
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT FOR THE
STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2000**

March 2002

A-77-02-00011

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
MAR 26 2002

Refer To:

To: Ellen Baese
Director
Management Analysis and Audit Program Support Staff

Assistant Inspector General
for Audit

Subject: Single Audit of the State of New Mexico, Department of Education for the Fiscal Year Ended June 30, 2000 (A-77-02-00011)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of New Mexico, Department of Education (DOE), for the Fiscal Year ended June 30, 2000. Meyners & Company, LLC, Certified Public Accountants, performed the audit. Results of the desk review conducted by the United States Department of Education (USDOE) have not been received. We will notify you when the results are received if USDOE determines the audit did not meet Federal requirements.

The New Mexico 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 New Mexico Division of Vocational Rehabilitation (DVR) within the DOE is the New Mexico 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 findings (see Appendix A):

The DVR/DDS accounting system did not allow reconciliation of DDS encumbrances and related expenditures with the States' accounting system. The corrective action plan indicates that DVR is making modifications to the accounting system so that a monthly reconciliation can be performed.

A disaster recovery plan had not been designed or tested for the new accounting system. The corrective action plan indicates that a contract was implemented to assist in developing a disaster recovery plan.

We recommend that SSA ensure:

1. DDS did not claim unallowable expenditures as a result of invalid encumbrances.
2. Appropriate modifications were made to the DVR/DDS accounting system to allow for reconciliation of DDS encumbrances and related expenditures, and monitoring of DDS cash balances.
3. A disaster recovery plan was developed, tested, and implemented.

The single audit also disclosed that application of consistent internal control procedures at the State failed as a result of continued vacancies, lack of experienced accounting personnel, and the decrease in authorized positions in the Finance department. Although this finding was not specifically identified to SSA, it may impact DDS operations. I am bringing this matter to your attention as it represents potentially serious service delivery and financial control problems for the Agency (see Appendix B).

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

STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs – continued

00-1 SDE - PERSONNEL MANAGEMENT -continued

Due to staff turnover over the past year, staff has had to take up additional duties. As a result, with the additional duties some tasks were not completed. With the position responsible for Adult Basic Education currently filled, the spreadsheets will be reconciled monthly to ensure that all expenditures and receipts for the month are posted.

00-2 DVR/DDS - INFORMATION SYSTEMS MANAGEMENT

Condition: The transition to a new DVR/DDS accounting system and a new case management system resulted in increased responsibilities for certain personnel and the failure to include certain critical information in the new accounting system. Specifically, we noted the following:

The new accounting system was not properly designed to ensure that encumbrances could be monitored and reconciled with DFA. Additionally, the new accounting system did not include fields to capture delivery dates to facilitate the identification of accounts payable at year end.

A disaster recovery plan has not been designed or tested for the new accounting system.

Cause: The above items primarily resulted from the transition to a new DVR/DDS accounting system and a new case management system, which increased responsibilities for certain personnel and failed to include certain critical information in the new accounting system.

Criteria: Valid encumbrances should be maintained and reconciled to DFA at least on a monthly basis. It is important that each agency maintain an accurate listing of valid encumbrances to monitor expenditures against the authorized budget.

Effect: The implementation of the new accounting system and client management system resulted in certain issues that affected DVR/DDS operations. For example, it became necessary to place primary reliance on DFA for the June 30, 2000, listing of valid encumbrances. However, because DFA does not review the listing for invalid encumbrances, reliance on DFA information could result in overstated budgetary expenditures.

STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs – continued

00-2 DVR/DDS - INFORMATION SYSTEMS MANAGEMENT - continued

Failure to develop and test a disaster recovery plan could result in serious consequences to the Department if critical systems were to fail without adequate contingency plans.

Recommendation: DVR should make the appropriate modifications to the accounting system and allocate the resources necessary to maintain and reconcile outstanding encumbrances and other account balances to DFA. DVR should develop and test a disaster recovery plan.

Client Response: DVR/DDS plans to have an encumbrances report developed in the AIMS financial management system during the 2000/2001 fiscal year. Once this report is available, monthly encumbrance reconciliation will be instituted.

DVR agrees with the need for the development, implementation and testing of a disaster recovery plan. In May 2000, a contract was implemented to assist in assessing DVR's network and applications and to assist in the development of a disaster recovery plan. Activities to develop this plan are currently in progress and should be completed before June 30, 2001.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

U.S. DEPARTMENT OF EDUCATION
Title I - CFDA No. 84.010A
Technology Literacy Challenge - CFDA No. 84.318
Class Size Reduction Grant - CFDA No. 84.380

00-3 SDE - PERSONNEL MANAGEMENT

Condition: Application of consistent internal control procedures at SDE has failed during the last fiscal year as a result of continued vacancies, lack of experienced accounting personnel, and the decrease in authorized positions in the Finance Department. The Department has managed these staff shortages by establishing priorities to ensure that critical activities occurred. In particular, the following lapses in internal control procedures were noted:

One financial status grant report for Title I that was submitted to the federal government and selected during our audit contained incorrect data. The Department had prepared the report using non-current data in order to meet the Federal Government's due date. Management subsequently submitted a final report containing the correct data. This finding resulted in no questioned costs.

STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

00-1 SDE - PERSONNEL MANAGEMENT

Condition: Application of consistent internal control procedures at SDE has failed during the last fiscal year as a result of continued vacancies, lack of experienced accounting personnel, and the decrease in authorized positions in the Finance Department. The Department has managed these staff shortages by establishing priorities to ensure that critical activities occurred. In particular, the following lapses in internal control procedures were noted:

One financial status grant report for Title 1 that was submitted to the federal government and selected during our audit contained incorrect data. The Department had prepared the report using non-current data in order to meet the federal government's due date. Management subsequently submitted a final report containing the correct data.

Contingency plans for the information systems have not been updated since 1997 and the existing plan has not been tested for several years.

The Department's internal system for tracking leave balances failed during the fiscal year ended June 30, 2000. As a result, the Department was not able to reconcile internal leave balances to balances maintained by the Department of Finance and Administration.

Two federal drawdowns were recorded in the incorrect month. Although the errors in recording deposits were identified as a part of the Department of Finance and Administration reconciliation, the adjustments were not recorded in the general ledger.

Reconciliations of federal drawdowns to payments made to local school districts for the Class Size Reduction (CSR) grant were not agreed to the general ledger.

Reconciliations of grant activity recorded in the manual ledgers for the Adult Basic Education program to the general ledger were not consistently performed during the year.

STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs – continued

00-1 SDE - PERSONNEL MANAGEMENT - continued

Cause: In the past few years, the Department has incurred a significant turnover of employees due to retirement and normal attrition. Because of budget restraints, lack of qualified applicants, and the time involved in hiring through state personnel, the Department has not been able to adequately replace those who have left. As a result, the employees who remain are being given tasks in addition to their normal responsibilities. These additional responsibilities can result in the failure to perform certain Department functions that are considered less critical. Inadequate training for the additional responsibilities that are being absorbed has also contributed to the failure to comply with standard Department procedures.

Criteria: The Department is responsible for administering one of the largest budgets in state government. It is important that adequate resources be allocated to properly administer these monies that flow through the Department.

Effect: If Department personnel are not given the resources required to adequately perform their responsibilities, or are not utilized in the most efficient means possible; the Department's procedures may become ineffective. In addition, there is increased potential for continued personnel turnover.

If reports are not submitted in a timely manner, or are submitted incorrectly, or if procedures are not performed in accordance with rules and regulations, the Department risks corrective action by the grantor agencies.

Recommendation: The Department should consider performing a full internal review of the current personnel responsibilities. This review should include an analysis of the adequacy of the current staffing levels, as well as whether the current staffing structure is being utilized in the most effective manner possible.

Client Response: *The person who is responsible for posting to the ledger is still relatively new to the position; therefore, the administrative ledgers were late in being posted. As a consequence, the Title I Financial Status Reports did not include the administrative expenses.*

It has been SDE's understanding that the Financial Status Reports must be submitted on the due dates in accordance with the 34 Code of Federal Regulations (CFR). Once the final information is available a final Financial Status Report must be submitted with the complete expenditure data. In order to meet the established deadline, SDE determined that a pre-final would be submitted without the administrative expenses and a final 269 Report submitted at a later date.

STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs – continued

00-1 SDE - PERSONNEL MANAGEMENT -continued

In the future, in accordance with department policies, SDE will make every effort to keep up with its monthly posting of the administrative ledger.

The Department has hired a consulting firm to develop a contingency plan for the information systems. The Department expects this to be completed by December 2000.

DFA reports have been used to track and reconcile leave accruals and balances for individual employees. The reconciliation of SDE's portion of payroll expenditures has been reconciled by an employee of the SDE's Fiscal Unit. SDE's internal payroll system was recognized as antiquated. The use of this system was suspended in order to redirect the Human Resources to respond to other SDE payroll concerns. SDE contacted the Information System Division (ISD) at the General Services Department (GSD) and we have since contracted with them to develop a payroll reporting and reconciliation system. We have been informed that this system will be completed by the end of July 2000. We are in the process of reviewing GSD's payroll reporting draft reports. Once this project is complete, SDE will initiate the reconciliation process again. SDE will annually evaluate software technology to ensure that the payroll system remains current.

Concerning the comment on federal drawdowns, SDE posted a deposit based on a posting date rather than the actual date received. Another deposit, which should have been posted in October, was not entered into the general ledger because of missing information.

Due to staff turnover over the past year, staff has had to take up additional duties relating to the reconciliations for the Class Size Reduction grant. Consequently, with the additional duties some tasks were not completed. Reconciliations for this grant will be performed monthly and reconciled to the general ledger. In addition, review by the unit supervisor and reporting to the Deputy Director will be done on a monthly basis.

STATE OF NEW MEXICO
DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs – continued

00-1 SDE - PERSONNEL MANAGEMENT -continued

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Effect: The implementation of the new accounting system and client management system resulted in certain issues that affected DVR/DDS operations. For example, it became necessary to place primary reliance on DFA for the June 30, 2000, listing of valid encumbrances. However, because DFA does not review the listing for invalid encumbrances, reliance on DFA information could result in overstated budgetary expenditures.

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) provides four functions for the Office of the Inspector General (OIG) – administrative support, strategic planning, quality assurance, and public affairs. OEO supports the OIG components by providing information resources management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this Office coordinates and is responsible for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. The quality assurance division performs internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency. This division also conducts employee investigations within OIG. The public affairs team communicates OIG's planned and current activities and the results to the Commissioner and Congress, as well as other entities.

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.