

Office of the Inspector General

September 22, 2000

William A. Halter  
Deputy Commissioner  
of Social Security

Inspector General

Management Advisory Report - State Fiscal Year 1997 Single Audit Findings: Roll-up Report (A-07-99-84007)

The attached final Management Advisory report presents the results of our review. Our objective was to identify areas of internal control weaknesses reported in State Disability Determination Services financial audits covering State Fiscal Year 1997.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**STATE FISCAL YEAR 1997  
SINGLE AUDIT FINDINGS:  
ROLL-UP REPORT**

September 2000

A-07-99-84007

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**MANAGEMENT  
ADVISORY REPORT**

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# **EXECUTIVE SUMMARY**

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## **OBJECTIVE**

The objective of this management advisory report was to identify areas of internal control weaknesses reported in State Disability Determination Services (DDS) financial audits covering State Fiscal Year (SFY) 1997. To accomplish our objective, we compiled and categorized DDS findings reported for 14 States in their SFY 1997 single audits.<sup>1</sup> We also included findings reported by the Social Security Administration (SSA), Office of the Inspector General (OIG) in its administrative cost audits at the California, Delaware, and Missouri DDSs.<sup>2</sup>

## **BACKGROUND**

### **Single Audit Act**

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments administering Federal financial assistance programs. To implement the requirements, the Office of Management and Budget (OMB) issued Circular A-128, "Audits of State and Local Governments." Circular A-128 required State and local governments receiving more than \$100,000 per year in Federal financial assistance to have an annual financial and compliance audit. In 1990, OMB extended the single audit process to non-profit organizations by issuing Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations."

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996.<sup>3</sup> The Amendments extended the statutory audit requirement to non-profit organizations and revised various provisions of the 1984 Act including raising the Federal financial assistance dollar threshold for requiring an audit from \$100,000 to \$300,000. On June 30, 1997, OMB issued revised Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" to implement the 1996 amendments and rescinded Circular A-128.

The revised Circular A-133 was effective July 1, 1996, and applies to audits of fiscal years beginning after June 30, 1996. This circular requires nonfederal entities

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<sup>1</sup>The SFY begins on July 1 and ends on June 30, except for New York, which begins on April 1 and ends on March 31, while Alabama and Arkansas begin on October 1 and end on September 30.

<sup>2</sup>The California, Delaware, and Missouri OIG audits covered all or part of SFY 1997 DDS operations.

<sup>3</sup>The Amendments and revised Circular A-133 apply to all SFY 1997 single audits except the single audit of New York. The Single Audit Act and Circular A-128 apply to New York for the period covered by the audit.

that expend \$300,000 or more per year in Federal awards to have a single or program-specific audit conducted for that year.

### **State Disability Determination Services**

SSA is responsible for the policies on developing disability claims under the Disability Insurance (DI) and the Supplemental Security Income (SSI) programs. In accordance with Federal regulations, the DDS in each State performs disability determinations under the DI and SSI programs. The DDS determines claimants' disabilities and ensures that adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures.

There are 54 DDSs located in the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands. All DDSs are subject to single audit except the federally administered Virgin Islands DDS.

### **RESULTS OF REVIEW**

Analysis of the 14 SFY 1997 single audit reports disclosed similar DDS findings in the following categories: cash management, procurement, equipment and real property management, reporting, and allowable costs. The findings relate to DDS' noncompliance with Federal requirements because of weaknesses in internal controls. Appendix A summarizes the single audit findings by DDS.

The OIG audits at the California, Delaware, and Missouri DDSs also disclosed findings in the equipment and real property management, and allowable costs areas. These findings also relate to DDS' noncompliance with Federal requirements because of weaknesses in internal controls. Appendix B summarizes the OIG's findings.

In our opinion, comparison of the California, Delaware, and Missouri DDS findings in the single audits and the OIG audits for the same reporting period disclosed significant differences. The OIG reported findings on unallowable costs, overstated obligations, disbursements recorded in the wrong year, and inadequate computer access controls. The single audits, however, did not report all of these findings. This comparison is presented in this report for informational purposes only. We will report our comparison to the Federal agencies who are cognizant for the California, Delaware, and Missouri single audits in separate management letters for any action they deem appropriate.

SINGLE AUDIT QUESTIONED COSTS (\$)	OIG ADMINISTRATIVE AUDIT QUESTIONED COSTS (\$)
\$99,585	\$3,842,472

## **CONCLUSIONS AND RECOMMENDATIONS**

The nature and frequency of the findings, reported in SFY 1997 single audits, require SSA's attention to improve DDS operations. In our opinion, the noncompliance with Federal requirements is attributed to SSA's limited internal control emphasis and guidance to DDSs. We believe that SSA should be proactive in providing internal control guidance to DDSs. To do so, SSA should provide the following instructions to DDSs.

- Adhere to the terms of the Cash Management Improvement Act agreement.
- Follow procurement instructions established by SSA and the State.
- Obtain discounted services when competitively contracting for consultative examinations (CEs).
- Implement controls to prevent unauthorized computer access.
- Develop a formal contingency plan to prevent disruption of services in the event of a disaster.
- Maintain complete and accurate equipment inventory records and perform periodic physical inventories.
- Implement effective procedures for preparing, reviewing, approving and timely reporting of information on the Report of Obligations, the Time Report of Personal Services and the Cost Effectiveness Measurement System Data Reporting Form.
- Ensure that costs charged to SSA benefit the program and are properly authorized and documented.
- Ensure CE fees do not exceed the highest rates paid by Federal or other State agencies for the same or similar types of service.
- Adhere to the fees in the State approved CE fee schedule.

## **AGENCY COMMENTS**

In response to our draft report, SSA agreed with all of our recommendations. (See Appendix D for the full text of SSA's comments to our draft report).

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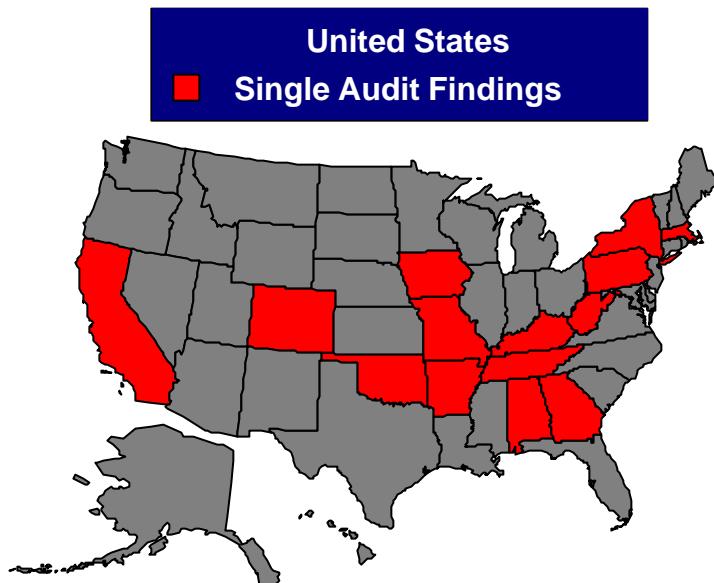
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# INTRODUCTION

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## OBJECTIVE

The objective of this management advisory report was to identify areas of internal control weaknesses reported in State Disability Determination Services (DDS) financial audits covering State Fiscal Year (SFY) 1997. To accomplish our objective, we compiled and categorized DDS findings reported for 14 States in their SFY 1997 single audits.<sup>4</sup> We also included findings reported by the Social Security Administration (SSA), Office of the Inspector General (OIG) in its administrative cost audits at the California, Delaware, and Missouri DDSs.<sup>5</sup>



## BACKGROUND

### Single Audit Act

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments administering Federal financial assistance programs. To implement the requirements, the Office of Management and Budget (OMB) issued Circular A-128, “Audits of State and Local Governments.” Circular A-128 required State and local governments receiving more than \$100,000 per year in Federal financial assistance to have an annual financial and compliance audit.

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On July 5, 1996, the President signed the Single Audit Act Amendments of 1996.<sup>6</sup> The Amendments extended the statutory audit requirement to non-profit organizations and revised various provisions of the 1984 Act including raising the Federal financial assistance dollar threshold for requiring an audit from \$100,000 to \$300,000. On June 30, 1997, OMB issued revised Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations” to implement the 1996 amendments and rescinded Circular A-128.

The revised Circular A-133 was effective July 1, 1996, and applies to audits of fiscal years (FY) beginning after June 30, 1996. Nonfederal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year.

### **State Disability Determination Services**

The Disability Insurance (DI) program established in 1954 under title II of the Social Security Act (Act) (Public Law 96-265) provides benefits to disabled wage earners and their families. In 1972, Congress enacted title XVI, the Supplemental Security Income (SSI) program (Public Law 92-603). Title XVI provides a nationally uniform program of income and disability coverage to financially needy individuals who are aged, blind or disabled.

SSA is responsible for the policies on developing disability claims under the DI and SSI programs. According to Federal regulations, disability determinations under the DI and SSI programs are performed by the DDS in each State. The DDS determines claimants' disabilities and ensures that adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures.

There are 54 DDSs located in the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

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<sup>6</sup>The Amendments and revised Circular A-133 apply to all SFY 1997 single audits except the single audit of New York. The Single Audit Act and Circular A-128 apply to New York for the period covered by the audit.

## SCOPE AND METHODOLOGY

From October 1998 to January 2000, we reviewed 49 SFY 1997 single audit reports and Data Collection Forms (SF-SAC)<sup>7</sup> to identify DDS findings.<sup>8</sup> Of the 49 single audit reports, 14 contained DDS findings. We reported the findings and related recommendations on a State-by-State basis to SSA's Management Analysis and Audit Program Support Staff for audit resolution.

To develop this report, we reviewed:

1. DDS findings in 14 SFY 1997 single audit reports, the related recommendations, and auditee responses;
2. SF-SAC completed for 34 SFY 1997 single audits, obtained from <http://harvester.census.gov/sac/asp/qryform.asp>;
3. Single Audit Act of 1984;
4. Single Audit Act Amendments of 1996;
5. OMB Circular A-128;
6. Revised OMB Circular A-133;
7. OMB Circular A-133 *Compliance Supplement* (June 1997 revision);
8. OMB "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule);"
9. OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments;"
10. Title II of the Act;
11. Title XVI of the Act;
12. SSA's Program Operations Manual System (POMS) instructions;
13. Cash Management Improvement Act (CMIA) of 1990;
14. SSA's Systems Security Handbook; and
15. OIG administrative cost audit reports for the California, Delaware, and Missouri DDSs.<sup>9</sup>

The Compliance Supplement identifies 14 types of compliance requirements that auditors should consider in performing single audits, of which 6 categories apply to the DI and SSI programs. Our review of the single audits identified findings in 5 of the categories: cash management; procurement; equipment and real property management; reporting; and allowable costs. This report presents the findings by the related category identified in the compliance supplement.

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<sup>7</sup>The SF-SAC, required by Circular A-133, provides information about the auditee, its Federal programs, and the results of the single audit, including findings identified by the Federal program.

<sup>8</sup>SFY 1997 single audit reports for Puerto Rico and Washington, DC have not been issued because an extension was granted by the Federal cognizant agency. Michigan and North Dakota will issue biennial reports covering SFYs 1997 and 1998. The Virgin Islands DDS is not subject to the Single Audit Act since it is federally administered.

<sup>9</sup>The OIG audits at the California, Delaware, and Missouri DDSs are the only OIG audits covering all or part of SFY 1997 DDS operations.

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# **RESULTS OF REVIEW**

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Analysis of the 14 SFY 1997 single audit reports disclosed similar DDS findings in the following categories: cash management; procurement; equipment and real property management; reporting; and allowable costs. The findings relate to DDS' noncompliance with Federal requirements because of weaknesses in internal controls. Appendix A summarizes the single audit findings by DDS.

The OIG audits at the California, Delaware, and Missouri DDSs also disclosed findings in the equipment and real property management, and allowable costs areas. These findings also relate to DDS' noncompliance with Federal requirements because of weaknesses in internal controls. Appendix B summarizes the OIG's findings.

In our opinion, comparison of the California, Delaware, and Missouri DDS findings in the single audits and the OIG audits for the same reporting period disclosed significant differences. The OIG reported findings on unallowable costs, overstated obligations, disbursements recorded in the wrong year, and inadequate computer access controls. The single audits, however, did not report all of these findings. This comparison is presented in this report for informational purposes only. We will report our comparison to the Federal agencies who are cognizant for the California, Delaware, and Missouri single audits in separate management letters for any action they deem appropriate.

## **CASH MANAGEMENT**

Seven single audits disclosed that the State did not adhere to the terms of its CMIA agreement:

- The State of Alabama did not use funding techniques specified in the CMIA to request Federal cash draws. The failure to draw funds in accordance with the CMIA caused an increase in the State's interest liability in an amount not readily determinable by the State Auditor. This finding was also included in the State's single audit for the prior year.

In addition, the State of Alabama used incorrect information to develop warrant clearance patterns used for cash draws. The interest liability was not readily determinable by the State Auditor.

- The State of California understated the interest liability due to the Federal Government by a net amount of \$388,500. Of this amount, \$89,867 was related to SSA funding, caused by the omission of Federal funds advanced to the State for payroll expenditures and incorrect clearance patterns used to calculate cash draws. A similar finding was included in the State's single audit for the prior year.

- The State of Colorado's methodology for identifying the amount and timing of cash draws was not adequate and resulted in cash draws not being executed in accordance with the CMIA.
- The State of Iowa routinely drew Federal funds several days in advance of disbursements. This resulted in \$4,980 being paid to the Federal Government for interest charges.

In addition, the State did not develop written procedures for preparing the CMIA annual report. Also, the beginning cash balances, account numbers, and payroll information used to prepare the CMIA annual report were not adequately verified.

- The State of Oklahoma incorrectly computed cash draws, did not draw funds in accordance with the CMIA, and did not maintain supporting documentation for cash draws.
- The State of Pennsylvania held Federal funds for extended periods of time resulting in material noncompliance with the CMIA. In addition, the State did not calculate the Federal interest liability or include the interest on the CMIA annual report. A similar finding was included in the State's single audit for the prior year.
- The State of West Virginia did not reconcile the Federal grant cash balances to those of the State Auditor's Office.

The Federal Government enacted the CMIA of 1990 to ensure efficiency, effectiveness, and equity in transferring funds between the States and Federal Government. The law requires the Federal Government to enter into an agreement with the State covering the applicable Federal programs and to establish procedures and requirements for transferring Federal funds.

The CMIA requires the States to minimize the time elapsing between the receipt and disbursement of Federal funds. The CMIA allows the Federal Government to charge interest when a State receives Federal funds in advance of disbursements. The CMIA also allows the State to charge interest when the State incurs costs for Federal programs before Federal funds are made available. The State must calculate Federal and State interest liabilities for each applicable program and report liabilities to the Federal Government on the Annual Report to the United States Department of the Treasury.

The lack of cash management controls creates problems in States' identifying and assessing allowable cash needs. In addition, without reasonable assurance that internal controls for Federal cash draws are in place, there could be premature cash draws, which causes the Federal Government to lose interest on the funds.

## **PROCUREMENT**

Three single audits disclosed weaknesses related to procurements:

- The Arkansas single audit reported disbursements for computer software services in excess of the approved procurement amount by \$5,329.
- The State of Colorado did not use competitive bidding and State-approved contracts to obtain consultative examinations (CEs) from 10 vendors. The DDS paid over \$1.7 million, or 76 percent of its total CE expenditures to these 10 vendors. Over \$1 million was paid to 1 vendor, a medical conglomerate employing 25 doctors. In addition, the average cost per medical procedure paid to the conglomerate was about \$6 greater, or approximately 6 percent more than the average cost per procedure paid to the other 9 vendors.
- The State of Pennsylvania did not enter into properly prepared and approved written agreements for the purchase of CEs. The state requires a written contract be issued when total payments to an individual provider are greater than \$300. Testing by the auditor identified total payments to 3 providers of \$64,190; \$4,093; and \$27,452. However, contracts were not executed with these providers. A similar finding was included in the State's single audit for the prior year.

### **FISCAL MANAGEMENT**

POMS DI 39542.205 states “CEs with medical providers using competitively bid contracts should result in a substantially reduced cost of examinations.”

The DDS Management should ensure that procurement instructions are in accordance with POMS, which requires contracts to be obtained through a competitive bidding process<sup>10</sup>. Once the contract is awarded, a written agreement should be obtained that: (1) defines a sound and complete procurement contract; (2) identifies the parties covered in the contract; and (3) specifies the work to be performed.<sup>11</sup>

Without the proper implementation of procurement instructions, issues of acceptable practice, conflicts-of-interest, and standards of ethical and moral behavior could be questioned.

## **EQUIPMENT AND REAL PROPERTY MANAGEMENT**

### **Computer Controls**

Three SFY 1997 single audits disclosed weaknesses in computer controls. The weaknesses included:

- The State of Alabama did not have a documented contingency plan to be followed in the event of a disaster that adversely affects the data processing operations.

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<sup>10</sup>POMS DI 39542.205

<sup>11</sup>POMS DI 39452.215

In addition, the State did not have adequate security controls to protect mainframe data files from unauthorized users. Policies and procedures related to hiring and training of personnel, protection of data files with security software, and changes to programs and migration of programs to production did not exist or were not formalized in writing, distributed, and enforced.

- The State of Kentucky did not:
  - (a) develop written policies and procedures for system security;
  - (b) use formalized security authorization procedures to establish, modify, or revoke system access;
  - (c) develop written program software modification procedures; and
  - (d) complete all software modifications necessary to ensure Year 2000 compliance. This finding was also included in the State's single audit for the prior year.
- The State of Pennsylvania had significant weaknesses in the areas of logical access controls, physical access controls, environmental controls, and contingency planning. In addition, manual controls over data input, processing, and output controls were insufficient to compensate for the lack of general controls. A similar finding was included in the State's single audit for the prior year.

DDSs operate computer systems critical to the administration of SSA's disability programs. These systems issue payments for administrative expenses, such as CEs and contain confidential claimant information including SSNs. SSA requires DDSs to develop, distribute, and implement a formal computer security policy addressing the confidentiality of sensitive information, data integrity, and authorized access to information. The DDSs computer security policy should identify computer access controls to ensure only authorized users access the system. Access controls include the use of personal identification numbers to identify users, passwords to authenticate the user's identity, and profiles to specify the functions users can perform.

The SSA's Systems Security Handbook, dated December 1998, instructs DDSs to make every reasonable effort to avoid disruption of critical applications processed by automated data files and automated information systems (AIS) facilities. Furthermore, a DDS must also minimize, and be prepared to recover from any disruption that occurs. Contingency plans should be documented as a part of a DDS' overall AIS security program.

The OIG administrative cost audit at the California DDS also disclosed weaknesses in access controls over the States' computer system used to process SSA disability claims (See Appendix B).

**SSA, OIG, OFFICE OF INVESTIGATIONS  
INVESTIGATIVE PROJECT**

An employee was charged with accessing the SSA computer system to obtain information on Social Security numbers (SSNs) that were given to him by an accomplice in another State. The employee was paid \$20 and \$30 for each SSN he provided. The information was then passed on to others who used it to activate stolen credit cards. The theft allegedly attributed to the employee's activities totaled at least \$307,000. The employee resigned after receiving a proposed termination letter and pleaded guilty to one count of Conspiracy to Commit Credit Card Fraud in violation of 18 U.S.C. §029(b)(2).

Access controls and contingency planning are essential to the administration of the disability program. Without access controls, the DDS is open to security risks. Accidental or intentional modifications to confidential and sensitive information can have adverse affects on the quality of services and lead to unauthorized and inaccurate disbursements. The lack of a contingency plan could cause a disruption of DDS claims processing and result in poor service to disability claimants.

## **Property Controls**

The State of Georgia did not maintain proper equipment inventory records. The auditors sampled 375 property items totaling \$5,094,540 from the Department of Human Resources, which includes the DDS. The following deficiencies were noted:

- Thirty-five items totaling \$88,479 could not be located.
- Twelve items totaling \$56,460 were surplused but not removed from the equipment inventory.
- Six items were found in locations other than the location indicated in the equipment inventory records.
- Thirty items did not have decal numbers attached.
- Four items contained the wrong decal number.
- Sixteen items totaling \$46,992 were identified as missing or stolen, but were not included in the missing or stolen category on the equipment inventory records.

The State is responsible for the maintenance, tagging, and inventory of all property acquired with SSA funding for performing the DDS function.<sup>12</sup> Inventory records must include: (1) a description; (2) source of funds used in the purchase; (3) cost; (4) inventory number; (5) date purchased; and (6) physical location.

The lack of management reviews of inventory for equipment could result in misappropriation or improper disposition of property acquired with Federal awards.

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<sup>12</sup>POMS DI 39530.020

## **REPORTING**

### **Inaccurate Financial Reports**

The State of Tennessee submitted inaccurate Reports of Obligations. The auditor specifically identified the following:

- Five of 13 disbursement line items, or 38.5 percent, reported for the quarter ended December 31, 1996, were misstated. When the errors were brought to the State's attention, a revised Report of Obligations was prepared. However, the revised report did not reconcile with information on the State of Tennessee Accounting and Reporting System (STARS).
- Six of 13 disbursement line items, or 46.2 percent, reported for the quarter ended September 30, 1996, were misstated, and the report's totals were not mathematically accurate.
- Two of 9 disbursement line items, or 22.2 percent, reported on the Computation of Medical Assistance Only Costs Attachment to the Report of Obligations for the quarter ended December 31, 1996, were understated by \$2,077.

In addition, the State of Tennessee also reported problems with Cost Effectiveness Measurement System (CEMS) Data Reporting. SSA developed CEMS to measure the costs of operating each DDS. CEMS also provides a methodology for determining the relative cost-effectiveness of each DDS.

- An unreconcilable difference of \$2,793,412 was noted between the total expenditures on the CEMS reports and the total claimed obligations on the Report of Obligations for the Federal Fiscal Year (FFY) ended September 30, 1996.
- The CEMS Data Reporting Form for the quarter ended December 31, 1996, did not reconcile to STARS or to the employee time and attendance reports. The Data Validation Form was used to prepare the CEMS report. However, the Form contained 23 edit checks that questioned the validity and reasonableness of the numbers contained in the report, which were apparently ignored. The regular pay amount on the CEMS report was understated by \$361,657, and overtime pay was understated by \$28,796. Furthermore, hearing officers' regular pay and vocational specialists' regular pay were overstated by \$13,932 and \$597, respectively. Other costs were overstated by \$280,040.

At the end of each FFY quarter, the DDS submits to SSA a Form SSA-4513 (*Report of Obligations*) and Form SSA-4514 (*Time Report of Personal Services*). The Report of Obligations shows DDS disbursements, unliquidated obligations, and cumulative obligations for personal services, medical costs, indirect costs, and all other nonpersonnel costs. The Time Report of Personal Services shows the regular and overtime hours worked by DDS personnel on SSA disability determinations.

The inaccuracies on the Reports of Obligations and CEMS reports indicate an internal control weakness in the DDS' preparation, review, and approval of these reports prior to submitting them to Federal officials. Without the proper mechanisms in place to identify risks of faulty reporting caused by such items as lack of knowledge, inconsistent application, carelessness or disregard for standards, reliable processing of Federal awards would not be performed.

### Untimely Financial Reports

The State of New York did not submit the quarterly Time Report of Personal Services to SSA within the required timeframe. The State indicated that the timeframes for submission and review of audit staff time cards do not generally permit collection and compilation of time data needed to complete the report prior to the reporting deadline. Late submission of this financial report indicates an internal control weakness in the DDS' procedures for timely reporting of information to SSA. This finding was also included in the State's single audit for the prior year.

**POMS DI 39506.815 instructs DDSs to submit the Report of Obligations and the Time Report of Personal Services to SSA by the 25<sup>th</sup> day after the close of each quarter. However, in a letter dated October 22, 1992, SSA extended the DDS' due date for these forms to the 30<sup>th</sup> day after the close of each quarter.**

The DDSs are instructed to simultaneously submit the Report of Obligations and the Time Report of Personal Services to SSA by the 30<sup>th</sup> day after the close of each quarter. Without accurate, timely reporting, DDS obligations and expenditures cannot be traced and accounted for each FY.

### ALLOWABLE COSTS

Five single audits did not have adequate internal controls over allowable costs:

The State of Colorado did not regularly review or evaluate the fees used to pay physicians for CEs to ensure fees reflect current rates and do not exceed the highest rates paid by Federal or other State agencies for the same or similar types of service. Also, the DDS did not always follow the State approved fee schedule. Fees were adjusted based on limited physician availability in some geographic areas and physician specialization. In addition, individual negotiations were made with physicians resulting in 2 different physicians in the same area receiving different fees for the same procedure.

#### CE FEES

States are required by POMS DI 39545.210 to develop a fee schedule that will be used by the DDS for payment of CEs. The DDS will consider the fee schedule as a maximum payment schedule. Authorized payments will represent the lower of the provider's usual and customary charge, or the maximum allowable charge under the fee schedule and should not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service. Documentation to support rates paid to providers must be maintained.

- The State of Massachusetts did not reconcile its advance checking account. The State could not determine the source of \$2,200 included in the account. In addition,

proper segregation of duties did not exist since the same employee was responsible for reconciling the account, preparing checks for signature, and recording the transactions in the check register.

- The State of Missouri did not transmit DDS related refunds to the Department of Revenue for deposit on a timely basis. The State's policy requires refund checks to be transmitted when receipts total \$1,000 or at least once per week. The auditor noted numerous instances where individual refund checks exceeding \$1,000 were not transmitted in accordance with this policy.
- The State of New York entered incorrect codes into the Payroll Allocation Cost System which resulted in the inaccurate reporting of indirect costs. A similar finding was included in the State's single audit for the prior year.

In addition, the State did not complete voucher reviews to monitor costs claimed by training contractors or conduct presettlement reviews of current expenditures or prior period adjustments to ensure the claims were made for allowable costs. A similar finding was included in the State's single audit for the prior year.

- The State of Oklahoma did not maintain documentation of the assigned pay grade and step in an employee's payroll file. The auditors could not determine if the employee's salary was in accordance with the State's salary schedule and reported a questioned cost of \$4,389.

The OIG administrative cost audits for California, Delaware, and Missouri DDSs also disclosed weaknesses in the area of allowable costs (See Appendix B).

Allowable costs must be reasonable and necessary for the performance and administration of Federal awards as stated in OMB Circular A-87. A cost is allocable to a program or department if the goods or services involved are charged or assigned to such cost objective in accordance with benefits received. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose was allocated to the Federal award as an indirect cost. In order to recover indirect costs, the organization must prepare cost allocation plans, which apply to States or indirect cost rate proposals in accordance with the guidelines provided in OMB's circulars. Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs.

Internal control directives require that nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Transactions should be properly recorded, accounted for, and executed in compliance with applicable laws and regulations. The DDS is required to maintain supporting documentation listing allowable and unallowable expenditures and adjustments for unallowable costs recorded. Also, funds, property, and other assets should be safeguarded against loss from unauthorized use or disposition.

The absence of cost principles for goods and services charged to Federal awards allows the risk for misappropriation or misuse of funds. In addition, unallowable activities or costs could be charged to a Federal program and go undetected if the proper internal controls are not in place. These controls need to be in place to ensure that costs benefit the program and are properly authorized and documented.

## **COMPARISON OF SINGLE AUDIT AND OIG FINDINGS**

The SSA's OIG performs DDS administrative cost audits each year at the request of SSA's Office of Disability. The objectives of the audits are to determine whether: (1) expenditures and obligations are properly authorized and disbursed; (2) Federal funds drawn agree with total expenditures; and (3) internal controls over the accounting and reporting of administrative costs are adequate.

The OIG performed two administrative cost audits, California and Delaware, covering SFY 1997 DDS operations. An administrative cost audit was also performed at the Missouri DDS for FFYs 1995 and 1996. Although the administrative cost audit is outside the period covered by our review, it was noted that conditions found in FFY 1996 continued to exist in FFY 1997.

The comparison of the single audit findings and OIG findings disclosed notable differences. The findings reported by OIG but not the single audits are discussed below.

### **California DDS**

The OIG administrative cost audit at the California DDS covered the period July 1994 through April 1998.<sup>13</sup> The audit identified overstated obligations of \$3,789,128 because: (1) unallowable indirect costs for activities that were incorrectly charged to the departmental indirect cost pool; (2) ineligible personnel and other costs for activities that did not benefit SSA's programs; and (3) access controls over the States' computer system for processing SSA disability claims needed improvement (See Appendix B).

### **Delaware DDS**

The OIG administrative cost audit at the Delaware DDS covered the 3-year period and ended September 30, 1997.<sup>14</sup> The Delaware DDS had: (1) incorrect expense payment vouchers totaling \$11,348 that were erroneously paid with the incorrect FY funds; (2) nonpersonnel costs of \$41,933 not supported by documentation; and (3) a payment voucher for a CE was overpaid by \$62.50 (See Appendix B).

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<sup>13</sup>Common Identification Number (CIN): A-09-97-51006

<sup>14</sup>CIN: A-13-98-52015

## **Missouri DDS**

The OIG administrative cost audit at the Missouri DDS covered FFYs 1995 and 1996.<sup>15</sup> Although the administrative cost audit is outside the period covered by our review, it was noted that conditions found in FFY 1996 continued to exist in FFY 1997. A disbursement in the amount of \$5,000 from FY 1997 was incorrectly recorded in FY 1996 (See Appendix B).

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<sup>15</sup>CIN: A-07-97-51006

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# **CONCLUSIONS AND RECOMMENDATIONS**

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The analysis of the 14 SFY 1997 single audit reports disclosed similar DDS findings in the cash management, procurement, equipment and real property management, reporting, and allowable costs areas. In addition, OIG's audits at the California, Delaware, and Missouri DDSs reported additional findings.

The nature and frequency of the findings require SSA's attention to improve DDS operations. The noncompliance with Federal requirements, in our opinion, is attributed to SSA's limited internal control emphasis and guidance to DDSs.

SSA should be proactive in providing internal control guidance to DDSs. To do so, SSA should provide the following instructions to the DDSs.

1. Adhere to the terms of the CMIA agreement.
2. Follow procurement instructions established by SSA and the State.
3. Obtain discounted services when competitively contracting for CEs.
4. Implement controls to prevent unauthorized computer access.
5. Develop a formal contingency plan to prevent disruption of services in the event of a disaster.
6. Maintain complete and accurate equipment inventory records and perform periodic physical inventories.
7. Implement effective procedures for preparing, reviewing, approving and timely reporting of information on the Report of Obligations, the Time Report of Personal Services and the CEMS Data Reporting Form.
8. Ensure that costs charged to SSA benefit the program and are properly authorized and documented.
9. Ensure CE fees do not exceed the highest rates paid by Federal or other State agencies for the same or similar types of service.
10. Adhere to the fees in the State approved CE fee schedule.

## **AGENCY COMMENTS**

In response to our report, SSA agreed with all of our recommendations. (See Appendix D for the full text of SSA's comments to our report).

In its general comments to the report, SSA expressed concerns regarding the comparison of the results of the single audits and the OIG administrative cost audits. Specifically, SSA does not believe that the comparison should be reported to the Federal agencies cognizant for the California, Delaware and Missouri single audits since the States have already received and commented on OIG's administrative cost audit findings.

We are reporting the results of our comparison of the single audits and the OIG administrative cost audits to the cognizant Federal agencies for the purpose of providing information that will improve the quality of the single audits conducted on SSA's programs. We continue to believe that the differences identified in our comparison of the single audits and the OIG administrative cost audits warrant the attention of the cognizant Federal agencies. Furthermore, we hope that the cognizant Federal agencies share the results of the comparison with the non-Federal auditors.

# **APPENDICES**

# SINGLE AUDIT FINDINGS BY STATE STATE FISCAL YEAR 1997

STATE DDS	SINGLE AUDIT FINDINGS ON DISABILITY DETERMINATION SERVICES	QUESTIONED COSTS (\$)
AL	<ul style="list-style-type: none"> <li>1. Funds were not drawn in accordance with funding techniques specified in the Cash Management Improvement Act (CMIA) Treasury/State agreement.</li> <li>2. Incorrect information was used in developing warrant clearance patterns to be used for cash draws.</li> <li>3. There was no formal contingency plan, which includes policies and procedures to be followed in the event of a disaster that adversely affects the operations of its data processing center.</li> <li>4. Security controls over data processing were inadequate.</li> </ul>	0 0 0 0
AK	No Findings Reported	0
AZ	No Findings Reported	0
AR	Disbursements for computer software services were in excess of the approved procurement amount by \$5,329.	\$ 5,329
CA	Noncompliance with Federal regulations on the default procedures required by the Federal Government when implementing the CMIA resulted in the State's interest liability being understated by \$388,500 of which \$89,867 was Social Security Administration's portion.	89,867
CO	<ul style="list-style-type: none"> <li>1. The methodology for identifying cash draws was not adequate.</li> <li>2. Procedures for purchasing consultative examinations (CE) including using competitive bidding, reviewing the fee schedule, standardizing procedures for rate adjustments, and ensuring compliance with Federal and State regulations were not developed.</li> </ul>	0 0
CT	No Findings Reported	0
DC	Single Audit Not Issued (Extension Granted)	0
DE	No Findings Reported	0
FL	No Findings Reported	0

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GA	<b>Inventory of equipment was not maintained in accordance with provisions of Office of Management and Budget's Uniform Administrative Requirements and the State Property Management System Manual.</b>	<b>0</b>
GU	<b>No Findings Reported</b>	<b>0</b>
HI	<b>No Findings Reported</b>	<b>0</b>
ID	<b>No Findings Reported</b>	<b>0</b>
IL	<b>No Findings Reported</b>	<b>0</b>
IN	<b>No Findings Reported</b>	<b>0</b>
IA	<ul style="list-style-type: none"> <li>1. Federal funds were routinely drawn in advance of disbursements.</li> <li>2. Internal controls were not in place to ensure the accuracy of the CMIA annual report.</li> <li>3. Controls were not in place over the administration of the CMIA Agreement.</li> </ul>	<b>0</b> <b>0</b> <b>0</b>
KS	<b>No Findings Reported</b>	<b>0</b>
KY	<ul style="list-style-type: none"> <li>1. Written policies and procedures were not developed for system security.</li> <li>2. Use of a formalized security authorization procedures to establish, modify or revoke system access were not implemented.</li> <li>3. Written program software modification procedures were not developed.</li> <li>4. Software modifications were not developed for Year 2000 compliance.</li> </ul>	<b>0</b> <b>0</b> <b>0</b> <b>0</b>
LA	<b>No Findings Reported</b>	<b>0</b>
ME	<b>No Findings Reported</b>	<b>0</b>
MD	<b>No Findings Reported</b>	<b>0</b>
MA	<b>Adequate internal controls were not in place over the advance checking account.</b>	<b>0</b>
MI	<b>Single Audit Not Issued (Biennial Audit)</b>	<b>0</b>
MN	<b>No Findings Reported</b>	<b>0</b>
MS	<b>No Findings Reported</b>	<b>0</b>
MO	<b>Funds were not transmitted to the Department of Revenue for deposit on a timely basis.</b>	<b>0</b>
MT	<b>No Findings Reported</b>	<b>0</b>
NE	<b>No Findings Reported</b>	<b>0</b>

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NV	No Findings Reported	0
NH	No Findings Reported	0
NJ	No Findings Reported	0
NM	No Findings Reported	0
NY	1. Incorrect codes were entered into the Payroll Allocation Cost System whereby recording inaccurate indirect costs under the Cost Allocation Plan.	0
	2. The Department did not follow procedures in conducting presettlement reviews.	0
	3. Procedures were not followed for conducting voucher reviews to monitor training costs.	0
	4. Quarterly Time Reports of Personal Services (SSA-4514) were not submitted timely.	0
NC	No Findings Reported	0
ND	Single Audit Not Issued (Biennial Audit)	0
OH	No Findings Reported	0
OK	1. Cash draws incorrectly computed, funds were not drawn in accordance with the CMIA agreement and supporting documentation for cash draws was not maintained.	0
	2. Documentation was not maintained for an employee's assigned pay grade or step, resulting in questioned costs of \$4,389.	\$ 4,389
OR	No Findings Reported	0
PA	1. State contracting and procurement standards were not adhered to when purchasing CEs.	0
	2. General controls over the Disability Determination Services computer system needs to be strengthened.	0
	3. Funds drawn for employee payroll tax and benefits were held for an extended period of time resulting in a material noncompliance with cash management standards and an undetermined amount of interest liability due to the Federal Government.	Undetermined
PR	Single Audit Not Issued (Extension Granted)	0
RI	No Findings Reported	0
SC	No Findings Reported	0
SD	No Findings Reported	0

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TN	The Report of Obligations and the Cost Effectiveness Measurement System Data Reporting form contained numerous mathematical errors and misstatements.	0
TX	No Findings Reported	0
UT	No Findings Reported	0
VI	Single Audit Not Required	0
VT	No Findings Reported	0
VA	No Findings Reported	0
WA	No Findings Reported	0
WV	Cash balances were not reconciled to those of the State Auditor's Office; therefore, existing financial data by grant may not be accurate.	0
WI	No Findings Reported	0
WY	No Findings Reported	0
<b>Total Questioned Costs</b>		<b>\$99,585</b>

# OFFICE OF THE INSPECTOR GENERAL ADMINISTRATIVE COST AUDIT FINDINGS

STATE DDS	OFFICE OF THE INSPECTOR GENERAL FINDINGS ON DISABILITY DETERMINATION SERVICES	QUESTIONED COSTS (\$)
CA	<ul style="list-style-type: none"> <li>1. Unallowable indirect costs were claimed for activities that were incorrectly charged to the departmental indirect cost pool.</li> <li>2. Personnel and other costs for activities that did not benefit the Social Security Administration's programs were incorrectly claimed in the amount of \$208,455.</li> <li>3. Access controls over the States' computer system used to process SSA disability claims needed improvement.</li> </ul>	\$3,580,673 208,455 0
DE	<ul style="list-style-type: none"> <li>1. Incorrect expense payment vouchers totaling \$11,348 were erroneously paid with the incorrect fiscal year (FY) funds.</li> <li>2. There was no documentation to support nonpersonnel costs of \$41,933.</li> <li>3. A Consultative Examination (CE) payment was made for an incorrect amount.</li> <li>4. CE payments were made with incorrect FY funds.</li> </ul>	11,348 41,933 63 821
MO	A disbursement in the amount of \$5,000 from the FY 1997 account was incorrectly recorded in the financial management system as a FY 1996 allotment account draw.	0
<b>Total Questioned Costs</b>		<b>\$3,842,472</b>

## **ACRONYMS**

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<b>AIS</b>	<b>Automated Information Systems</b>
<b>CE</b>	<b>Consultative Examination</b>
<b>CEMS</b>	<b>Cost Effectiveness Measurement System</b>
<b>CMIA</b>	<b>Cash Management Improvement Act</b>
<b>DDS</b>	<b>Disability Determination Services</b>
<b>DI</b>	<b>Disability Insurance</b>
<b>FFY</b>	<b>Federal Fiscal Year</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OMB</b>	<b>Office of Management and Budget</b>
<b>POMS</b>	<b>Program Operations Manual System</b>
<b>SFY</b>	<b>State Fiscal Year</b>
<b>SSA</b>	<b>Social Security Administration</b>
<b>SSI</b>	<b>Supplemental Security Income</b>
<b>STARS</b>	<b>State of Tennessee Accounting and Reporting System</b>

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**APPENDIX D**

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**AGENCY COMMENTS**

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**COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE  
OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "REVIEW OF  
STATE FISCAL YEAR 1997 SINGLE AUDIT FINDINGS" (A-07-99-84007)**

We appreciate the opportunity to comment on the draft report. Following are our comments on the recommendations.

**OIG Recommendation 1**

SSA should instruct the DDSs to adhere to the terms of the Cash Management Improvement Act (CMIA) agreement.

**SSA Comment**

We agree with the intent of this recommendation and will issue a DDS Administrators Letter within 90 days reminding the States to adhere to the terms of their CMIA agreements with the Department of Treasury.

**OIG Recommendation 2**

SSA should instruct the DDSs to follow procurement instructions established by SSA and the State.

**SSA Comment**

We agree and will issue a DDS Administrators Letter within 90 days, reminding the States to follow appropriate procurement instructions established by SSA and the State.

**OIG Recommendation 3**

SSA should instruct the DDS to obtain discounted services when competitively contracting for consultative examinations (CES).

**SSA Comment**

We agree and will issue a DDS Administrators Letter within 90 days, reminding the States to obtain discounted services when competitively contracting for CES.

#### **OIG Recommendation 4**

SSA should instruct the DDSs to implement controls to prevent unauthorized computer access.

#### **SSA Comment**

We agree. On May 25, 1999, SSA issued a Regional Commissioners Memorandum and DDS Administrators Letter regarding DDS systems security.

#### **OIG Recommendation 5**

SSA should instruct the DDSs to develop a formal contingency plan to prevent disruption of services in the event of a disaster.

#### **SSA Comment**

We agree. SSA is reviewing existing instructions governing the federal/state relationship and will revise instructions, where appropriate, regarding physical security requirements for the DDSs. We expect that a formal contingency plan will be developed by May 2001.

#### **OIG Recommendation 6**

SSA should instruct the DDSs to maintain complete and accurate equipment inventory records and perform periodic physical inventories.

#### **SSA Comment**

We agree and will issue a DDS Administrators Letter within 90 days reminding the States to maintain complete and accurate equipment inventory records and perform periodic physical inventories.

### **OIG Recommendation 7**

SSA should instruct the DDSs to implement effective procedures for preparing, reviewing, approving, and timely reporting of information on the Report of Obligations, the Time Report of Personal Services, and the Cost Effectiveness Measurement System Data Reporting Form.

#### **SSA Comment**

We agree. On July 10, 2000, as a result of OIG's Final Report "Review of State Fiscal Year 1996 Single Audit Findings" (A-07-98-71002), SSA issued a note to the Regional Offices' Center for Disability Directors to remind the DDSs to implement effective procedures for preparing, reviewing, approving, and timely reporting of information on the Report of Obligations and the Time Report of Personal Services.

As a result of this SFY 1997 audit, SSA will issue a DDS Administrators Letter within 90 days as an additional reminder.

### **OIG Recommendation 8**

SSA should instruct the DDSs to ensure that costs charged to SSA benefit the program and are properly authorized and documented.

#### **SSA Comment**

We agree and will issue a DDS Administrators Letter within 90 days reminding the States to ensure that costs charged to SSA benefit the program, and are properly authorized and documented.

### **OIG Recommendation 9**

SSA should instruct the DDSs to ensure CE fees do not exceed the highest rates paid by Federal or other State agencies for the same or similar types of services.

#### **SSA Comment**

We agree and will issue a DDS Administrators Letter within 90 days reminding the States to ensure CE fees do not exceed the

highest rates paid by Federal or other State agencies for the same or similar types of services.

**OIG Recommendation 10**

SSA should instruct the DDSs to adhere to the fees in the State approved CE fee schedule.

**SSA Comment**

We agree and will issue a DDS Administrators Letter within 90 days reminding the States to adhere to the fees in the State approved CE fee schedule.

**General Comments**

We have concerns regarding the comparison of the single audits and OIG's DDS administrative cost audit findings in this draft report. Specifically, OIG's statement on page 12, "The comparison of the single audit findings and OIG findings disclosed notable differences." The differences in the two types of audits may be explained in the POMS Section 39554.210, which states that OIG audits are intended to "...build upon the work already done by the State in the audit conducted under the Office of Management and Budget Circular A-128 provisions."

Based on the POMS reference above, we question OIG's statement in the draft report on page ii that "We will report our comparison [of the single audit report findings and OIG's report findings] to the Federal agencies who are cognizant for the California, Delaware and Missouri single audits in separate management letters for any action they deem appropriate." Since the States have already received and acted upon OIG's findings/recommendations resulting from the OIG audits, we believe that further contact with the States is unnecessary.

## **OIG CONTACTS AND STAFF ACKNOWLEDGMENTS**

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### ***OIG Contacts***

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### ***Acknowledgements***

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For additional copies of this report, please contact Office of the Inspector General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-07-99-84007.

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**APPENDIX F**

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## **SSA ORGANIZATIONAL CHART**

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