
OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

Single Audit of the State of Alabama for
The Fiscal Year Ended
September 30, 2000

October 2001 A-77-02-00002

AUDIT 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

Office of the Inspector General

MEMORANDUM

Date: OCT 31 2001

Refer To:

To: Dan Sweeney
Acting Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Single Audit of the State of Alabama for the Fiscal Year Ended September 30, 2000
(A-77-02-00002)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Alabama for the Fiscal Year ended September 30, 2000. The Alabama Department of Examiners of Public Accounts performed the audit and its reports on compliance and internal controls are attached (see Appendix A). 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.

The Alabama Disability Determination Services (DDS) performs disability determinations under SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Alabama Department of Education (DOE) is the Alabama DDS's parent agency.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's DI and SSI programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The single audit reported the following internal control weaknesses related to electronic data processing operations (see Appendix B):

- Policies and procedures for systems development and maintenance were informal and did not provide appropriate segregation of duties among data processing personnel.
- Internal control policies and procedures for preventing unauthorized systems access by users and data processing personnel were inadequate.

- The contingency plan to be followed in the event of a disaster that adversely affects operations was not communicated to personnel responsible for execution of the plan, and had not been adequately updated and tested.

The DOE's corrective action plan indicates that policies and procedures are being developed and implemented related to electronic data processing and critical systems, system development, and maintenance.

We recommend that SSA ensure that DOE:

1. Implements appropriate internal control policies and procedures for its electronic data processing operations and critical systems. These policies and procedures should:
 - a) allow for an appropriate segregation of duties among data processing personnel, and
 - b) protect against unauthorized access to the systems.
2. Periodically updates and tests its contingency plan, and communicates the plan to appropriate personnel.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency (see Appendix C).

- The Department of Finance (DOF), which manages the data systems for various State agencies, did not implement a formal, written contingency plan. The plan should provide for policies and procedures to be followed in the event of a disaster that adversely affects the operations of the data center.
- Security software purchased by DOF was not utilized, resulting in data processing systems not being protected from unauthorized access.

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Please send copies of the final Audit Clearance Document to Mark Bailey in Kansas City and Paul Wood in Baltimore. If you have questions contact Mark Bailey at (816) 936-5591.



Steven L. Schaeffer

Attachments

*Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards*

We have audited the financial statements of the State of Alabama as of and for the year ended September 30, 2000, and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Employees' Retirement System, the Teachers' Retirement System, the Public Employees' Individual Retirement Account Fund, the Public Employees' Individual Retirement Fund/Deferred Compensation Plan (RSA-1), the Public Education Employees' Health Insurance Fund, the Alabama Heritage Trust Fund, the State Employees' Insurance Board, the Alabama Port Authority, the Space Science Exhibit Commission, and the Alabama Higher Education Loan Corporation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not extend to those funds or component units.

Compliance

As part of obtaining reasonable assurance about whether the State of Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

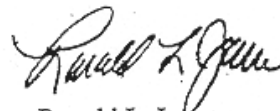
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Alabama's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 97-2.

*Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards*

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described in Finding 97-2 to be material weaknesses.

This report is intended solely for the information and use of management and other state officials and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

March 30, 2001

*Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133*

Compliance

We have audited the compliance of the State of Alabama with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2000. The State of Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Alabama's management. Our responsibility is to express an opinion on the State of Alabama's compliance based on our audit.

The State of Alabama's general purpose financial statements include the operations of the Housing Finance Authority, a component unit of the State of Alabama, which received \$19,087,000 in federal awards which is not included in the schedule for the year ended September 30, 2000. Our audit, described below, did not include the operations of the Housing Finance Authority because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Alabama's compliance with those requirements.

As described in items 99-6-4, 99-6-5, 00-6-4, 00-6-7, 00-8-1, and 00-8-2, in the accompanying Schedule of Findings and Questioned Costs, the State of Alabama did not comply with requirements regarding Special Tests and Eligibility, that are applicable to its Child Support Enforcement Program (93.563), Foster Care Title IV-E Program (93.658), Block Grant for Prevention and Treatment of Substance Abuse (93.959) and the Block Grant for Community Mental Health Services (93.958). Compliance with such requirements is necessary, in our opinion, for the State of Alabama to comply with requirements applicable to these programs.

*Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133*

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

In addition, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 96-54, 99-6-8, 00-3-1, 00-5-1, 00-6-1, 00-6-2, 00-6-6, 00-7-1, and 00-14-1.

Internal Control Over Compliance

The management of the State of Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Alabama's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions listed in the table below are described in the accompanying Schedule of Findings and Questioned Costs.

96-45	99-6-2	00-2-1	00-6-5	00-9-1
96-54	99-6-3	00-6-1	00-6-6	00-14-1
96-64	99-6-4	00-6-2	00-6-7	
97-9-8	99-6-5	00-6-3	00-7-1	
97-9-9	99-12-1	00-6-4	00-8-1	

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not


***Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133***

necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 97-9-8, 99-6-4, 99-6-5, 00-6-4, 00-6-5, 00-6-7, and 00-8-1, to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Alabama as of and for the year ended September 30, 2000, and have issued our report thereon dated March 30, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of management, other state officials, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

May 31, 2001, except for the
Schedule of Expenditures of
Federal Awards, as to which
the date is March 30, 2001.

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2000

Ref. No.	CFDA No	Program	Findings/Noncompliance	Questioned Costs
96-45		U.S. Department of Agriculture; Child Nutrition Cluster	<u>Finding:</u> We reviewed internal control policies and procedures relating to the electronic data processing operations of the Department of Education and the Budgetary Expenditures Control System (BECS).	
	10.558	U.S. Department of Agriculture; Child and Adult Care Food Program	Internal control policies and procedures pertaining to systems development and maintenance were informal and did not provide appropriate segregation of duties among data processing personnel.	
	84.010	U.S. Department of Education; Title I Grants to Local Education Agencies	Internal control policies and procedures pertaining to access to the systems by users and data processing personnel were not adequate.	
	84.027	U.S. Department of Education; Special Education – Grants to States	The Department of Education has a contingency plan for BECS processing; however, the existing contingency plan had not been communicated to personnel responsible for execution of the plan and the plan had not been adequately updated and tested.	
	84.048	U.S. Department of Education; Vocational Education – Basic Grants to States		
	84.173	U.S. Department of Education; Special Education – Preschool Grants	<u>Recommendation:</u> The Department of Education should implement appropriate internal control policies and procedures relating to its electronic data processing operations and critical systems.	
	84.186	U.S. Department of Education; Safe and Drug Free Schools and Communities	Internal control policies and procedures should be formalized and implemented for systems and development and maintenance. Internal control policies and procedures should provide appropriate segregation of duties among data processing personnel.	
	84.340	U.S. Department of Education; Class Size Reduction		
	96.001	Social Security Administration Disability Insurance	Internal control policies and procedures should ensure that the BECS is adequately protected from unauthorized access and unauthorized changes, and that appropriate access is given only to those persons with a need to access the systems. The Department of Education should update its contingency plan for BECS processing and ensure that all appropriate personnel are informed about their responsibilities and duties related to the plan. The contingency plan should be tested and updated periodically.	

Corrective Action Plan
For the Year Ended September 30, 2000

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the Department of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2000.

Corrective Action Plan Details

Finding 96-45

We reviewed internal control policies and procedures relating to the electronic data processing operations of the Department of Education and the Budgetary Expenditures Control System (BECS).

Internal control policies and procedures pertaining to systems development and maintenance were informal and did not provide appropriate segregation of duties among data processing personnel.

Internal control policies and procedures pertaining to access to the systems by users and data processing personnel were not adequate.

The Department of Education has a contingency plan for BECS processing; however, the existing contingency plan had not been communicated to personnel responsible for execution of the plan and the plan had not been adequately updated and tested.

Contact Person: Mark Dokas (334) 353-7018

Corrective action planned: The State Department of Education is preparing a formal short-term Information Technology Strategic plan setting goals, priority, and operations for the next 12 months. A formal three-year plan is also being developed. Policies and procedures are being developed and implemented related to our electronic data processing and critical systems, system development, and maintenance.

Separation of duties among data processing personnel has begun but cannot be completed due to shortage of staff.

Management will review BECS security twice yearly. Access to BECS is granted via written request by employee's supervisor. SDE Accounting will review the individuals granted access to BECS as a 2nd review. Implementation of additional changes to the security of the system has already begun.

Corrective Action Plan
For the Year Ended September 30, 2000

The DOE has updated its contingency plan for BECS processing. The DOE is dependent on the Department of Finance – ISD to execute the plan. All appropriate personnel have been advised and been given details as to their responsibility and duties in the execution of the plan. We currently have a process in place to send backup tapes to an off-site facility.

Anticipated completion date: Partially completed. Anticipated completion for remaining requirements October 1, 2001

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2000

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
97-2	Internal Control	<p><u>Finding 97-2 – Electronic Data Processing</u></p> <p>We reviewed internal control policies and procedures of the data center managed by the Department of Finance. Many state agencies utilize the data center to process information and accounting data. The Department of Finance has not implemented a formal written contingency plan that includes policies and procedures to be followed in the event of a disaster that adversely affects the operation of the data center. Agencies that utilize the data center for critical business processes of the State of Alabama could suffer a potentially devastating disruption of routine activities in the event of a disaster affecting the operations of the data center. Also, several state agencies and critical systems are exposed to additional risks of significant loss of data in the event of a disaster because they do not have appropriate contingency plans for their in-house data processing systems and facilities.</p> <p>The state agencies that use the Department of Finance data center are responsible for protection of their program files and data files. The Department of Finance has placed this responsibility solely on the user agencies. Security software has been purchased, installed, and made available to the user agencies; however, the software is not being utilized to its fullest extent. Also, the Department of Finance has not fully implemented all control features of the security software. As a result, some data processing systems are not protected from unauthorized access and use by appropriate electronic security software.</p> <p>The conditions described above existed during prior audit periods and continued to exist during the 1999-2000 fiscal year. The Department of Finance and state agencies developed policies and procedures to improve the internal controls over data processing and to partially implement our recommendations; however, these policies and procedures have not been implemented to the extent necessary to eliminate the conditions described above.</p>	

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2000

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		<p><u>Recommendations:</u></p> <p>The Department of Finance should implement a formal written contingency plan that addresses meeting the needs of all user agencies in the event of a disaster. State agencies should develop and implement formal written contingency plans for critical business processes and systems. After implementation, the contingency plans should be updated as necessary and tested on a regular basis.</p> <p>The Department of Finance and state agencies should implement and utilize security software to the fullest extent possible to protect program files and data files for critical business processes and systems of the State of Alabama.</p>	

Corrective Action Plan
For the Year Ended September 30, 2000

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the Department of Finance has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2000.

Corrective Action Plan Details

Finding 97-2

We reviewed internal control policies and procedures of the data center managed by the Department of Finance. Many state agencies utilize the data center to process information and accounting data. The Department of Finance has not implemented a formal written contingency plan that includes policies and procedures to be followed in the event of a disaster that adversely affects the operation of the data center. Agencies that utilize the data center for critical business processes of the State of Alabama could suffer a potentially devastating disruption of routine activities in the event of a disaster affecting the operations of the data center. Also, several state agencies and critical systems are exposed to additional risks of significant loss of data in the event of a disaster because they do not have appropriate contingency plans for their in-house data processing systems and facilities.

The state agencies that use the Department of Finance data center are responsible for protection of their program files and data files. The Department of Finance has placed this responsibility solely on the user agencies. Security software has been purchased, installed, and made available to the user agencies; however, the software is not being utilized to its fullest extent. Also, the Department of Finance has not fully implemented all control features of the security software. As a result, some data processing systems are not protected from unauthorized access and use by appropriate electronic security software.

The conditions described above existed during prior audit periods and continued to exist during the 1999-2000 fiscal year. The Department of Finance and state agencies developed policies and procedures to improve the internal controls over data processing and to partially implement our recommendations; however, these policies and procedures have not been implemented to the extent necessary to eliminate the conditions described above.

Corrective action planned: The Information Services Division is aggressively developing a comprehensive disaster recovery plan at this time. Staff has been assigned full time to this effort. To date, a disaster recovery organization chart has been established that identifies all the response teams, team leaders and alternate team leaders, and team responsibilities. A kickoff meeting was held on Wednesday, April 25, 2001 to formalize the disaster recovery project. Disaster recovery teams have until June 1, 2001 to establish this effort. As part of this process, each team will examine its current backup and recovery procedures to ensure the optimum effect. The Interim Chief Information Officer has established regularly scheduled monthly meetings to review the status of this project.

Corrective Action Plan
For the Year Ended September 30, 2000

On the related issue of backup facilities, the Disaster Recovery Management Team has already had a meeting with two companies that provide alternate-site recovery facilities. We are currently waiting on proposals from both companies. The objective is to have an alternate-site facility under contract by the end of 2001.

The Information Services Division has policies that address security and security software. The Information Services Division conducts security software training courses to bring these policies and procedures to the attention of all affected personnel. Under the decentralized structure of Alabama state government, agencies are charged with implementing these policies and procedures in their daily operations.

The recommendation to review the current roles and responsibilities of ISD as they pertain to security software is a valid concept; however, to implement this would require additional personnel. Presently ISD has a security software administrator backed up by personnel in Technical Support. Additional staff would be required to have security software administration as a stand-alone unit.

Other security software and access issues are being addressed and the recommendations relating to passwords, personnel, and monitoring have been or are currently in the process of being implemented.

Contact Person: James D. Bryce, Interim Chief Information Officer (334) 242-3840

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress, and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities; coordinates responses to congressional requests for information; and also communicates OIG's planned and current activities and the results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.