OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SUMMARY OF SINGLE AUDIT
OVERSIGHT ACTIVITIES
MAY 2003 THROUGH APRIL 2004

September 2004 A-07-04-14063

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: September 3, 2004 Refer To:

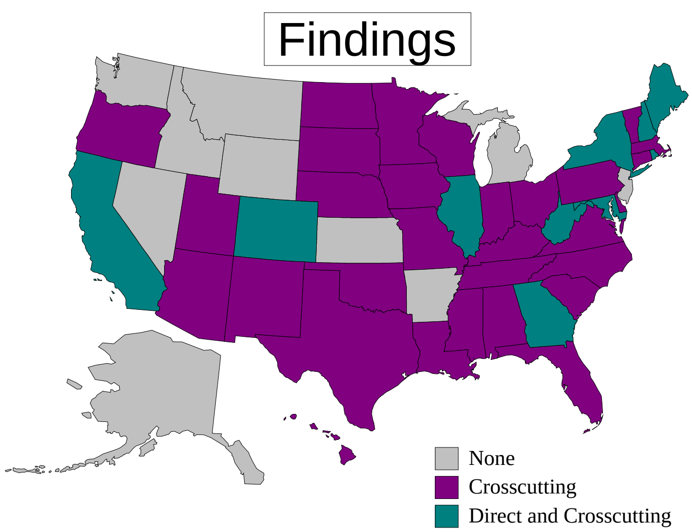
To: The Commissioner

From: Acting Inspector General

Subject: Summary of Single Audit Oversight Activities May 2003 through April 2004 (A-07-04-14063)

OBJECTIVE

Our objective was to summarize categories of internal control weaknesses at Disability Determination Services (DDS) reported in single audits and identified during our single audit oversight activities. To accomplish our objective, we reviewed 54 single audits covering 51 DDSs and categorized findings that were identified as directly affecting DDS operations and crosscutting findings that potentially affect DDS operations. Of the 54 single audits, 12 reported direct findings and 46 reported crosscutting findings.[1]



Appendix C lists the 54 single audits included in our review and identifies those with direct and/or crosscutting findings.

[1] The number of single audit reports with direct findings is low because the Social Security Administration's disability programs only received audit coverage in 22 of the 54 single audit reports included in our review. Although the lack of audit coverage does not preclude direct findings from being identified for SSA's programs, it makes it highly unlikely.

BACKGROUND

The DDS in each State or other responsible jurisdiction generally perform disability determinations under the Disability Insurance and Supplemental Security Income (SSI) programs. Such determinations are required to be performed in accordance with Federal law and underlying regulations.[2] In carrying out this function, the DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations.[3] The Social Security Administration (SSA) authorizes an annual budget to reimburse the DDS for 100 percent of allowable expenditures. There are 52 DDSs located in the 50 States, the District of Columbia, and Puerto Rico.[4] All DDSs are subject to audit under the Single Audit Act Amendments of 1996.[5] Detailed information on the background, scope, and methodology of our review is included in Appendix B.

RESULTS OF REVIEW

Our analysis of the findings reported in 54 single audits disclosed direct and crosscutting findings in the categories of cash management, reporting, and unallowable costs. The findings relate to DDS' noncompliance with Federal requirements because of a lack of adequate internal controls. This report includes a detailed discussion on the cash management findings. The findings in the other two categories are not discussed in detail, since they were minimal and not significant to the DDS' internal control structures. Appendix D summarizes the 12 single audits with direct findings by DDS. Appendix E summarizes the 46 single audits with crosscutting findings by DDS.

A comparison of the Office of the Inspector General's (OIG) administrative cost audit results to the results of the single audits of California, Colorado, Hawaii, Illinois, Kansas, Kentucky, New Mexico, Texas, and West Virginia[6] disclosed a number of differences. OIG's administrative costs audits reported findings in the cash management, allowable costs, reporting, and equipment and real property categories (see Appendix F). The single audits, however, did not report all of these findings. We present this comparison for informational purposes only. We will report our comparison to the cognizant Federal agency, the Department of Health and Human Services, in a separate management letter for any action it deems appropriate.

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[2] 20 Code of Federal Regulations (C.F.R.) §§ 404.1601 *et seq.* and 416.1001 *et seq.*

[3] 20 C.F.R. §§ 404.1614 and 416.1014.

[4] During the time period covered by our review, the Guam DDS was administered by the government of Guam and was required to have a single audit. However, effective in State Fiscal Year 2003, the Guam DDS became Federally administered and is no longer subject to audit under the Single Audit Act Amendments of 1996.

[5] Pub. L. No. 104-156.

[6] The OIG audit of West Virginia was limited to indirect costs only.

CASH MANAGEMENT

Congress enacted the Cash Management Improvement Act of 1990[7] (CMIA) to ensure efficiency, effectiveness, and equity in transferring funds between the States and the Federal Government. The CMIA requires the Government to enter into an agreement with States covering applicable Federal programs and to establish procedures and requirements for transferring Federal funds.[8]

The CMIA requires the States to minimize the time between the receipt and disbursement of Federal funds.[9] For those programs covered by the Treasury-State Agreement, the CMIA generally allows the Federal Government to charge interest when a State receives Federal funds in advance of disbursements[10] and also generally allows the States to charge interest when State funds are paid out for Federal programs before funds are made available.[11,12] The interest is charged or credited to the trust fund for which the program expenditures are paid from.[13] The States are supposed to calculate Federal and State interest liabilities for each applicable program[14] and report liabilities on the Annual Report to the United States Department of the Treasury (Treasury).[15]

Office of Management and Budget Circular A-123, *Management Accountability and Control*, states the proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff.[16] Agency employees must ensure that Government resources are used efficiently and effectively to achieve intended program results.[17] Resources must be used consistent with the agency's mission, in compliance with laws and regulations, and with minimal potential for waste, fraud, and

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[7] Pub. L. No. 101-453.

[8] 31 C.F.R. § 205.9.

[9] 31 C.F.R. § 205.11(a).

[10] 31 C.F.R. § 205.15.

[11] 31 C.F.R. § 205.14.

[12] For those programs not included in the Treasury-State Agreement, 31 C.F.R. § 205.33 requires the States to minimize the time between the receipt and disbursement of Federal funds; however; the States cannot charge or receive interest on untimely transfers.

[13] 31 U.S.C. §§ 6503(c)(3)(A) and 6503(d)(2).

[14] 31 C.F.R. § 205.19.

[15] 31 C.F.R. § 205.26.

[16] OMB Circular A-123, Attachment I.

[17] Id.

mismanagement.[18] In addition, the Government Accountability Office (GAO) Standards for Internal Controls in the Federal Government provide Federal agencies with the framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.[19] Treasury negotiates the Treasury-State Agreement and collects and pays interest.[20] Treasury does not ensure that States have cash management controls.

Without cash management controls that ensure adherence to the terms of the CMIA required agreement, States may not properly identify and assess allowable cash needs. Accordingly, cash drawn for the DDS could exceed allowable expenditures. Furthermore, failure to follow the CMIA agreement can result in interest liabilities being charged to SSA's trust fund.

Nine of the 12 single audits with direct findings reported States' noncompliance with the CMIA.

- The California Department of Social Services provided its Finance Department incorrect information on the California DDS cash draws, which could have resulted in an inaccurate calculation of the State's interest liability to the Federal government.

- The Colorado Department of Human Services (DHS) did not draw funds in accordance with the requirements established in the CMIA agreement. Therefore, the State could have been required to pay interest to the Federal government for some transactions, and lost interest on State funds used to pay for Federal expenditures on other transactions.

- The Georgia Department of Labor (DoL) drew funds in excess of allowable expenditures.

- The Illinois DHS did not review or recertify the accuracy of clearance patterns identified in the CMIA agreement for SSA's disability programs. Failure to evaluate and recertify the clearance pattern could result in the inaccurate calculation of DHS's interest obligation to the Treasury or the Federal interest liability to the State.

- The Maine DHS drew funds after checks were issued, resulting in a negative average daily cash balance. Since interest liabilities are calculated based on the daily cash balance, this may have resulted in a Federal interest liability to the State.

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[18] Id.

[19] GAO/AIMD-00-21.3.1, page 1.

[20] 31 C.F.R. 205.30.

- The Maryland State Treasurer did not maintain documentation to support check clearance patterns stated in the CMIA agreement for payroll and vendor payments. Therefore, the auditors were not able to determine if the clearance patterns were properly developed. Improper clearance patterns could result in the State drawing funds untimely and a Federal interest liability to the State.

- The New Hampshire State Treasury Department improperly excluded the SSI program from the CMIA agreement. Therefore, formal procedures for drawing funds were not established and could result in interest obligations not being properly reported.

- The West Virginia Department of Education's (DoE) funding techniques used for determining cash draws were not consistent with actual cash flow activity resulting in the State's interest liability being understated. This finding was reported in both the State Fiscal Year (SFY) 2001 and 2002 single audit reports.

Direct cash management findings were reported in 9 of the 12 single audits (or 75 percent) included in our review. The frequency of cash management findings reported in these single audits indicates a systemic weakness in the States' management controls over Federal cash draws. The lack of proper cash management controls can result in unallowable cash draws and/or improper payment of interest liabilities from SSA's disability trust fund. The lack of State controls over cash management warrants the Commissioner's attention.[21]

Similar crosscutting cash management findings were identified in 10 single audits (see Appendix E).

COMPARISON OF SINGLE AUDIT AND OIG FINDINGS

SSA OIG conducts audits of claims by DDSs for administrative costs based on the frequency of prior audits as well as annual referrals by SSA's Office of Disability. Starting in fiscal year (FY) 2002, we increased our audit coverage to provide for a more timely and effective review of administrative costs. We based this schedule on the following factors: (1) past administrative audits, (2) amount of costs, and (3) suggestions made by SSA.

The objectives of the audits are to determine whether (1) expenditures and obligations are properly authorized and disbursed, (2) Federal funds drawn agree with total expenditures, and (3) internal controls over the accounting and reporting of administrative costs are adequate.

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[21] In our prior single audit summary report *Summary of Fiscal Year 2000 Single Audit Oversight Activities* (A-07-00-10032) we recommended that SSA provide instructions to DDSs to adhere to the terms of the CMIA agreement. SSA issued a DDS Administrator's letter, number 586, dated October 4, 2001 to address our recommendation.

We performed administrative cost audits at the California, Colorado, Hawaii, Illinois, Kansas, Kentucky, New Mexico, Texas, and West Virginia[22] DDSs covering part of the same time period as the single audits discussed in this report. Our comparison of the direct single audit findings and OIG findings disclosed notable differences. Only the findings and questioned costs identified in the administrative cost audits for the same period as the single audit are further discussed.

California DDS

Our audit of the California DDS covered the period October 1996 through March 2002. The audit identified that (1) unallowable medical, nonpersonnel, and indirect costs were claimed, (2) cash management practices need improvement, and (3) access controls over computer security need improvement (see Appendix F). The single audit only reported that incorrect information was reported for DDS cash draws (see Appendix D).

Colorado DDS

Our audit of the Colorado DDS covered the period October 1999 through September 2002. The audit identified that (1) unallowable medical costs were claimed, (2) cost allocation plans were not submitted timely and automated allocation was not consistent with the approved indirect cost allocation plans, (3) nonpersonnel costs were recorded in the incorrect FY, (4) cash draws were applied to the incorrect FY, and (5) internal controls over issuing checks were weak (see Appendix F). The single audit only reported that cash draws for the DDS were not in compliance with the CMIA agreement (see Appendix D).

Hawaii DDS

Our audit of the Hawaii DDS covered the period October 1998 through September 2001. However, the audit was expanded to fully develop the indirect cost finding which affected costs claimed during the period October 2001 through September 2002. The audit identified that (1) unallowable indirect costs were claimed, (2) unliquidated obligations were overstated, (3) costs were recorded in the incorrect FY, and (4) controls over computer access were not in place (see Appendix F). The single audit did not report any findings related to the Hawaii DDS.

Illinois DDS

Our audit of the Illinois DDS covered the period October 1998 through September 2001. The audit identified (1) unallowable indirect costs were claimed, (2) documentation to support rates for CEs could not be provided, and (3) costs were recorded in the incorrect FY (see Appendix F). The single audit did not report these findings (see Appendix D for the single audit findings).

[22] The OIG audit of West Virginia was limited to indirect costs only.

Kansas DDS

Our audit of the Kansas DDS covered the period October 1997 through September 2000. However, the audit was expanded to fully develop the indirect cost finding which affected costs claimed during the period October 2001 through September 2002. The audit identified that indirect costs were not allocated to all benefiting components, and information technology costs were not allocated according to the approved cost allocation plan (see Appendix F). The single audit did not report any findings related to the Kansas DDS.

Kentucky DDS

Our audit of the Kentucky DDS covered the period October 1998 through March 2002. The audit identified that (1) SSA was charged for costs related to non-SSA work, (2) costs were recorded in the incorrect FY, (3) costs were misclassified, and (4) the inventory listing was not accurate (see Appendix F). The single audit did not report any findings related to the Kentucky DDS.

New Mexico DDS

Our audit of the New Mexico DDS covered the period October 1998 through September 2001. The audit identified that (1) unallowable indirect costs were claimed, (2) cash draws exceeded expenditures, (3) fees for CEs exceeded the allowable rate, (4) timely adjustments were not made to unliquidated obligations, and (5) funds no longer needed remained available for DDS operations (see Appendix F). The single audit did not report any findings related to the New Mexico DDS.

Texas DDS

Our audit of the Texas DDS covered the period October 1998 through September 2001. The audit identified that (1) costs for CEs exceeded the allowable rate, and (2) excess indirect costs were claimed as a result of excessive CE costs (see Appendix F). The single audit did not report any findings related to the Texas DDS.

West Virginia DDS

Our review of the West Virginia DDS's indirect costs covered the period October 1999 through September 2002. The audit determined that (1) SSA was charged for costs related to non-SSA work, and (2) unallowable indirect costs were claimed (see Appendix F). The single audit only reported findings related to indirect costs and cash management (see Appendix D for the single audit findings).

CONCLUSION AND RECOMMENDATIONS

For the audits discussed in this report, cash management findings were reported in 9 of the 12 single audits (or 75 percent). In addition, between August 1998 and April 2004, 78 single audits reported findings that directly impacted DDS operations. Of the 78 single audits, 40 audits (or 51 percent) reported cash management findings. The frequency of cash management findings reported in the single audits indicates a systemic weakness in the States' management controls over Federal cash draws. The lack of proper cash management controls can result in unallowable cash draws and/or improper payment of interest liabilities from SSA's disability trust fund. The lack of State controls over cash management warrants the Commissioner's attention. Therefore, we recommend that SSA remind DDSs and their State parent agencies to ensure proper controls are in place for cash draws of Federal funds.

AGENCY COMMENTS

In response to our draft report, SSA agreed with our recommendation. See Appendix G for the full text of SSA's comments.

Patrick P. O'Carroll, Jr.

Appendices

Appendix A – Acronyms

Appendix B – Background, Scope and Methodology

Appendix C – Summary of Single Audit Findings

Appendix D – Direct Findings Reported in 12 Single Audits

Appendix E – Crosscutting Findings Reported in 46 Single Audits

Appendix F – Findings Identified During the Same Time Period as the Single Audits Included in this Report

Appendix G – Agency Comments

Appendix H – OIG Contacts and Staff Acknowledgments

Acronyms

C.F.R.	Code of Federal Regulations
CE	Consultative Examination
CMIA	Cash Management Improvement Act
DCA	Division of Cost Allocation
DDS	Disability Determination Services
DHS	Department of Human Services
DI	Disability Insurance
DoE	Department of Education
DoF	Department of the Family
DRS	Department of Rehabilitative Services
FY	Fiscal Year
GAO	Government Accountability Office
MER	Medical Evidence of Record
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OTDA	Office of Temporary and Disability Assistance
POMS	Program Operations Manual System
SFY	State Fiscal Year
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations
SSA-4514	Time Report of Personnel Services
SSI	Supplemental Security Income
Treasury	United States Department of the Treasury
U.S.C.	United States Code

Background, Scope and Methodology

BACKGROUND

Single Audit Act

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996, Public Law No. 104-156. The Amendments extended the statutory audit requirement to nonprofit organizations and revised various provisions of the 1984 Single Audit Act, including raising the Federal financial assistance dollar threshold for requiring an audit from $100,000 to $300,000.[1] On June 30, 1997, the Office of Management and Budget (OMB) issued revised Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* to implement the 1996 amendments. The revised Circular A-133 was effective July 1, 1996, and applies to audits of fiscal years beginning after June 30, 1996. This Circular requires non-Federal entities that expend $300,000 or more per year[2] in Federal awards to have a single or program-specific audit conducted for that year.[3]

DDSs

The Disability Insurance (DI) program was established in 1954 under Title II of the Social Security Act to provide benefits to disabled wage earners and their families. In 1972, Congress enacted the Supplemental Security Income (SSI) program to provide income and disability coverage to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is responsible for the policies on developing disability claims under the DI and SSI programs. The Disability Determination Services (DDS) in each State or other responsible jurisdiction generally performs disability determinations under the DI and SSI programs. Such determinations are required to be performed in accordance with Federal law and underlying regulations.[4] In carrying out this function, the DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations.[5] In those limited instances where SSA makes disability determinations, regulations provide that each

[1] 31 United States Code (U.S.C.) §§ 7501 *et seq*.

[2] OMB Circular A-133 was revised June 27, 2003 to require non-Federal entities that expend $500,000 or more in Federal awards in a fiscal year to have a single or program-specific audit, for fiscal years ending after December 31, 2003.

[3] OMB Circular A-133, Subpart B § 200 (b).

[4] 42 U.S.C. § 421; 20 C.F.R. §§ 404.1601 et seq. and 416.1001 et seq.

[5] 20 C.F.R. §§ 404.1614 and 416.1014.

State agency will obtain and furnish medical or other evidence and provide assistance as may be necessary for SSA to carry out its responsibility for making such determinations.[6] SSA authorizes an annual budget to reimburse the DDS for 100 percent of allowable expenditures.[7] There are 52 DDSs located in the 50 States, the District of Columbia, and Puerto Rico.[8] All DDSs are subject to audit under the Single Audit Act Amendments of 1996.

Each DDS is managed by a State parent agency, which administers other State and Federal programs. There are also other agencies within the State that administer various aspects of Federal programs, such as cash draws and electronic data processing.

Direct and Crosscutting Findings

In conducting single audits, the auditor uses a risk-based approach to determine which Federal programs will receive audit coverage. The single audit also includes an audit of the State's financial statements. The two parts of the single audit identify direct or crosscutting findings.

Direct findings are specifically identified to the Federal programs they affect. The direct SSA findings are identified in single audits by the Catalog of Federal Domestic Assistance, number 96. The single audits also report findings that impact more than one Federal program, referred to as crosscutting. However, crosscutting findings may not be identified to any one Federal program or may not be identified to all Federal programs. Thus, the auditor may not be in a position to identify findings for SSA-funded programs because of the limited scope of the single audit. While crosscutting findings are not specifically identified to SSA, they could impact DDS operations.

SCOPE AND METHODOLOGY

We reviewed 54 single audits[9] and the related recommendations and auditee responses. Of the 54 single audits, 12 reported direct findings related to DDSs. These findings, questioned costs, and related recommendations were previously reported on a State-by-State basis to SSA's Audit Management and Liaison Staff for resolution. In addition, 46 of the 54 single audits reported crosscutting findings that could possibly

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[6] Id.

[7] 20 C.F.R. §§ 404.1626 and 416.1026. Program Operations Manual System DI 39501.020 B.1.

[8] During the time period covered by our review, the Guam DDS was administered by the government of Guam and was required to have a single audit performed. Effective for SFY 2003 the Guam DDS will become Federally administered and will not be subject to audit under the Single Audit Act Amendments of 1996.

[9] The 54 single audits included 3 State Fiscal Year (SFY) 2001 single audits and 51 SFY 2002 single audits. The SFY 2002 single audit for the State of Michigan has not been completed and will be reported in the 2003 single audit report. The biennial report for the State of Montana will be included in the 2003 single audit report. The Federally administered Virgin Islands DDS is not required to have a single audit.

affect DDS operations. To identify crosscutting issues, we reviewed all findings reported for the State agency that managed the DDS and State agencies that performed functions for the DDS.

We also reviewed relevant provisions of the:

- Single Audit Act Amendments of 1996, revised OMB Circular A-133, and OMB Circular A-133, *Compliance Supplement* (March 2002 revision);

- OMB *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule);*

- OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments;*

- Title II and Title XVI of the Social Security Act;

- Program Operations Manual System instructions;

- Cash Management Improvement Act of 1990; and

- Office of the Inspector General (OIG) administrative cost audit reports for the California, Colorado, Hawaii, Illinois, Kansas, Kentucky, New Mexico, Texas, and West Virginia DDSs.[10]

The Compliance Supplement identifies seven types of compliance requirements auditors should consider for the SSA programs in performing single audits. Our review of the 54 single audits identified common direct findings in the cash management category. In addition to this category, we identified crosscutting findings in the procurement, equipment and real property management, reporting, and allowable costs categories.

We performed fieldwork at the Office of Audit in Kansas City, Missouri, from May 2003 to April 2004. We conducted our review in accordance with Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

[10] OIG audits of the DDSs listed are the only OIG audits covering the same or partial period as the single audits discussed in this report.

Summary of Single Audit Findings

State	State Fiscal Year	Direct Findings[1]					Crosscutting Findings[2]				
		Cash Management	Procurement[3]	Equipment/Real Property Management[4]	Reporting[5]	Allowable Costs[5]	Cash Management	Procurement[3]	Equipment/Real Property Management[4]	Reporting[5]	Allowable Costs[5]
Alabama	2002						✓				
Alaska[6]	2002										
Arizona	2002								✓		
Arkansas[7]	2002										
California	2002	✓						✓		✓	
Colorado	2002	✓								✓	✓
Connecticut	2002										✓
Delaware	2002							✓			
District of Columbia	2001/2002							✓			✓
Florida	2002										✓
Georgia	2002	✓									✓
Guam	2001/2002						✓	✓	✓		✓
Hawaii	2002										✓
Idaho[6]	2002										
Illinois	2002	✓				✓					✓
Indiana	2002									✓	✓
Iowa	2002									✓	
Kansas[6]	2002										
Kentucky	2002								✓		
Louisiana	2002								✓		✓
Maine	2002	✓								✓	✓

[1] See Appendix D for detailed direct findings.

[2] See Appendix E for detailed crosscutting findings.

[3] There were no direct findings identified in this category.

[4] This category includes crosscutting findings that were identified in the areas of computer controls and/or property controls. There were no direct findings in this category.

[5] The direct findings identified in this category were considered insignificant and are not identified in this report for resolution.

[6] The single audit reported findings, but they did not have the potential to affect the Disability Determination Services.

[7] The single audit did not report any findings.

State	State Fiscal Year	Direct Findings[1]					Crosscutting Findings[2]				
		Cash Management	Procurement[3]	Equipment/Real Property Management[4]	Reporting[5]	Allowable Costs[5]	Cash Management	Procurement[3]	Equipment/Real Property Management[4]	Reporting[5]	Allowable Costs[5]
Maryland	2002	✓									✓
Massachusetts	2002						✓				
Minnesota	2002										✓
Mississippi	2002								✓		
Missouri	2002										✓
Nebraska	2002									✓	✓
Nevada[6]	2002										
New Hampshire	2002	✓						✓			✓
New Jersey[6]	2002										
New Mexico	2002								✓	✓	✓
New York	2002					✓	✓				
North Carolina	2002						✓		✓		✓
North Dakota	2001/2002										✓
Ohio	2002									✓	✓
Oklahoma	2002						✓				✓
Oregon	2002						✓		✓		✓
Pennsylvania	2002							✓			✓
Puerto Rico	2002				✓	✓	✓	✓	✓	✓	✓
Rhode Island	2002				✓				✓		✓
South Carolina	2002										✓
South Dakota	2002										✓
Tennessee	2002								✓		
Texas	2002								✓		
Utah	2002										✓
Vermont	2002								✓	✓	
Virginia	2002								✓		
Washington[6]	2002										
West Virginia	2001/2002	✓				✓	✓		✓		✓
Wisconsin	2002							✓			
Wyoming[6]	2002										

Note: See page C-1 for explanation of footnotes.

Direct Findings Reported in 12 Single Audits

STATE	DIRECT FINDINGS	QUESTIONED COSTS
California	1. The parent agency for the California Disability Determination Services (DDS), the Department of Social Services, provided the Finance Department incorrect information on the California DDS's cash draws, which could have resulted in an inaccurate calculation of the State's interest liability to the Federal government.	$0
Colorado	1. The parent agency for the Colorado DDS, the Department of Human Services (DHS), did not draw funds in a timely manner.	0
Georgia	1. The parent agency for the Georgia DDS, the Department of Labor, drew funds in excess of allowable expenditures.	777,555
Illinois	1. The parent agency for the Illinois DDS, the DHS, did not submit accurate and timely expenditure information for Federal programs to the Illinois Office of the Comptroller.	0
	2. DHS did not review or recertify the accuracy of clearance patterns identified in the Cash Management Improvement Act (CMIA) agreement for Social Security Administration's (SSA) disability programs.	0
Maine	1. The parent agency for the Maine DDS, DHS, drew funds between 3 to 30 days after checks were issued, resulting in a negative average daily cash balance.	0
Maryland	1. The Maryland State Treasurer did not maintain documentation to support the check clearance patterns stated in the CMIA agreement for payroll and vendor payments.	0
New Hampshire	1. The State Treasury Department improperly excluded the Supplemental Security Income program from the CMIA agreement.	0

STATE	DIRECT FINDINGS	QUESTIONED COSTS
New York	1. The parent agency for the New York DDS, the Department of Social Services, Office of Temporary and Disability Assistance (OTDA), allocated costs to the DDS based on methodologies that were not approved by the Department of Health and Human Services Division of Cost Allocation.	$0
	2. OTDA miscoded payroll and voucher expenses in its accounting system. The miscoded expenses may have resulted in improper charges to various Federal programs, including SSA.	0
Puerto Rico	1. The parent agency for the Commonwealth of Puerto, the Department of Family (DoF), could not supply all of the required documentation for its contracts.	0
	2. DoF did not submit the Time Report of Personnel Services (SSA-4514) timely.	0
Rhode Island	1. Disbursements reported on the State Agency Report of Obligations (SSA-4513) were understated by $411,389.	0
	2. Overtime hours were reported twice on the SSA-4514.	0
West Virginia 2001/2002	1. The parent agency for the West Virginia DDS, the DoE, Division of Rehabilitation Services (DRS), did not adequately maintain records to support that the approved indirect cost rate was applied to the proper base amount.[1]	0
	2. DRS used an incorrect indirect cost rate to charge indirect costs to the disability program.[2]	0
	3. Funding techniques used for determining cash draws were not consistent with actual cash flow activity resulting in an inaccurate calculation of interest liability.	0
	Total Questioned Costs	**$777,555**

[1] The SSA OIG *Audit of Indirect Costs Claimed by the West Virginia Disability Determination Services* (A-07-03-23072), December 2003, determined that DRS' failure to use an accounting code in the State's accounting system to identify indirect cost items did not result in unallowable indirect costs being charged to SSA.

[2] The SSA OIG *Audit of Indirect Costs Claimed by the West Virginia Disability Determination Services* (A-07-03-23072), December 2003, audit determined that the correct approved indirect rate was being used.

Crosscutting Findings Reported in 46 Single Audits

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
Alabama	1. Duplicate drawdowns of Federal funds were made.	$0
Arizona	1. The State's Information Services Division, which operates the State's computer system, had not implemented a formal contingency plan in the event of a disaster that could adversely affect its operations.	0
California	1. Procedures were not in place to ensure that contractors were not suspended or debarred.	0
	2. Limitations in the automated accounting systems did not allow it to report expenditures by program on the Schedule of Expenditures of Federal Awards.	0
Colorado	1. Controls over payroll were not adequate.	0
	2. Procedures were not in place to ensure annual reports were complete and accurate.	0
Connecticut	1. Employees' salaries were not charged to the benefitting Federal programs.	0
Delaware	1. Procedures were not in place to ensure that contractors were not suspended or debarred.	0
District of Columbia 2001/2002	1. Controls over payroll and maintenance of employee personnel information were not in place.	0
	2. Contracts were not approved prior to awarding funds for procured goods and services.	0
Florida	1. Semiannual payroll certifications were not properly prepared to support employees' salaries.	0

[1] These amounts were reported in the single audit reports as questioned costs for various Federal programs. They were not specifically identified to the Social Security Administration's disability programs.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
Georgia	1. Bank reconciliations were not performed timely and variances were not resolved.	$0
	2. All activity for bank accounts was not recorded on the general ledger.	0
	3. Internal controls were not adequate to recognize revenue in the general ledger.	0
Guam 2001/2002	1. Procurement documentation for various transactions could not be located.	32,683
	2. Physical inventory of equipment was not conducted timely and property records were not updated.	0
	3. Bank reconciliations were not performed timely.	0
	4. Controls were not in place to minimize the time between the receipt and disbursement of funds.	0
	5. Internal controls for record retention were not in place.	20,699
Hawaii	1. Account information on the Automated Recovery System was not compatible with files on the Hawaii Automated Welfare Information System resulting in incomplete and inaccurate data.	0
	2. Vacation and sick leave records were not properly maintained.	0
Illinois	1. Costs were not allocated in accordance with the public assistance cost allocation plan.	0
	2. Payroll costs that should have been allocated to Federal programs were directly charged.	0
Indiana	1. Policies and procedures in accounting activity were inconsistent and incompatible within the current system.	0
Iowa	1. Procedures were not in place to ensure the annual report was accurate.	0

Note: See page E-1 for explanation of footnote.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
Kentucky	1. Controls were not in place to ensure that password policies were established and followed.	$0
	2. Segregation of duties between programmmer and operator functions was not in place.	0
	3. Security controls over network servers were not in place.	0
Louisiana	1. Accounting controls over property acquisition, disposition, valuation, and location were inadequate.	0
	2. Procedures were not in place to ensure reports were complete, accurate, and in compliance with program regulations.	0
Maine	1. Controls were not in place to ensure that only program-related payroll costs were charged.	90,700
	2. A system was not in place to ensure that financial reports were accurate and filed timely.	0
	3. Controls were not adequate to ensure that accurate financial reporting with prescribed methods to allocate costs were used.	691,657
	4. Charges were made to the Federal Program for the State's share of program expenses.	0
	5. Incorrect amounts were recorded and documentation was not maintained for training costs.	735,765
	6. Quarterly financial reports were inaccurate and were not reconciled to the State's accounting system.	0
	7. Procedures or systems were not in place to properly account for Federal funds.	0
	8. Costs recorded on the Financial Status Reports were inaccurate.	0
Maryland	1. Controls over recording and reporting of Federal revenue and related cash management activities need improvement.	0
Massachusetts	1. Controls over cash management activities need improvement.	0

Note: See page E-1 for explanation of footnote.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
Minnesota	1. Program's funds were used to pay the total cost of a consulting contract that was not directly related to that Federal program.	$0
Mississippi	1. Physical security controls over network computer equipment were inadequate.	0
Missouri	1. Controls for the new State Accounting System were inadequate.	0
Nebraska	1. A system was not in place to ensure that financial reports were accurate and filed timely.	0
	2. Expenditures obligated in one fiscal year were coded incorrectly to another fiscal year.	0
New Hampshire	1. Purchasing procedures were not followed in order to ensure services were obtained at the lowest price.	200,000
	2. A system was not in place to ensure personnel costs were charged to the appropriate Federal program.	0
New Mexico	1. Vouchers were not posted timely to the general ledger.	0
	2. Documentation for leave balance reports for 10 pay periods was missing.	0
	3. Financial Status Reports were not available for review.	0
	4. The Department has no formal policy for taking laptop computers from the worksite.	0
	5. There was no backup documentation for leased equipment.	0
New York	1. Procedures were not in place for electronic benefit transfer reconciliations that involved cash draws of Federal funds.	0

Note: See page E-1 for explanation of footnote.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
North Carolina	1. Percentage errors were identified in the Department's cost allocation reports.	$0
	2. Payroll worksheets were not approved for some employees.	0
	3. Controls were not in place to ensure Federal funds were drawn in accordance with the CMIA.	0
	4. There were inadequate controls over claims and invoices.	0
	5. A tracking system was not in place to ensure that all inventory records were presented for processing.	0
	6. Procedures were not followed when processing cash disbursements and invoices were not paid timely.	0
	7. Internal control weaknesses were noted in the billing and collection of accounts, including adequately trained staff.	0
	8. A disaster recovery plan was not in place.	
	9. Employees had improper access to the Department's computer system.	0
North Dakota	1. Personnel reports for the allocation of salaries and wages to cost activities were not included in the Statewide Cost Allocation Plan.	0
Ohio	1. Employee timesheets were not supported to show adjustments made and overtime was paid instead of straight time.	185
	2. Amounts reported on the Shedule of Expenditures and Federal Awards were inaccurate and incomplete.	0
	3. Documentation was missing showing that cost allocated to the program was allowable.	0
Oklahoma	1. Controls were not in place to ensure Federal funds were drawn in accordance with the CMIA agreement.	0
	2. Documentation for employee certifications was not maintained to verify that employees worked solely on one program.	0

Note: See page E-1 for explanation of footnote.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
Oregon	1. Controls were insufficient to ensure transactions posted to the financial statements were accurate.	$0
	2. Controls were not in place to ensure Federal funds were drawn in accordance with the CMIA agreement.	0
	3. Security controls over various computer applications were not in place.	0
Pennsylvania	1. Internal controls were not in place to ensure that accounting transactions were presented in accordance with Governmental Accounting Standards.	0
	2. Accounts payable were understated in the financial statements.	0
	3. Procedures were not in place to ensure that contractors were not suspended or debarred.	0
Puerto Rico	1. Financial Status Reports were not reconciled with the General Ledger.	0
	2. Property and equipment management procedures were not adequate.	0
	3. Obligations were made after the allowed time period.	11,584
	4. Contracts were not approved prior to awarding funds for procured goods and services.	0
	5. Federal funds were used for an unallowed activity.	2,480,716
	6. Supporting documentation for employee files and accounting records was not retained for expenditures charged to Federal funds.	15,686,660
	7. Federal reports were not submitted timely.	0
	8. The filing system was not effective.	0
	9. Significant deficiencies were noted in the internal control structure, accounting and financial management systems, budgetary controls, and financial reporting practices.	2,608,172
	10. Evidence to support the drawdown of Federal funds could not be located.	0
	11. Payment vouchers were incomplete.	24,398

Note: See page E-1 for explanation of footnote.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
Rhode Island	1. Bank reconciliations were not performed timely because of the implementation of a new accounting system.	$0
	2. Access controls for employee passwords over entry into the State payroll accounting system were not in place.	0
	3. Accounting controls over equipment acquisition, disposition, and inventory were inadequate.	0
	4. Cost allocation reports were not reconciled to the State's accounting system.	0
South Carolina	1. Monthly reconciliations for grant funds by the State were not performed timely, properly prepared, or approved.	0
South Dakota	1. The amount of expenditures for goods and services exceeded the amount shown on the invoices.	0
Tennessee	1. Security controls over the computer system were not in place, and authorization forms were missing, incomplete, or inconsistent with employees' access rights.	0
Texas	1. Internal controls were not in place to ensure that the Security System over equipment included evaluations of physical and data security operating procedures.	0
Utah	1. The Department did not issue management decisions within the prescribed 6-month timeframe as required by Circular A-133.	0
Vermont	1. A system was not in place to ensure that financial reports were accurate and filed timely.	0
	2. Computer system controls were inadequate regarding user names and access.	0
	3. The State does not have a system in place for Federal expenditure data needed to to prepare the Schedule of Expenditures of Federal Awards.	0
Virginia	1. Sufficient procedures were not in place regarding the Security System policies for implementing and maintaining proper security controls for equipment servers.	0

Note: See page E-1 for explanation of footnote.

STATE	CROSSCUTTING FINDINGS	QUESTIONED[1] COSTS
West Virginia 2001/2002	1. Segregation of duties in the Employee Payroll Information Control System was not in place.	$0
	2. Controls were not in place to ensure Federal Funds were drawn in accordance with authorized funding techniques.	0
	3. Changes to the electronic payroll system were not developed and tested in a segregated environment.	0
	4. Segregation of duties over the program receipts process was not in place.	0
	5. Procedures were not in place to identify, verify and report uncashed checks within the required 180-day period.	0
	6. Procedures were not adequate to ensure salaries were appropriately charged to Federal programs.	0
Wisconsin	1. Procedures were not in place to ensure that contractors were not suspended or debarred.	0
	Total Questioned Costs	**$22,583,220**

Note: See page E-1 for explanation of footnote.

Findings Identified during the Same Time Period as the Single Audits Included in this Report

OIG AUDIT	OFFICE OF THE INSPECTOR GENERAL (OIG) FINDINGS[1]	QUESTIONED COSTS
Audit of the Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022)	1. Unallowable medical costs were claimed for (a) excessive fees for specialty examinations, x-rays, laboratory tests, other medical services, and review of medical evidence of record (MER); and (b) duplicate payments for MER and consultative examinations (CEs).	$2,630,449[2]
	2. Unallowable costs were charged for (a) excessive rental costs and (b) costs related to non-SSA programs.	2,362,730[2]
	3. Unallowable costs were charged for indirect costs that did not benefit SSA's programs. These costs included statewide, departmental, and special administrative indirect costs.	1,708,097[2]
	4. Cash management practices were lacking regarding the funds from unnegotiated warrants, use of SSA funds to replenish State funds, and proper draw down of funds.	171,227[2]
	5. Computer access controls over the monitoring of transactions and safeguards over employee workstations were lacking.	0
Audit of the Administrative Costs Claimed by the Colorado Disability Determination Services (A-15-03-13044)	1. Unallowable medical costs were claimed for (a) medical providers paid in excess of the fee schedule, (b) certain fees on the fee schedule exceeding the highest allowable rate, and (c) medical providers paid for broken appointments.	1,185,629
	2. Cost allocation plans were not submitted in a timely manner. In addition, the automated allocation system was not consistent with the approved indirect cost allocation plans.	40,278
	3. Transactions in the all other nonpersonnel costs category were recorded in the incorrect fiscal year (FY).	61,520
	4. Two cash draws were applied to the incorrect FY.	53,531
	5. Internal controls over checks, including segregation of duties, were weak. Specifically, (a) checks were mailed to payees from an individual's desk, and (b) undelivered checks were not stamped non-negotiable or recorded in a check log upon receipt.	0

[1] Only the findings and questioned costs identified for the same period as the single audit are reported.

[2] The questioned costs were not specifically identified by FY. Therefore, we were unable to report the questioned costs for the time period of the single audit.

OIG AUDIT	OFFICE OF THE INSPECTOR GENERAL (OIG) FINDINGS[1]	QUESTIONED COSTS
Audit of the Administrative Costs Claimed by the Hawaii Disability Determination Services (A-09-03-13012)	1. Unallowable statewide and department indirect costs were allocated to SSA's programs as a result of unnecessary encumbrances for payment of MER.	$76,935
	2. Unliquidated obligations were overstated as a result of medical costs being reported above supporting expenditures.	65,562
	3. Payments were charged to the incorrect FYs because obligations were not always established in a timely and accurate manner.	9,944[2]
	4. Automatic locks to secure employee workstations after a period of nonuse were not implemented.	0
Audit of Administrative Costs Claimed by the Illinois Bureau of Disability Determination Services (A-05-02-22019)	1. The use of the provisional rate resulted in indirect costs claimed in excess of allowable costs calculated using the actual rates for the audit period.	1,490,495
	2. Documentation to support medical rates used for CEs could not be provided, and by using comparable Medicare fees an estimated potential for costs savings was identified.	130,194
	3. Costs were recorded in the incorrect FY because the Disability Determination Services (DDS) did not maintain a "cut-off" to record costs in the proper year.	75,206
Audit of Administrative Costs Claimed by the Kansas Disability Determination Services (A-07-02-22003)	1. Indirect costs were not allocated to all benefiting components, and information technology costs were not allocated according to the approved cost allocation plan, resulting in unallowable costs of $1,227,645 in FY 2001 and $947,123 in FY 2002.	2,174,768
Audit of Administrative Costs Claimed by the Kentucky Department for Disability Determination Services (A-08-03-13007)	1. The cost of leave taken and hours worked by individuals who worked on Temporary Assistance for Needy Families and Medical Assistance programs was inappropriately charged to SSA programs.	41,433
	2. Costs were charged to the incorrect FY.	630,289
	3. Costs were misclassified for consulting services, indirect personnel and operating costs, and car pool and telephone.	0
	4. The inventory listing was not accurate.	0

Note: See page F-1 for explanation of footnotes.

OIG AUDIT	OFFICE OF THE INSPECTOR GENERAL (OIG) FINDINGS[1]	QUESTIONED COSTS
Audit of Administrative Costs Claimed by the New Mexico Disability Determination Services (A-06-03-13016)	1. Unallowable indirect costs were claimed because Medicaid cost reimbursements were not excluded from the indirect cost base and an incorrect indirect cost rate was applied.	$7,232
	2. Cash draws exceeded total disbursements because Medicaid reimbursement amounts were not subtracted from personnel costs when requesting funds.	6,850
	3. CE costs were not limited to highest rate paid by Federal or other agencies in the State for the same or similar type service.	4,789
	4. Timely adjustments were not made to unliquidated obligations reported on the SSA-4513, and monies were unnecessarily obligated.	175,446
	5. A funding balance that was no longer needed for DDS operations remained available in the Automated Standard Application for Payments System.	168,596
Audit of Administrative Costs Claimed by the Texas Disability Determination Services (A-15-02-12051)	1. Fees were paid for CEs in excess of their authorized fee schedule.	1,336,228
	2. As a result of the excess CE payments discussed above, indirect costs claimed were improperly increased.	110,114
Audit of Indirect Costs Claimed by the West Virginia Disability Determination Services (A-07-03-23072)	1. Indirect costs were not adjusted to account for a reduction in nonpersonnel costs claimed.	6,596
	2. The total salary of a computer programmer who worked on both DDS and Department of Rehabilitative Services (DRS) activities was charged to the DDS and included in the base used to calculate indirect costs charged to SSA. Furthermore, the time the employee spent on the DDS versus DRS programs was not documented.	42,093
	3. Duplicate travel costs were claimed on the SSA-4513.	8,296
	4. Unallowable indirect costs were claimed due to unallowable personnel and nonpersonnel costs being inappropriately included in the indirect cost base.	8,132
	Total Questioned Costs	**$14,782,659**

Note: See page F-1 for explanation of footnote.

Agency Comments

SOCIAL SECURITY

MEMORANDUM 34065-24-1217

Date: August 24, 2004

Refer To: S1J-3

To: Patrick P. O'Carroll, Jr.
Acting Inspector General

From: Larry W. Dye /s/
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Management Advisory Report, "Summary of Single Audit Oversight Activities for May 2003 through April 2004" (A-07-04-14063)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments on the draft report are attached.

Please let us know if we can be of further assistance. Staff questions may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT MANAGEMENT ADVISORY REPORT, "SUMMARY OF SINGLE AUDIT OVERSIGHT ACTIVITIES FOR MAY 2003 THROUGH APRIL 2004" (A-07-04-14063)

Thank you for the opportunity to review the OIG's draft Management Advisory Report. SSA fully supports OIG's continued oversight of the single audit activities.

Recommendation

SSA should remind the Disability Determination Services (DDS) and their State parent agencies to ensure proper controls are in place for cash draws of Federal funds.

Comment

We agree and will issue a DDS Administrator's letter at the beginning of the next fiscal year (October 2004), reminding the DDSs and their parent agencies to ensure proper controls are in place for cash draws of Federal funds. An Administrator's letter will be reissued at the beginning of each successive fiscal year as a further reminder to the DDSs.

SSA believes it would be beneficial if a list of common findings cited in these audits were shared with the DDSs and their parent agencies to assist them in correctly following provisions of the Cash Management Improvement Act. We also think it would be helpful to provide specific recommendations in the report on how to effectively avoid common problems that result in unallowable cash draws.

Appendix H

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

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For additional copies of this report, please visit our web site at www.ssa.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-07-04-14063.

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Chairman and Ranking Minority Member, Subcommittee on Social Security and Family Policy

Chairman and Ranking Minority Member, Senate Special Committee on Aging

Social Security Advisory Board

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 Executive Operations (OEO). 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 Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO 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.