
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF SOUTH CAROLINA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

December 2005 A-77-06-00002

**MANAGEMENT
ADVISORY REPORT**



Mission

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

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: December 21, 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 South Carolina for the Fiscal Year Ended June 30, 2004 (A-77-06-00002)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of South Carolina for the Fiscal Year ended June 30, 2004. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The South Carolina 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 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 South Carolina 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 South Carolina Vocational Rehabilitation Department (VR) is the South Carolina DDS' parent agency.


The single audit reported that:

1. The DDS could not locate documentation to support expenditures charged to the disability programs. The corrective action plan indicated that the DDS had no further jurisdictional responsibility for the claim since the case file was located at an SSA District Office (Attachment A, pages 1, 2, and 9).
2. DDS expenditures reported on the Schedule of Federal Financial Assistance (SFFA) did not agree with State agency accounting records. The corrective action plan indicated that actions would be taken to ensure that the SFFA is prepared in accordance with State requirements (Attachment A, pages 3, 4, and 10).
3. A vendor was reimbursed for medical evidence of record in excess of the invoiced amount. The corrective action plan indicated that internal control procedures would be implemented to ensure vendors are reimbursed the correct amount (Attachment A, pages 5, 6, and 11).
4. The State's Cost Allocation Plan (CAP) contained incorrect cost allocation rates and incorrectly omitted allocable costs. The corrective action plan indicated that revisions to the CAP were completed and submitted to the cognizant agency for approval (Attachment A, pages 7, 8, and 11).

We recommend that SSA:

1. Ensure that the DDS implements procedures to maintain documentation to support expenditures.
2. Verify that the State took appropriate actions to ensure the SFFA is accurately prepared.
3. Ensure internal control procedures over vendor payments were strengthened.
4. Work with VR to ensure indirect costs charged to its programs are distributed in an equitable manner.

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


Patrick P. O'Carroll, Jr.

Attachment

Schedule 3

STATE OF SOUTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Questioned
Costs

SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION (H03) (CONTINUED)

04H03-1. Support of Salaries and Wages (Continued)

Subpart C, Section .300(b) of OMB Circular A-133 requires that the auditee "maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

We recommend that the Commission review its method of allocating personal services for its employees to ensure that payroll expenditures are charged based on actual time and effort of personnel working on grant programs.

None

See Agency's Corrective Action Plan at page 177.

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)

04H73-1. Case Files

This is a reportable condition.

Social Security - Disability Insurance
CFDA No.: 96.001
Grant No.: 04-03-04SCDI00

The State Agency was unable to locate one case file out of 41 case files selected. Information from the case file is used to support the allowability of program cost. The amount in question is immaterial; however, the projected likely questioned cost could be in excess of \$156,000.

The Social Security Administration Program Operations Manual, Section DI 39509.005, requires the State Agency to maintain records to support all obligations and to allow for audit verification.

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STATE OF SOUTH CAROLINA
Schedule of Findings and Questioned Costs
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Questioned
Costs

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-1. Case Files (Continued)

Further, this section requires a filing system be maintained that allows for easy identification and location of cases as well as orderly assignment and processing of work.

We recommend that the State Agency review its current process for maintaining case files and implement new procedures to ensure that case files are easily located and readily available.

\$15

See Agency's Corrective Action Plan at page 178.

Schedule 3

STATE OF SOUTH CAROLINA
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For the Year Ended June 30, 2004

Questioned
Costs

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-3. Schedule of Federal Financial Assistance (SFFA)

This is a reportable condition.

Rehabilitation Services - Vocational Rehabilitation Grants
to States

CFDA No.: 84.126

Grant Nos.: H126A020060 and H126A030060

Supported Employment Services for Individuals with Severe
Disabilities

CFDA No.: 84.187

Grant Nos.: H187A020061 and H187A030061

Social Security - Disability Insurance

CFDA No.: 96.001

Grant Nos.: 04-02-04SCDI00 and 04-03-04SCDI00

Social Security - Benefits Planning, Assistance and
Outreach Program (SSA Benefits Planning, Assistance and
Outreach Program)

CFDA No.: 96.008

Grant Nos.: 16-T-10111-4-02 and 16-T-10111-4-03

We noted the following errors on the State Agency's
schedule of federal financial assistance (SFFA):

1. Amounts reported in the SFFA differed from State Comptroller General (CG) records (CSA 467 Report).
2. The State Agency reported additions/deductions in the SFFA as expenditures.
3. Expenditures reported in the SFFA for CFDA No. 96.001 did not agree to agency accounting records (overstatement of \$54,794).
4. Negative expenditures were reported in the SFFA.

An error similar to item one above was reported in the prior year report. The Agency explained that cost per case adjustments related to the Disability Insurance program were reported in the SFFA but not posted to the State Comptroller General's (CG's) CSA 467 Report.

Schedule 3

STATE OF SOUTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Questioned
Costs

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-3. Schedule of Federal Financial Assistance (SFFA)
(Continued)

Written instructions for preparing the SFFA are provided to the State Agency annually. Furthermore, the CG requires the State Agency to reconcile its accounting records with the CSA 467 Report.

We recommend that the State Agency take steps to ensure that the SFFA is prepared in accordance with the State Auditor's letter of instructions and CG requirements. Such steps should include an independent review. We also recommend that cost per case adjustments made to the SFFA be made to the CSA 467 Report as well.

\$54,794

See Agency's Corrective Action Plan at page 178.

Schedule 3

STATE OF SOUTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Questioned
Costs

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-4. Accounting for Federal and State Funds (Continued)

If the State fiscal year has closed, the funds should be remitted to the General Fund of the State in accordance with Proviso 7.3. Additionally, the federal reports should properly reflect the underlying transactions recorded in the State Agency's accounting records.

Not
Determinable

See Agency's Corrective Action Plan at page 178.

04H73-5. Program Expenditure

This is a reportable condition.

Social Security - Disability Insurance
CFDA No.: 96.001
Grant No.: 04-04-04SCDI00

During our test of non-payroll related expenditures, we noted that the State Agency reimbursed one vendor five dollars more than the invoice amount. The Agency was billed \$10 from the vendor for services that are typically reimbursed at a rate of \$15 (request of medical records charge). Based on this error the projected likely questioned cost is \$52,302.

OMB Circular A-87 Attachment A Section C.2. states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to: ... Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

Schedule 3

STATE OF SOUTH CAROLINA
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Questioned
Costs

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-5. Program Expenditure (Continued)

We recommend the State Agency strengthen its internal control procedures to ensure that individuals approving disbursements carefully compare the cash disbursement voucher with the invoice and other source documentation to ensure that the voucher agrees with the supporting documents.

\$5

See Agency's Corrective Action Plan at page 178.

Schedule 3

STATE OF SOUTH CAROLINA
Schedule of Findings and Questioned Costs
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Questioned
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SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-7. Cost Allocation Plan

This is a reportable condition.

Rehabilitation Services - Vocational Rehabilitation Grants
to States

CFDA No.: 84.126

Grant No.: H126A040060

Supported Employment Services for Individuals with Severe
Disabilities

CFDA No.: 84.187

Grant No.: H187A040061

Social Security - Disability Insurance

CFDA No.: 96.001

Grant No.: 04-04-04SCDI00

Social Security - Benefits Planning, Assistance and
Outreach Program (SSA Benefits Planning, Assistance and
Outreach Program)

CFDA No.: 96.008

Grant No.: 16-T-10111-4-04

During our review of the State Agency's cost allocation plan (CAP) we found an error in the calculation of the composite rate which creates the potential for inequitable allocation of program costs. The State Agency calculates the composite rate by adding the percentages from each of the four bases included in the CAP and then, from these totals, calculates a percent-to-total for each of the Federal programs to which it charges indirect costs. This results in each of the four bases having an equal 25 percent impact on the calculation of the composite rate, even though the total cost for each base is not equal.

Additionally, the State Agency's federally approved CAP includes Public Information as an allocable indirect cost pool. During the current audit, we noted the Agency did not allocate public information expenditures as an indirect cost, but instead treated the cost as a direct cost per the provisions of OMB Circular A-87.

Schedule 3

STATE OF SOUTH CAROLINA
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Costs

SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION (H73)
(CONTINUED)

04H73-7. Cost Allocation Plan (Continued)

Therefore, there is a discrepancy in treatment between what is in the approved plan and the State Agency's cost allocation procedures.

OMB Circular A-87, Attachment A, Section F.1. states in part that indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

We recommend the State Agency revise its CAP composite rate and submit the revision for Federal approval. We also recommend the State Agency submit a plan revision for Federal approval that reflects the omission of Public Information from allocable costs.

Not
Determinable

See Agency's Corrective Action Plan at page 178.

SOUTH CAROLINA VOCATIONAL



REHABILITATION DEPARTMENT

*Enabling eligible South Carolinians with disabilities to
prepare for, achieve, and maintain competitive employment.*

Larry C. Bryant, Commissioner

**South Carolina Vocational Rehabilitation Department (H73)
July 1, 2003 – June 30, 2004 Audit Response**

04H73-1. Case Files

We recommend that the State Agency review its current process for maintaining case files and implement new procedures to ensure that case files are easily located and readily available.

Response: As stated by the audit report, DI 39509.005 indicates that the State Agency (DDS) should maintain records to support all obligations and to allow for audit verification. This section also indicates that a filing system shall be maintained. However it specifically says, "The filing system must allow for easy identification and location of cases as well as orderly assignment and processing of work". In fact, the DDS computer legacy system is used daily to track claims while in DDS jurisdiction, including an annual claim inventory and the SSA Case Control System is used to track a claim from origin to disposition.

SM 00401.020 Functions of the Case Control System describes the federal filing system used to identify and locate all SSA claims. This document indicates that the SSA "Case Control System collects and stores data for every claim within the jurisdiction of each program service center". It provides "control of the claim from the earnings record request by the district office until final disposition in the program service center". **The Case Control System has indicated that the location for the claim in question is SSA DO 583. Therefore the DDS can assume no further jurisdictional responsibility for the claim.**

DI 00115.001 indicates that the "primary purpose of the DDS is to prepare accurate disability decisions as quickly as possible. Therefore, once the determination is made, the claim is returned to the jurisdiction and possession of the appropriate Social Security Administration component. **DI 32001.010 Disability Folder Flow, Origin and Destination** further clarifies that the "immediate destinations after the DDS has completed their action are: DO, ODO-CO, DQB, DRS, Administrative Law Judge... depending on "the type of claim, type of determination(s), who releases the notice, the level of the determination and whether the case is selected for DQB or Preeffectuation (PER) sample review". Furthermore, "the final destination of a file after all DDS, DO, and DQB action(s) has been completed" may be ODO-CO, PSC, Federal Records Center or Wilkes-Barre Folder Servicing Operation (FSO) depending on specific characteristics of the claim. Therefore once the DDS completes its adjudicative actions, its ability to locate and retrieve claims is diminished considerably.

SOUTH CAROLINA VOCATIONAL  REHABILITATION DEPARTMENT

SCVRD

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Larry C. Bryant, Commissioner

04H73-2. Maintenance of Effort

We again recommend that the State Agency notify the U.S. Department of Education as soon as it determines that it will not meet its MOE requirement so the two parties can work out a resolution to resolve the MOE deficit. We also recommend the State Agency include non-federal expenditures from the South Carolina Commission for the Blind in its future calculations of MOE.

Response: We concur that as MOE deficits arise from exceptional or uncontrollable circumstances, the Agency will advise the U.S. Department of Education and request a waiver from the MOE requirement as it has done in the past.

04H73-3. Schedule of Federal Financial Assistance (SFFA)

We recommend that the State Agency take steps to ensure that the SFFA is prepared in accordance with the State Auditor's letter of instructions and CG requirements. Such steps should include an independent review. We also recommend that cost per case adjustments made to SFFA be made to the CSA 467 Report as well.

Response: We will take steps to comply with this finding.

04H73-4. Accounting for Federal and State Funds

We recommend that the State Agency modify its procedures for funding capital projects to include grantor notification to the South Carolina Office of State Budgets that the funds are appropriated for the projects thereby eliminating the need for an advance draw. The procedures should ensure that all program regulations including match requirements are followed for each federally funded capital project. We also recommend that additional federal draws made because of a State overmatched position be used to reimburse State funds. If the State fiscal year has closed, the funds should be remitted to the General Fund of the State in accordance with Proviso 7.3. Additionally, the federal reports should properly reflect the underlying transactions recorded in the State Agency's accounting records.

Response: We have already implemented procedures to comply with this finding. This will not be a subsequent issue because we are no longer in a State overmatched position and do not use earned federal methodology.

SOUTH CAROLINA VOCATIONAL



REHABILITATION DEPARTMENT

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Larry C. Bryant, Commissioner

04H73-5. Program Expenditure

We recommend the State Agency strengthen its internal control procedures to ensure that individuals approving disbursements carefully compare the cash disbursement voucher with the invoice and other source documentation to ensure that the voucher agrees with the supporting documents.

Response: We concur with this finding.

04H73-6. Employee Meal Reimbursement

We recommend the Agency ensure that supervisors responsible for approving travel reimbursements become familiar with state travel policy and perform careful reviews of travel vouchers and related supporting documentation.

Response: We concur with this finding.

04H73-7. Cost Allocation Plan

We recommend the State Agency revise its CAP composite rate and submit the revision for Federal approval. We also recommend the State Agency submit a plan revision for Federal approval that reflects the omission of Public Information from allocable costs.

Response: We have submitted a CAP revision to our Federal cognizant agency to reflect composite rates weighted for pro rata shares of administrative costs. Also within the revision is removal of Public Information from the indirect cost pool.

04H73-8. Subrecipient Cash Management

We recommend that the State Agency develop and implement procedures to ensure that it verifies and documents when funds are advanced to subrecipients and ensure that those entities comply with the Cash Management Improvement Act.

Response: We concur and are in the process of developing such procedures with our subrecipients.

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.