
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF NEW JERSEY
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

March 2006

A-77-06-00009

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: March 24, 2006

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of New Jersey for the Fiscal Year Ended June 30, 2004 (A-77-06-00009)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of New Jersey for the Fiscal Year ended June 30, 2004. 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. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by KPMG 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 New Jersey 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 New Jersey Department of Labor and Workforce Development (DLWD) is the New Jersey DDS' parent agency.

The single audit reported that reconciliation procedures were not in place between the Time and Leave Reporting System (TALRS) used to generate payroll costs and the Cost Accounting System (CAS) used to record payroll costs charged to each Federal

program. Therefore, the payroll costs charged to various Federal programs may not have been accurate. The corrective action plan indicated that the TALRS and CAS systems will be replaced with a new payroll system in April 2006, which will eliminate the reconciliation problem (Attachment A, pages 1, 2, and 3).

The Office of the Inspector General is currently conducting an audit of Administrative Costs Claimed by the New Jersey DDS (A-02-06-16043) that covers the same time period as this single audit. The administrative cost audit will review the allowability of payroll costs claimed by the New Jersey DDS. Accordingly, we are not making any recommendations.

The single audit also identified errors in the amounts used to calculate the State's fringe benefit rates (Attachment B, pages 1 and 2). Although this finding was not specifically identified to SSA, it may have an impact on DDS operations. I am bringing this matter to your attention as it represents a potentially serious service delivery and financial control problem for the Agency.

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a horizontal line extending from the end of the signature.

Patrick P. O'Carroll, Jr.

Attachments

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Employment Services Cluster (17.207, 17.801, 17.804)

Workforce Investment Act Cluster (17.258, 17.260)

Rehabilitation Services: Vocational and Rehabilitation Grants to States (84.126)

Disability Insurance/SSI Cluster (96.001)

State Agency: Department of Labor and Workforce Development

Federal Agencies: U.S. Department of Labor

U.S. Department of Education

Social Security Administration

Finding: 04-36

Criteria

The general criteria affecting allowability of costs under Federal awards are:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of Federal awards.
- *Allocable* – Costs must be allocable to the Federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objective in accordance with relative benefits received.
- *Consistency* – Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.
- *Conformity to Laws, Regulations and Sponsored Agreements* – Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements or other governing regulations as to types or amounts of cost items.
- *Transactions that Reduce or Offset Direct or Indirect Costs* – Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- *Costs Documentation* – Costs must be documented in accordance with OMB Circular A-110 for nonprofit organizations and institutions of higher education or the A-102 Common Rule for State, local and Indian Tribal governmental units.

Condition

The Time and Leave Reporting System (TALRS) is used to generate payroll and feeds payroll information to the New Jersey Comprehensive Financial System (NJCFIS), which is the system used to generate the Schedule of Expenditures Federal Awards (SEFA). The Department's Cost Accounting System (CAS) breaks down payroll information by project code to determine the amounts to be charged to each Federal program. For 24 of the 100

(Continued)

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

employees selected for personal services testwork, total hours for each employee per TALRS agreed to CAS, however, the distribution of vacation, sick, administrative and other time per TALRS did not agree to CAS. Reconciliation procedures between the two systems were not performed adequately.

A similar finding was noted in the 2003 prior year single audit report as item 03-46.

Cause

Reconciliation procedures in place between the CAS and the TALRS were not properly followed in all cases.

Effect

Costs may not properly be recorded in the CAS and charged to the correct Federal Program.

Recommendation

We recommend that the Department improve internal control procedures to ensure that time per TALRS is reconciled with the CAS system on a regular basis and that vacation, sick, administrative and other time is properly tracked and appropriately charged to the Federal Program.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2004
CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

State Domestic Preparedness Equipment Support Program (97.004) State Agency: Department of Law and Public Safety Federal Agency: U.S. Department of Homeland Security		Prior Year Findings: N/A
FINDING #	CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
04-34	Record keeping protocols are being improved to ensure that future revisions in grants are easily identifiable and retrievable. Electronic tracking of time for enlisted personnel has been improved with additional features to better aid tracking of time and costs with a projected implementation date of January 1, 2006. Existing Purchasing Unit documentation will be reviewed to determine when the payment for the vehicles occurred. Additionally, existing documentation in the Transportation Unit will be reviewed to establish weaknesses in recording protocols.	January 2006 Carl Wyhopen (609) 292-8193
State Domestic Preparedness Equipment Support Program (97.004) State Agency: Department of Law and Public Safety Federal Agency: U.S. Department of Homeland Security		
FINDING #	CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
04-35	The department will ensure that these pieces have subsequently been properly tagged as per SOP and review the SOP with relevant personnel responsible for this function.	January 2006 Carl Wyhopen (609) 292-8193
Employment Services Cluster (17.201, 17.801, 17.804) Workforce Investment Act Cluster (17.258, 17.260) Rehabilitation Services: Vocational and Rehabilitation Grants to States (84.126) Social Security: Disability Insurance (96.001) State Agency: U.S. Department of Labor and Workforce Development Federal Agency: U.S. Department of Labor U.S. Department of Education Social Security Administration		
FINDING #	CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
04-36	The problem is the result of using two systems when reporting/recording time. Both TALRS and CAS (the time reporting piece) will be replaced in April 2006 by one system – Enhanced Cost Accounting and Timesheet System (e-CATS). This will effectively eliminate this type of finding. In the interim, the department will remind supervisors that existing internal controls require them to assure time is reported accurately in both systems.	April 2006 James King (609) 292-1885

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

All Major Programs

State Agency: Department of Treasury, Office of Management and Budget

Federal Agency: U.S. Department of Health and Human Services

Finding: 04-23

Criteria

Section II costs – Direct Costs are chargeable to grant programs in accordance with Circular Letter A-87 and OASC-10.

Condition

The State of New Jersey prepares a Fringe Benefit Rate Proposal for negotiation with the United States Department of Health and Human Services. The negotiated rate is used by all state agencies including state colleges for estimating and computing actual charges for fringe benefit costs related to federal programs in their indirect cost rate proposals, as well as, for direct billing of fringe benefit costs. The negotiated rate applies to personnel who are members of the Public Employees' Retirement System (P.E.R.S.), Teacher's Alternate Benefit Plan (T.A.B.P.), Teacher's Pension and Annuity Fund (T.P.A.F.), Police and Fire Retirement System, and all employees who are not members of a pension plan, but are covered for Health Benefits.

During our audit we noted several errors in the underlying documentation of the fringe benefit rate proposal and final approved fringe benefit plan. The errors were a result of inconsistent calculations of similar data and manual inputting errors and were not detected through the State's limited review prior to submission of the plan to the Federal Government. These errors did not have an effect on the final fringe benefit rate negotiated with the Federal Government.

A similar finding was noted in the 2003 and 2002 prior year single audit reports as items 03-32 and 02-26, respectively.

Cause

There were manual errors and inconsistencies due to limited review in data entering certain expense amounts in the spreadsheets utilized to calculate the fringe benefit rate.

Effect

There is a potential that the State of New Jersey may negotiate and utilize an incorrect fringe benefit rate.

Recommendation

We recommend that the State strengthen its procedures in the preparation and the review of the proposed fringe benefit rate plan to ensure that all costs and amounts entered to prepare the proposed fringe benefit rate are correct.

View of Responsible Official

See management's corrective action plan.

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2004
CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

	<p>The pilot project is a multi-year effort that apparently does not satisfy the compliance requirement cited for the single year being audited. The State believes the benefits of the pilot project exceed those of the MEQC process. Therefore, the State will continue with the approved pilot project and confer with CMS to determine what appropriate corrective action is warranted and the implementation process for any needed corrective action.</p>	
<p>Community Services Block Grant (93.569) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Health and Human Services</p>		<p>Prior Year Findings: N/A</p>
<p>FINDING #</p>	<p align="center">CORRECTIVE ACTION PLAN</p>	<p>COMPLETION DATE/ CONTACT PERSON</p>
<p>04-21</p>	<p>The Division shall perform comprehensive monitoring activities (including programmatic and fiscal reviews) periodically (minimally, once every three years) to ensure subgrantees are meeting goals and standards regarding performance, administrative standards, fiscal management and other requirements of the agreement. Furthermore, the Division shall conduct such review of each new subgrantee after completion of first year activities. Findings for any necessary corrective action will be issued and acted upon.</p>	<p>Institution of Comprehensive monitoring procedures and protocols will be written by March 2006, and implemented by the second quarter of 2006. Anne Vidunas-Gladwell (609) 984-0625</p>
<p>State Children's Insurance Program (93.767) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services</p>		<p>Prior Year Findings: 03-15 02-3</p>
<p>FINDING #</p>	<p align="center">CORRECTIVE ACTION PLAN</p>	<p>COMPLETION DATE/ CONTACT PERSON</p>
<p>04-22</p>	<p>This finding is accurate. Beginning July 2004, the Division of Medical Assistance and Health Services implemented ongoing procedures to monitor eligibility determinations made by the State's vendor based on a monthly sampling of cases.</p>	<p>July 2004 David Lowenthal (609) 588-2820</p>
<p>All Major Programs State Agency: Department of Treasury, Office of Management and Budget Federal Agency: U.S. Department of Health and Human Services</p>		<p>Prior Year Findings: 03-32 02-26</p>
<p>FINDING #</p>	<p align="center">CORRECTIVE ACTION PLAN</p>	<p>COMPLETION DATE/ CONTACT PERSON</p>
<p>04-23</p>	<p>The State has strengthened its procedures by having a back-up staff member trained in preparation of both the Fringe Benefit and the Statewide Cost Allocation Plan proposals. This employee first worked on the FY 2006 (FY 2004 actual) proposals. It is the State's goal to minimize the posting errors. While it may not be practical to be 100% free of posting errors, every effort is made to ensure that posting errors that might go undetected would not have a major negative effect to the State. As part of the negotiating process with the USDHHS, errors are sometimes discovered and, when material, corrected, prior to signing of any agreements.</p>	<p>Ongoing William Shannon (609) 292-7008</p>

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG 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. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.