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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SINGLE AUDIT OF THE  
STATE OF OKLAHOMA  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003**

**FEBRUARY 2005**

**A-77-05-00009**

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**MANAGEMENT  
ADVISORY REPORT**

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## **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: February 22, 2005

Refer To:

To: Candace Skurnik  
Director  
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Oklahoma for the Fiscal Year Ended June 30, 2003 (A-77-05-00009)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Oklahoma for the Fiscal Year ended June 30, 2003. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Oklahoma State Auditor performed the audit. The Department of Health and Human Services' (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Oklahoma State Auditor and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

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

The Oklahoma Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Oklahoma Department of Rehabilitation Services (DRS) is the Oklahoma DDS' parent agency.

The single audit reported that:

1. The auditors were not able to determine if cash draws were for immediate cash needs. Cash draws were estimated based on a monthly expenditures report and documentation was not available to verify this procedure. The corrective action plan indicated that the Cash Management Improvement Act Agreement has been modified to reflect DRS' needs and the availability of existing data for supporting documentation (Attachment A, pages 1 and 2).

2. The cost of unused leave for employees who retire or terminate employment was charged entirely to SSA programs instead of being allocated as a general administrative expense. In addition, employees were not certified as working solely on a single program. The corrective action plan indicated that adjustments were made to personnel services costs and semi-annual certifications will be completed for employees charged directly to a program (Attachment A, pages 3 and 4).
3. The Time Report of Personnel Services (SSA-4514) was inaccurate because the leave hours for nine individuals did not agree with the timesheets. The corrective action plan indicated that procedures were implemented to assure the leave hours reported on the monthly time report are the same as the leave hours that are reported on the timesheet (Attachment A, pages 4 and 5).
4. The auditors were not able to determine if the indirect costs were accurately reported because the base amount used to calculate the indirect costs could not be traced to accounting records. The corrective action plan indicated that the indirect cost computations schedule has been reviewed and brought up-to-date (Attachment A, pages 5 and 6).

These findings will be addressed in the audit of Administrative Costs Claimed by the Oklahoma DDS (A-07-05-15102) which is currently being conducted by the Office of the Inspector General. Accordingly, we are not making any recommendations .

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.

- Procedures were not in place to ensure system modifications were authorized, tested and met users requirements (Attachment B, pages 1 and 2).
- Procedures were not adequate to ensure system changes are independently tested and moved into production (Attachment B, pages 3 and 4).
- Controls were not in place to ensure that data and programs were restricted to authorized users (Attachment B, pages 4 and 5).
- Expenditures from a prior year were paid with funds from a subsequent year (Attachment B, page 6).

Page 3 – Candace Skurnik

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

## Schedule of Findings Federal Award Findings And Questioned Costs

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- Administrative, non-payroll and Non-medical client services
  - Payment Schedule – Variance 3 - The State shall request funds such that they are deposited in the State account on the fifteenth (or closest working day prior to the 15<sup>th</sup>) to fund the costs incurred during that period. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be an estimate based on actual payments of the prior month and adjusted to actual on a quarterly basis.
- Payroll
  - Average Clearance (9.32 days)

**Condition:** We reviewed an Office of State Finance report of all deposits coded with a CFDA of 84.126 for the time period of July 1, 2002 through June 30, 2003. The report consisted of 35 deposits totaling \$38,545,450. With the exception of one deposit, all were for whole amounts (e.g. \$1,000,000). Which indicates the Department is not drawing funds in accordance with the funding techniques prescribed in the Treasury-State Agreement.

Furthermore, documentation to support the individual amounts requested could not be provided to our office.

Management also stated they were not in compliance with the requirements of the Treasury-State Agreement. This is a repeat finding from fiscal years 1999, 2000, 2001, and 2002.

**Effect:** By not following the Cash Management Treasury-State Agreement, the Department could have drawn funds earlier than they were entitled, which could cause an interest event, or used State funds when Federal funds were available.

**Recommendation:** We recommend the Department establish and implement internal control procedures to ensure all applicable personnel are aware of the Treasury-State Agreement requirements and that draws made by the Department are in accordance with the Agreement. Also, if necessary, we further recommend the Department revise the Agreement to better fit the Department's needs.

### **Management's Corrective Action Plan**

**Contact Person:** Kevin Statham, Accountant

**Anticipated Completion Date:** July 1, 2003

**Corrective Action Planned:** The Department concurs with the finding. Applicable personnel are aware of the CMIA requirements. Data available to fully meet the agreement's requirements was unattainable. The CMIA Agreement has been modified effective July 1, 2003.

**REF NO:** 03-805-002

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** Social Security Administration

**CFDA NO:** 96.001

**FEDERAL PROGRAM NAME:** Social Security – Disability Insurance

**FEDERAL AWARD NUMBER:** 0204OKDI00, 0304OKDI00

**FEDERAL AWARD YEAR:** FFY 2002, FFY 2003

**CONTROL CATEGORY:** Cash Management

**QUESTIONED COSTS:** \$-0-

**Criteria:** According to the Cash Management Act (31 CFR 205.33)

- a). A State must minimize the time between the draw down of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accordance with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The

## Schedule of Findings Federal Award Findings And Questioned Costs

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timing and amount of each funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportional share of any allowable indirect costs. . . ."

**Condition:** Department personnel stated amounts drawn are an estimate based on a monthly expenditures report. To verify this procedure, we requested the supporting documentation for three draws made in the month of March 2003. The Department was unable to provide the documentation. As a result, we are unable to ensure the amounts drawn are for immediate cash needs.

**Effect:** The Department may not be drawing for immediate cash needs.

**Recommendation:** We recommend the Department establish and implement internal control procedures to ensure all applicable personnel are aware of the Cash Management Act requirements and that draws made by the Department are for immediate cash needs and each draw is supported by accounting records.

### **Management's Corrective Action Plan**

**Contact Person:** Kevin Statham, Accountant

**Anticipated Completion Date:** July 1, 2003

**Corrective Action Planned:** The Department concurs with the finding. Applicable personnel are aware of the CMIA requirements. Data available to fully meet the agreement's requirements was unattainable. The CMIA Agreement has been modified effective July 1, 2003. This modification has taken into account the Department's needs as well as the availability of existing data for supporting documentation.

## Schedule of Findings Federal Award Findings And Questioned Costs

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reconciles the report on an annual basis to the total amount reported on the RSA-2 Report. Once the SF-269 has been reconciled, the September quarter's report is amended so that the two reports' totals will agree. The SF-269 for the quarter ending September 30, 2002 (federal grant period October 1, 2001 through September 30, 2003) was adjusted for \$1,363,930 based on this reconciliation. Department personnel was unable to provide accounting records to support this adjustment.

- Line 11 on all SF-269 quarterly reports submitted during SFY 2003 (July 1, 2002 through June 30, 2003) did not contain any reported indirect costs. However, the Department does have an approved indirect cost rate and did incur indirect costs during SFY 2003.
- The following accounts and location codes were being included in the expenditure amount reported each quarter and should not have been:
  - 2313/30982 – In-Service Training
  - 2313/30241 – Services to Groups
  - 2313/30243 – Interpreter Services

These expenditures that are being included in the SF-269 expenditure amount are not being included in the RSA-2 amount, so DRS appears to be accounting for this error when it reconciles the reports. As a result, we will not question any costs; however, these expenditures should not have been reported on the original quarterly reports so each one is misstated until the reconciliation occurs.

**Effect:** The amounts reported on the quarterly SF-269 might not properly reflect the total cash disbursements for the quarter.

**Recommendation:** We recommend the following:

- The Department ensure the total outlays reported on each quarterly SF-269 are accurate. To facilitate this, all necessary adjustments to the Warrants Issued report should be made on at least a quarterly basis, preferably monthly.
- The Department no longer include the In-Services Training, Services to Groups, and Interpreter Services line items in the amount reported on the quarterly SF-269.
- The Department maintain accounting records to support the adjustments made to the Warrants Issued report.
- The Department begin reporting indirect costs on the quarterly SF-269 reports.

**Management's Corrective Action Plan**

**Contact Person:** Kevin Statham, Accountant

**Anticipated Completion Date:** Second quarter of SFY 2004

**Corrective Action Planned:** The Department concurs with the finding. All applicable reporting requirements have been met with the Fourth Quarter SF-269 filing. Accuracy regarding quarterly reports has been addressed and data is available to provide accurate and timely filing of the SF-269. The new compilations were completed and available during the Second Quarter of SFY-2004.

**REF NO:** 03-805-004

**STATE AG-NCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** Social Security Administration

**CFDA NO:** 96.001

**FEDERAL PROGRAM NAME:** Social Security – Disability Insurance

**FEDERAL AWARD NUMBER:** 0204OKDI00, 0304OKDI00

**FEDERAL AWARD YEAR:** 2002 and 2003

**CONTROL CATEGORY:** Reporting and Allowable Costs/Cost Principles

**QUESTIONED COSTS:** Unknown



## Schedule of Findings Federal Award Findings And Questioned Costs

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**Criteria:** OMB Circular A-87 Attachment B 11.d.3 states, "When a government unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the government unit or component."

OMB A-87 Attachment B 11.h.3 states "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

**Condition:** During our testing of the SSA-4513 "State Agency Report of Obligations for SSA Disability Programs", we noted the Department included terminal leave of \$25,903.52 when reporting personnel service costs for the 2003 grant. Therefore, personnel services costs are overstated. Only an allocated portion of the costs can be charged to the program.

During payroll testing procedures for DDD, we noted the Department does not maintain Certifications on employees charged directly (solely) to the program.

**Effect:** Persons may be charged directly to a program, when in fact they perform functions for multiple programs.

**Recommendation:** We recommend the Department allocate terminal leave as an indirect cost. In addition, the Department should recalculate the indirect costs of the program excluding termination leave from the base. The Department should also ensure certifications are maintained for employees charged directly to a program.

### **Management's Corrective Action Plan**

**Contact Person:** Bill Austin, Budget & Finance Unit

**Anticipated Completion Date:**

**Corrective Action Planned:** In May 2003 Terminal Leave was computed at \$25,903.52; therefore, we concur that the 3<sup>rd</sup> Quarter SSA-4513 reflected as Personnel Services Costs an overstatement of \$25,903.52. However, after review of relevant data for the period in question (October 1, 2002 to June 30, 2003), it has been determined that the correct amount of Terminal Leave was \$26,959.94.

Therefore, an adjustment has been made to reduce Personnel Service Costs by \$25,903.52. In addition, an additional adjustment of \$1,056.42 was made to further reduce Personnel Service Costs for FFY 2003. These adjustments have been made to the current quarter's (1/1/04 to 3/31/04) data.

In addition, the Indirect Costs for FFY 2003 have been corrected to reflect the correct base amount.

Regarding certifications, originally we had stated June 30, 2003 as the anticipated certification date. Upon review of the process for distribution and retrieval of the certifications, the date of January 30, 2004 is more reasonable for the first semi-annual certification.

**REF NO:** 03-805-005

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** Social Security Administration

**CFDA NO:** 96.001

**FEDERAL PROGRAM NAME:** Social Security - Disability Insurance

**FEDERAL AWARD NUMBER:** 0204OKDI00, 0304OKDI00

**FEDERAL AWARD YEAR:** FFY 2002, FFY 2003

**CONTROL CATEGORY:** Reporting

## Schedule of Findings Federal Award Findings And Questioned Costs

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**Criteria:** According to DI 39506.231 "Preparation Instructions for Form SSA-4514":

**A. Description of Form SSA-4514**

The Form SSA-4514 is used to report the number of hours worked by staffing category and employment status (i.e., full-time, part-time, temporary). This report should reflect all hours worked by personnel engaged in the SSA disability program during the reporting period.

**C.2. Procedure – Report Column, Column B (Holiday and Leave Hours)**

For each staffing category listed under lines 1-3 (full-time, part-time, and temporary), enter the hours for holidays observed by the State agency and for sick, annual or other paid leave (e.g., lump sum leave, military leave, etc.). The entries in this column should include the proportionate share of holidays and leave time of the regular staff of the agency who worked part-time on the SSA disability program

Also, Circular A-133 states in part that internal controls should provide reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable federal reports and to demonstrate compliance with laws, regulations and other compliance requirements.

**Condition:** We tested fifty-five (55) individuals whose hours were included in the "Time Report of Personnel Services For Disability Determination Services" (Form SSA-4514) for the quarter ending 6/30/03. During our testing we noted that nine (9) individuals leave hours did not agree with their timesheets. As a result, the hours reported on the SSA-4514 are misstated, although, because some hours were over reported and some under reported, the net difference in hours was only 10.75.

**Cause:** It appears timesheet information was transferred to the "Unit Time Report" which was then incorrectly transferred to the Monthly Time Report (Excel Spreadsheet).

**Effect:** Information reported on the quarterly SSA-4514 report may be inaccurate.

**Recommendation:** We recommend the Department establish and implement internal control procedures to ensure information reported on the SSA-4514 report is accurate. Also, we recommend the timesheet information be transferred directly to the Monthly Time Report, therefore removing the Unit Time Report from the process and reducing the possibility for keying errors.

**Management's Corrective Action Plan**

**Contact Person:** Noel Tyler, Division Administrator

**Anticipated Completion Date:** November 1, 2003

**Corrective Action Planned:** DDD implemented procedures effective 11/01/2003 which assures the leave hours reported on the Monthly Time Report are the same as the leave hours that are reported on the timesheet. We will take under advisement the recommendation to transfer leave hours directly from the timesheet to the Monthly Time Report

**REF NO:** 03-805-007

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** Department of Education

**CFDA NO:** 96.001

**FEDERAL PROGRAM NAME:** Social Security – Disability Insurance

**FEDERAL AWARD NUMBER:** 0204OKDI00, 0304OKDI00

**FEDERAL AWARD YEAR:** FFY 2002, FFY 2003

**CONTROL CATEGORY:** Reporting

**Criteria:** Instructions for the SSA-4513 "State Agency Report of Obligations For SSA Disability Programs" states, "DDSs must report...all indirect costs that the State government has charged against the disability program for costs incurred during the period covered by the report. This should include the

## **Schedule of Findings Federal Award Findings And Questioned Costs**

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stated dollar amount or the amount derived by applying to the specified base the percentage authorized in the State department or parent agency's approved indirect cost proposal."

**Condition:** During our testwork of the SSA-4513 report for the quarter ending 6/30/03, we were unable to determine if the correct amount of indirect costs were reported. The base amount used to calculate the indirect costs could not be traced to the Department's accounting records.

**Effect:** The Department's SSA-4513 report may be misstated.

**Recommendation:** We recommend the Department maintain support for the distribution base used to calculate the indirect costs reported on the SSA-4513 report.

### ***Management's Corrective Action Plan***

**Contact Person:** Bill Austin, Budget & Finance Unit

**Anticipated Completion Date:** February 2004

**Corrective Action Planned:** Reviewed the Indirect Cost Computations schedule for the FFY 2003. For support of the Agency's reporting of Indirect Costs this schedule has been developed and brought up-to-date. A copy of this schedule has been provided to the State Auditor's office.

## Schedule of Findings Financial Statement Findings (Internal Control and Compliance)

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adequately review projects ensuring that they meet user requirements and agency standards. According to management responses, they feel the current resources are inadequate to accomplish the objectives set forth for the IT function. Specifically, management feels they could better accomplish the goals of the agency in a timelier manner if they had more resources.

**Effect:** The IT function may not be meeting the agency's current and future needs without an adequate strategic plan. IT function decisions may be made that do not consider the agency's overall needs and goals without the oversight of a steering committee. The lack of a quality assurance program increases the potential that application development is not adequately tested and does not meet the project plans and specifications.

**Recommendation:** We recommend the OSDMH:

- Review their updated strategic plan to ensure it addresses the future needs of all management and considers recent developments in technology. In addition, this update and review should prepare OSDMH for the guidelines and procedure requirements of the Oklahoma Information Security Policy and Procedures Guidelines.
- Create and implement an IT steering committee whose responsibility is to oversee the IT function and its activities. The committee would ensure that the IT function is compatible with the business function of the agency. This committee should be made up of senior management, user management, and IT management. The committee should meet regularly and report to senior management.
- Develop and implement a quality assurance unit within the IT function to provide oversight and review of system development and implementation.
- Review their current staffing levels and current outstanding development projects, establish solid priorities for each project, and then complete the projects in a timely manner, as resources become available.

**Management's Corrective Action Plan:**

**Contact Person:** Leo Fortelney

**Anticipated Completion Date:** July 1, 2005

**Corrective Action Planned:** DMHSAS will do the following:

- Review and update the IT Strategic Plan (short and long range).
- Create an IT Steering Committee to oversee the IT function and its activities to insure it meets the objectives of the agency.
- Develop and implement a quality assurance unit within the IT division to provide oversight for development and implementation of IT projects.
- Review current staffing levels and development projects, establish solid priorities for each project, and then complete the projects as resources become available.

### Department of Rehabilitation Services

**REF NO:** 03-805-011

**STATE AGENCY:** Department of Rehabilitation Services

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobIT, Acquisition and Implementation AI6), IT management should ensure that a system exists that provides for the analysis, implementation and follow-up of all changes requested and made to the existing IT environment to effectively minimize the likelihood of disruption, unauthorized alterations, and errors.

According to the Information Security policy, procedures and guidelines issued by the Office of State Finance (9.17 Change Control Procedures), the implementation of changes must be strictly controlled by the use of formal change control procedures to minimize the risk of system corruption. They should ensure

## Schedule of Findings

### Financial Statement Findings

#### (Internal Control and Compliance)

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that security and control procedures are not compromised, that programmers are given access to only those units required for their work and that formal approvals are obtained before work commence.

**Condition:** We found DRS does not have formal change procedures for system modifications. We noted programmers are able to make system/application changes, test the changes, and move changes into production without control procedures to ensure changes were authorized, tested and met users requirements.

It is our understanding that system documentation for ORMIS is outdated from its original development in 1996.

**Effect:** Due to the lack of formal change control procedures, risk of system corruption is increased. DRS need to ensure that ORMIS is meeting the business purpose and ensure that when system changes are made the associated documentation is updated accordingly.

**Recommendation:** We recommend that management adopt formal procedures to:

- Ensure changes are strictly controlled by formal change control procedures.
- Ensure that the security and control procedures are not compromised, that programmers are given access to only those units required for their work, and that formal approvals are obtained.
- Ensure change request forms are complete and include the following information:
  - Date of requested change
  - Request Type
  - Person requesting change/division
  - Description of the change
  - Impact to the business
  - Authorization
  - Received date
  - Assigned to
  - Estimate Hours
  - Actual hours
  - Estimated start date
  - Estimated completion date
  - Completion date
  - Programmer Actions
  - Programmer, Manager, and Supervisor signature
- Management should ensure that all users are aware of the change request procedures and that changes are submitted by authorized personnel
- Changes should be categorized, prioritized and specific procedures should be in place to handle urgent matters
- Change requestors should be kept informed about the status of their request
- Identify all software, databases, and hardware that require changes
- Ensure the system documentation is current
- Maintain version control on all updates
- Maintain an audit trail of all change request

#### **Management's Corrective Action Plan**

**Contact Person:** Jim Murphy, Branch Manager Information Services

**Anticipated Completion Date:** September 30, 2004

**Corrective Action Planned:** DRS Concurs with this finding. Quality Assurance Procedures will be upgraded to comply with OSF's recently published Guidelines. The I.S. Branch Manager will assume the initial responsibilities for Quality Control adherence.



## **Schedule of Findings Financial Statement Findings (Internal Control and Compliance)**

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**REF NO:** 03-805-015

**STATE AGENCY:** Department of Rehabilitation Services

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization PO4, and Acquisition & Implementation AI5), management should ensure the right IT services are delivered by providing an organization suitable in numbers and skills with roles and responsibilities defined and communicated, aligned with the business and that facilitates the strategy and provides for effective direction and adequate control.

According to the Information Security policy, procedures and guidelines issued by the Office of State Finance (9.3 Segregation of Duties and 9.4 Separation of Development and Operational Facilities), duties and areas of responsibility must be segregated in order to reduce opportunities for unauthorized modification or misuse of information or services.

Development and testing facilities must be separated from operational facilities. Rules for the transfer of software from development to operational status should be defined and documented. The level of separation that is necessary, between operational, test and development environments, to prevent operational problems should be considered. A similar separation should also be implemented between development and test functions. In this case, there is a need to maintain a known and stable environment in which to perform meaningful testing and to prevent inappropriate developer access.

**Condition:** Our review found DRS does not have a separate Quality Assurance unit to ensure system changes are independently tested and moved into production. A DRS programmer has the access to make system changes, test the changes, and subsequently move them into production without review or approval.

The ORMIS programmer consultant has the sole responsibility to make program changes, test them, and move them into the production environment.

**Effect:** Segregation of duties is a basic control that prevents or detects errors, irregularities, and fraud. For this reason, separate performance of critical tasks is imperative.

Development and test activities can cause serious problems, e.g. unwanted modification of files or system environment or of system failure.

The lack of adequate quality assurance increases the risk of implementing changes that have not been properly tested and approved by the users before being moved to the production environment

**Recommendation:** We recommend senior management implement a division of roles and responsibilities, which should exclude the possibility for a single individual to subvert a critical process.

Management should ensure that changes are tested in accordance with the impact and resource assessment in a separate test environment by an independent test group before being used in the production environment.

Management should also make sure that personnel are performing only those duties corresponding to their respective jobs. In particular, a segregation of duties should be maintained between the following functions:

- Information systems use
- Data entry
- Computer operations
- Network management
- System administration
- Systems development and maintenance

## Schedule of Findings Financial Statement Findings (Internal Control and Compliance)

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- Change management
- Security administration
- Security audit

### *Management's Corrective Action Plan*

**Contact Person:** Jim Murphy, Branch Manager Information Services

**Anticipated Completion Date:** September 30, 2004

**Corrective Action Planned:** DRS acknowledges these issues. The existing Quality Assurance Policies will be reviewed and brought into compliance with the OSF Guidelines to insure segregation of responsibility. The Branch Manager will also work with the ORMIS Contractor on Quality Assurance issues.

**REF NO:** 03-805-017

**STATE AGENCY:** Department of Rehabilitation Services

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), IT management should safeguard information against unauthorized use, disclosure or modification, and provide logical access control to ensure that access to systems, data and programs is restricted to authorized users.

**Condition:** Our review found DRS does not actively review active user profiles for the AS400. Terminated users are not promptly removed from the system. We compared the DRS employee separated list with the AS400 active user list and found users that had been terminated from DRS employment. We noted that one separated employee still had access to ALLOBJ, which grants access to high security level profiles.

DRS does not have formal policies and procedures to identify controls in place on the AS400 operating system for user identification and authorization profiles. Documentation was not available to define how access to the system is controlled and who should be granted the various high level user classes and how separation of duties is maintained.

The ORMIS application security policy and procedures and user setups has not been documented.

**Effect:** Increases the risk that unauthorized users may obtain access to the system, increasing the possibility of unauthorized use, manipulation, or destruction of the data and systems will occur.

### **Recommendation:**

- We recommend DRS management establish procedures to ensure timely action relating to requesting, establishing, issuing, suspending, and closing user accounts.
- We recommend management have a control process in place to review and confirm access right periodically to ensure access is in agreement with the user job function, and that terminated employees ID's have been removed from the system.
- We recommend DRS establish policies and procedures to document the security setup of the AS400 operating system and the ORMIS application system. Once policies and procedures are established management should periodically audit the system security to ensure compliance.

### *Management's Corrective Action Plan*

**Contact Person:** Jim Murphy, Branch Manager Information Services

**Anticipated Completion Date:** September 30, 2004

**Schedule of Findings  
Financial Statement Findings  
(Internal Control and Compliance)**

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***Corrective Action Planned:*** DRS concurs that the policies and procedures to document security setup of the AS400 and ORMIS should be formally documented. There are existing policies that guide the flow of employee status notifications to the responsible AS400 and ORMIS Security Administrators.

There will be a focus review to expedite the manual process that supplies these notifications to State Office staff.



## Schedule of Findings Federal Award Findings And Questioned Costs

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**REF NO:** 03-805-009

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** Department of Education

**CFDA NO:** 84.126

**FEDERAL PROGRAM NAME:** Rehabilitation Services – Vocational Rehabilitation Grants to States

**FEDERAL AWARD NUMBER:** H126A-020053, H126A-030053

**FEDERAL AWARD YEAR:** FFY 2002, FFY 2003

**CONTROL CATEGORY:** Period of Availability

**QUESTIONED COSTS:** \$11,135

**Criteria:** The OMB Circular A-133 Compliance Supplement states, “Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period...”

34 CFR Section 76.707 (d) states: “If the obligation is for performance of work other than personal services, the obligation is made on the date on which the State or subgrantee makes a binding written commitment to obtain the work.

**Condition:** During testing of 101 claims, we noted eleven (11) claims obligated against the federal fiscal year 2001 grant were paid with funds from the federal fiscal year 2002 grant. We also noted two claims obligated against the federal fiscal year 2002 grant were paid with funds from the federal fiscal year 2003 grant.

**Effect:** Prior year obligations were paid with current year funds.

**Cause:** At the time the services were rendered for these thirteen claims, the grant award against which the obligation was made had been exhausted.

**Recommendation:** We recommend the Department charge to each fiscal year’s federal award only costs resulting from obligations incurred during the funding period.

### **Management’s Corrective Action Plan**

**Contact Person:** Kevin Statham, Accountant

**Anticipated Completion Date:**

**Corrective Action Planned:** The Department does not fully concur with this finding. The Department recognizes that the way the carryover expenditures are reported could cause certain expenditures to look out of place. Carryover dollars are drawn prior to subsequent grant years being utilized. The Department places emphasis on budget amounts being in alignment with revenues to prohibit over encumbering or spending of funds. The Department further acknowledges that all federal reports and activity are on a cash basis. To alter the accounting methods to include unliquidated obligations on expenditures would deviate from the established accounting practice of the Agency. The Department feels the reporting and subsequent request for reimbursement of federal funds utilizes consistent accounting practices under a cash basis model. However, the Department will review the overall approach to accounting for Carryover dollars.

## **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.