \$1,453,000 purchased in the CRF and SSRF, respectively, during the fiscal year 2008 lapse period was reported in the fiscal year 2009 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;

The majority of the differences identified above represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items

identified above have not been associated with a specific billed service, we are unable to determine the impact of these items on the federal share of the excess fund balances.

According to the OMB Circular A-133 Compliance Supplement dated June 2010, working capital reserves (fund balances) are generally not allowed to exceed more than 60 days of cash expenses for normal operations. A working capital reserve exceeding 60 days may be approved by the cognizant federal agency. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal control should include establishing procedures to evaluate and reconcile the fund balances of internal service funds on a periodic basis to identify whether amounts in excess of those allowed under federal regulations exist.

In discussing these conditions with DCMS officials, they stated that they believe their practices are in compliance with A-87 requirements. Timing differences do exist between the audited GAAP basis financial statements and federal reporting as a result of the required completion timeframes and as a result of past practices and related acceptance by the federal Department of Health and Human Services.

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 10-103, 09-92, 08-94, 07-84, 06-95)

Recommendation:

We recommend DCMS establish a process for evaluating internal service fund balances and implement the necessary procedures to ensure these fund balances do not exceed the 60 day threshold allowed under OMB Circular A-87. DCMS should also implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

DCMS Response:

Excess Balances

The Department has long employed an ongoing process to evaluate and address allowable balances for its internal service funds. Our annual SWCAP Section II submission is the culmination of a continuous annual process involving rate development, revenue and expense projections, capturing and matching of costs and revenues and truing up revenues and expenses.

The existence of excess balances is not in itself a violation of A-87. The federal requirement is that excess balances be remedied. The Department asserts that its adjustment methods, Per A-87 Attachment C, G.4., which include negotiated settlements, are appropriate and allowable.

The Department does agree that adjustments should be made as timely as possible, but there is no clear definition of timeliness in A-87. The Department does not simply wait for federal negotiations on excess balances to be completed. We proactively adjust rates annually to reduce exposure to excess balances. However, these adjustments cannot guarantee that all prior excess balances will be entirely eliminated for all services in any given year, since rates, usage and costs are projections.

Therefore, direct negotiated paybacks have always been, and will likely continue to be, a part of the federally provided and federally sanctioned remedy for excess balances.

The timeliness of direct paybacks is dependent on the federal review cycle. The paybacks are negotiated during the federal review of the annual SWCAP. The federal review cycle is not completed annually, and in some cases stretches out several years. The refunds, which are negotiated, are formally set through the federal letter of determination at the end of the review process.

We also refer to the ASMB C-10 reference to making adjustments in the “next open fiscal period.” At the time our SWCAP Section II filing is completed, we are typically in the late third or early fourth quarter of the new FY. The State’s interpretation of the “next open fiscal period” is the next full fiscal year in which the State has the ability to adjust agency budgets to handle rate changes due to over/under billings.

Currently there are no carry-forward excess balances from prior fiscal years. The State has settled with DHHS for fiscal year 2009.

Reconciling Items:

The finding states that the Department is “*not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items*”. In fact, the reconciliations are performed and accepted by DHHS, and the items are both identified and explained. In addition:

- Inmate Commissions have no federal impact. These are revenues generated from inmate usage of payphones at State correctional facilities. There is no Section I or II service provided by CMS. There is no service billed to any state or federal entity. There is no cost or claimable expense.
- Other Reconciling Items: Internal financial statements are reconciled to GAAP and the federal cost recovery data is reconciled to internal financial statements. This reconciliation process is completed in accordance with requirements outlined by the cognizant federal agency responsible for review of the SWCAP. The timing differences result in reconciling items in a single year and are always caught up within the next reporting period, which is the timeframe the State is allowed to correct excess balance situations.

The Department does agree that fewer reconciling items would be preferable, and will continue ongoing efforts to minimize the type and number of reconciling items in future fiscal years.

Auditors’ Comment:

DCMS has acknowledged the existence of excess fund balances, but believes that it is not a violation of federal regulations. Specifically, they state that negotiated settlements are appropriate and allowable. However, we believe federal regulations require DCMS to adjust rates or remit excess fund balances back to the applicable federal programs on a timely basis.

DCMS’ past practice of protracted negotiations and waiting for its cognizant agency to “agree to a settlement” is inconsistent with federal regulations.

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
Corrective Action Plan

Finding Number: 10-103

Finding Name: Inadequate Process for Monitoring Internal Service Fund Balances

Finding Synopsis: DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

Action Steps: As discussed in our audit response, we believe our methods of adjusting excess balances and accounting for reconciling items are in compliance with A-87 requirements. But we agree to actively pursue reductions in both of these areas. Specifically:

The Department has taken action steps in recent years to minimize the overall impact of excess balances, and will continue to:

- ✓ Adjust rates at least annually to reduce exposure to excess balances
- ✓ Pursue other payback methods where feasible
- ✓ Work aggressively with DHHS on timely reviews of our SWCAP

Regarding reconciling items, the Department will continue to:

- ✓ Adjust accounting practices where feasible to reduce the total number and magnitude of reconciling items

Contact Person(s): Paul Romiti (217) 524-5322

Anticipated Completion Date: The processes outlined above are ongoing throughout the FY and subsequent FYs during the SWCAP filing and negotiations.

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.