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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, 2000**

**November 2001                  A-77-02-00004**

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***AUDIT 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

Office of the Inspector General

### MEMORANDUM

Date: NOV 29 2001  
To: Dan Sweeney  
Acting Director  
Management Analysis and Audit Program Support Staff

Refer To:

Assistant Inspector General  
for Audit

Single Audit of the State of Oklahoma for the Fiscal Year Ended June 30, 2000  
(A-77-02-00004)

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, 2000. The Oklahoma State Auditor's Office performed the audit and its reports on compliance and internal controls are attached (see Appendix A). The Department of Health and Human Services' desk review concluded that the audit met Federal requirements (see Appendix B).

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

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

The single audit reported the following findings (see Appendix C):

- DRS did not have a disaster recovery plan to be followed in the event of a disaster that adversely affects the operations of the Department. The corrective action plan indicates that a disaster recovery plan is being developed.

Procedures were not in place to ensure that only authorized personnel had appropriate access to mainframe data. In addition, the computer room did not have a fire suppression system. The corrective action plan indicates that a visitor's log will be established next to the computer room door, and a new computer room configuration is being developed.

- Funds were not drawn in accordance with the terms of the Cash Management Improvement Act (CMIA) agreement. The corrective action plan indicates that actions will be taken to comply with the CMIA agreement.

We recommend that SSA ensure that DRS:

- 1 Implemented a disaster recovery plan that addresses policies and procedures to be followed in the event of a disaster so that the Oklahoma DDS can continue operations.
- 2 Established procedures to allow only authorized personnel access to the computer facilities.
3. Installed necessary safeguards to protect the computer facilities against environmental factors.
4. Developed procedures for drawing Federal funds in accordance with the terms of the CMIA agreement.

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

DRS did not have a system in place to adequately document the personnel costs charged to Federal programs.

DRS did not have an approved method to allocate direct and indirect costs to its program.

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



Steven L. Schaeffer

Attachments



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

CLIFTON H. SCOTT  
STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BLVD.  
100 STATE CAPITOL  
OKLAHOMA CITY, OK 73105-4896  
405/521-3495

To the Honorable Frank Keating, Governor  
and Members of the Legislature of the  
State of Oklahoma

We have audited the general-purpose financial statements of the State of Oklahoma as of and for the year ended June 30, 2000, and have issued our report thereon dated December 29, 2000, which included an emphasis paragraph on the unfunded actuarial accrued liability of the Teachers' Retirement System. We did not audit:

- four percent of the assets or two percent of the revenues of the general fund;
- the financial statements of the proprietary fund-primary government;
- the financial statements of the pension trust fund-primary government which reflect total assets constituting three percent of the fiduciary funds-primary government;
- the financial statements of the nonexpendable trust funds which reflect total assets constituting sixty percent of the fiduciary funds-primary government;
- seven percent of the assets of the general fixed asset account group;
- one percent of the liabilities of the general long-term debt account group;
- the financial statements of the governmental component unit;
- ninety-nine percent of the assets or ninety-eight percent of the revenues of the proprietary component units;
- the financial statements of the fiduciary component units;
- the financial statements of the higher education component unit.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general-purpose financial statements of the State of Oklahoma, insofar as it relates to the amounts included for the above-mentioned entities, is based solely upon the reports of the other auditors. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Oklahoma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the

risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The American Institute of Certified Public Accountants' Statement on Auditing Standards Number 87 requires the inclusion of the following paragraph in this report:

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

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



CLIFTON H. SCOTT  
State Auditor and Inspector

December 29, 2000



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

CLIFTON H. SCOTT  
STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BLVD.  
100 STATE CAPITOL  
OKLAHOMA CITY, OK 73105-4896  
405/521-3495

To the Honorable Frank Keating, Governor  
and Members of the Legislature of the  
State of Oklahoma

Compliance

We have audited the compliance of the State of Oklahoma with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. We did not audit compliance with those requirements listed above that are applicable to the major federal programs administered by the Department of Commerce, the Department of Wildlife Conservation, or the Drinking Water State Revolving Fund administered by the Department of Environmental Quality, all of which were audited in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These programs represent 1.7% of total expenditures for major federal programs reported on the Schedule of Expenditures of Federal Awards. These requirements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to compliance with these requirements for the above-mentioned entities, is based solely upon the reports of the other auditors.

The State of Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Oklahoma's management. Our responsibility is to express an opinion on the State of Oklahoma's compliance based on our audit and those of other auditors.

The State of Oklahoma's general-purpose financial statements include the operations of the component units reported in the Enterprise Fund and the Higher Education Fund, which received federal awards which are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2000. Our audit, described below, did not include the operations of those component units because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

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

As described in items 00-580-001, 00-580-002, 00-580-003, and 00-580-004 in the accompanying schedule of findings, the State of Oklahoma did not comply with requirements regarding reporting, equipment and real property management, and special tests and provisions that are applicable to its Donation of Federal Surplus Property program. Compliance with such requirements is necessary, in our opinion, for the State of Oklahoma to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the State of Oklahoma complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items:

00-265-001	00-265-002	00-265-003	00-265-007	00-290-03S	00-290-04S
00-290-07S	00-309-005	00-345-017	00-345-048	00-400-001	00-580-005
00-580-006	00-805-004	00-805-005	00-805-006	00-805-007	00-807-004
00-807-005	00-807-007	00-807-008	00-807-009	00-830-011	00-830-013
00-830-014	00-830-015	00-830-016	00-830-019	00-830-021	00-830-023
00-830-024	00-830-025				

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over compliance that, in our judgment, could adversely affect the State of Oklahoma's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as items:

00-265-001	00-265-002	00-265-003	00-265-007	00-265-008	00-265-009
00-265-010	00-290-01S	00-290-02S	00-290-05S	00-290-06S	00-290-08S
00-290-09S	00-290-10S	00-290-11S	00-290-12S	00-290-13S	00-309-003
00-345-1IS	00-345-2IS	00-345-3IS	00-345-4IS	00-345-017	00-345-048
00-400-001	00-580-005	00-580-006	00-580-008	00-805-001	00-805-002
00-805-003	00-805-004	00-805-007	00-807-001	00-807-004	00-807-005
00-807-007	00-807-008	00-807-009	00-807-011	00-830-004	00-830-011
00-830-013	00-830-014	00-830-015	00-830-018	00-830-019	00-830-021
00-830-023	00-830-024				

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 00-580-001, 00-580-002, 00-580-003, and 00-580-004 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Oklahoma as of and for the year ended June 30, 2000, and have issued our report thereon dated December 29, 2000, which included an emphasis paragraph on the unfunded actuarial accrued liability of the Teachers' Retirement system.

We did not audit:

- four percent of the assets or two percent of the revenues of the general fund;
- the financial statements of the proprietary fund-primary government;
- the financial statements of the pension trust fund-primary government which reflect total assets constituting three percent of the fiduciary funds-primary government;
- the financial statements of the nonexpendable trust funds which reflect total assets constituting sixty percent of the fiduciary funds-primary government;
- seven percent of the assets of the general fixed asset account group;
- one percent of the liabilities of the general long-term debt account group;
- the financial statements of the governmental component unit;
- ninety-nine percent of the assets or ninety-eight percent of the revenues of the proprietary component units;
- the financial statements of the fiduciary component units;
- the financial statements of the higher education component unit.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general-purpose financial statements of the State of Oklahoma, insofar as it relates to the amounts included for the above-mentioned entities, is based solely upon the reports of the other auditors. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

The American Institute of Certified Public Accountants' Statement on Auditing Standards Number 87 requires the inclusion of the following paragraph in this report:

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

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



CLIFTON H. SCOTT  
State Auditor and Inspector

March 28, 2001, except as to the Schedule of Expenditures  
of Federal Awards, for which the date is December 29, 2000.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

National External Audit Review Center  
Lucas Place, Room 514  
323 West 8th Street  
Kansas City, Missouri 64105

CIN A-06-02-68900

OCT 05 2001

THOMAS E. DAXON, DIRECTOR  
STATE OF OKLAHOMA  
122 STATE CAPITOL  
2300 NORTH LINCOLN BLVD.  
OKLAHOMA CITY, OKLAHOMA 73105-4801

Dear Mr. Daxon:

We have completed our initial review of the audit report on the State for the period July 1, 1999 through June 30, 2000. Based on our initial review, we believe the audit, performed by the OKLAHOMA STATE AUDITOR met Federal audit requirements.

As cognizant agency, we have distributed the audit results to other Federal departments whose programs are covered by the report.

For your convenience, the findings and recommendations are summarized in Attachment A and identified by Federal department responsible for resolution. Final determinations with respect to actions to be taken on Department of Health and Human Services (HHS) recommendations will be made by the following HHS resolution official. Please respond to the HHS resolution official at the following address within 30 days from the date of this letter:

**HHS RESOLUTION OFFICIAL**

Office of Audit Resolution and Cost Policy  
Department of Health and Human Services  
Room 522E, Humphrey Building  
200 Independence Avenue, S.W.  
Washington, DC 20201

Your written response may consist of: (1) any comments or additional information that you believe may have a bearing on the final determination of actions to be taken with respect to the HHS recommendations, (2) an update of comments submitted with the report or (3) confirmation that your previous comments and corrective action plan remain unchanged for the recommendations summarized in Attachment A. The above common identification number (CIN) should be referenced in all correspondence relating to this report. All correspondence, including requests for additional time to prepare your response, should be submitted to the HHS resolution official address. Please do not send your comments or requests to the Lucas Place address.

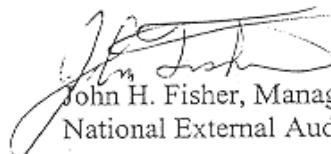
CIN A-06-02-68900 - Page 2

Please include your Entity Identification Number with all future audit reports.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), reports issued on the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5 Section 5.21 of the Department's Public Information Regulations.)

If you have any questions, please contact our office at (816)374-6714.

Sincerely,



John H. Fisher, Manager  
National External Audit Review Center

Attachment

ATTACHMENT A

Page 1 of 3

CIN A-06-02-68900

<i>Recommendation Codes</i>	<i>Page</i>	<i>Amount</i>	<i>Resolution Agency</i>	<i>Recommendations</i>
	23-29	N/A	GSA	00-508-001 thru 00-508-006, 00-508-008
	83			97-580-020, 97-580-033, 00-580-34
	84-85			97-580-37, 98-580-012, 98-580-014
	86, 87			98-580-016, 98-580-017, 99-580-007
	88			99-580-009, 99-580-011 thru 99-580-013.
	29-30	N/A	FEMA	00-309-003, 00-309-005.
	31-41	N/A	Education	00-265-001 thru 00-265-003, 00-265-007 thru
	71-77			00-265-010, 00-805-001 thru 00-805-007
	89			96-265-003.
	41-52	N/A	Labor	00-290-01S thru 00-290-13S, 99-290-001.
	89			
299927100	53	N/A	HHS/OARCP	00-807-001. We recommend procedures be strengthened to ensure information systems are adequately safeguarded.
*299926100	53-55	\$4,551	HHS/HCFA	00-807-004. We recommend procedures be strengthened to ensure 1) provider files contain all required documentation and 2) providers are adequately licensed and any unallowable costs are returned.
299905100	55	N/A	HHS/HCFA	00-807-005. We recommend 1) procedures be strengthened to ensure all costs are supported by adequate documentation, and 2) the questioned costs be returned.
*099905100	55	\$6,791	HHS/HCFA	
337910100	55-56	N/A	HHS/HCFA	00-807-007. We recommend procedures be strengthened to ensure 1) claims submitted 12 months after the date of service are not charged to the program and 2) the questioned costs be returned.
*337910101	55-56	\$10,423	HHS/HCFA	
099930100	56	N/A	HHS/HCFA	00-807-008. We recommend 1) procedures be strengthened to ensure duplicate claims are not charged to Federal programs, and 2) the questioned costs be returned.
*099930101	56	\$7,376	HHS/HCFA	
*299922100	57	\$673	HHS/HCFA	00-807-009. We recommend procedures be strengthened to ensure only allowable claims are paid.
299905101	57-58	N/A	HHS/HCFA	00-807-011. We recommend procedures be strengthened to ensure providers' compliance with health and safety standards is supported by adequate documentation.

ATTACHMENT A

Page 2 of 3

CIN A-06-02-68900

<i>Recommendation Codes</i>	<i>Page</i>	<i>Amount</i>	<i>Resolution Agency</i>	<i>Recommendations</i>
	58	N/A	Agriculture	00-830-004, 00-830-18, 96-830-058
	66-67			97-830-035, 97-830-045, 98-830-003
	90			98-830-005, 98-830-008, 99-830-012
	91, 93			099-830-017, 99-830-028.
	95-96			
	97			
099930102	59-61 63-65	N/A	HHS/ACF	00-830-011, 00-830-15. We recommend procedures be strengthened to ensure case files contain all required documentation, 2) case files are reviewed in a timely manner and 3) the questioned costs be returned.
*099930103	59-61 63-65	\$16,305	HHS/ACF	
099930104	61	N/A	HHS/OEA	00-830-013. We recommend 1) procedures be strengthened to ensure case files contain all required documentation, 2) case files are reviewed in a timely manner and 3) the questioned costs be returned.
*099930105	61	\$2,486	HHS/OEA	
*099930106	62	\$848	HHS/OFA	00-830-014. We recommend procedures be strengthened to 1) ensure case files contain all required documentation and 2) case files are reviewed in a timely manner.
299908100	65-66 97	N/A	HHS/DPM	00-830-16, 99-830-033. This is a repeat finding. We recommend procedures be strengthened to ensure compliance with cash management requirements.
099000100	66-67 96	N/A	HHS/DCA	00-830-018, 00-830-019, 99-830-017. This is a repeat finding. We recommend procedures be strengthened to ensure expenditures are allocated in accordance with the approved plan.
209905100	68	N/A	HHS/OEA	00-830-021. We recommend procedures be strengthened to ensure Federal reports are supported by adequate documentation.
099003100	68-69 97	N/A	HHS/ACF	00-830-023, 97-830-035. This is a repeat finding. We recommend procedures be strengthened to ensure expenditures are properly accounted for by individual program and grant.

ATTACHMENT A

Page 3 of 3

CIN A-06-02-68900

<i>Recommendation Codes</i>	<i>Page</i>	<i>Amount</i>	<i>Resolution Agency</i>	<i>Recommendations</i>
209920100	69-70	N/A	HHS/OARCP	00-830-024. We recommend procedures be strengthened to ensure Federal reports are reconciled to the accounting records and are supported by the accounting records.
209920101	70	N/A	HHS/OFA	00-830-025. We recommend procedures be strengthened to ensure Federal reports are reconciled to the accounting records and are properly supported.
099000106	71	N/A	HHS/HCFA	00-400-001. We recommend procedures be strengthened to ensure only allowable costs are allocated to the Medicaid program.
	74-75	N/A	SSA	00-805-005.
	77-79	N/A	Transportation	00-345-017, 00-345-048, 00-345-1IS
	80-81			00-345-2IS, 00-345-3IS, 00-345-4IS
	98-99			98-585-007.
	90	N/A	Footnote A	99-807-005. Third Party Liability.
209922100	94, 95	N/A	HHS/OFA	98-830-031, 99-8-011. This is a repeat finding. We recommend procedures be strengthened to ensure the Emergency TANF Data report is accurately generated.
299919101	95	N/A	HHS/OFA	99-830-010. This is a repeat finding. We recommend written policies be developed and implemented for determining which social workers' files are reviewed by supervisors.
#	#	#	#	Footnote A: This finding and related recommendation have not been identified for formal Federal resolution by HHS. Appropriate corrective action should be taken by the State, as recommended by the auditors. This action could involve necessary financial adjustments to Federal program accounts and reports.

REPORT DISTRIBUTION SCHEDULE

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Office of Regional Administrator  
1301 Young Street, Room 833  
Dallas, TX 75202

Audit Liaison Staff 1\*

HCFA, OCOS, OSG  
Mailstop: C5-15-12  
7500 Security Boulevard  
Baltimore, MD 21244-1850

Assistant Regional Administrator 1\*

Office of Fiscal Operations  
Administration for Children and Families, HHS  
1301 Young Street, Room 945  
Dallas, TX 75202

ACF Audit Team 1\*

Attn: Michael Hill  
Aerospace Building, 6th Floor East  
370 L'Enfant Promenade, S.W.  
Washington, D.C. 20447

Chief, Accounting and Control Branch 1\*

Division of Payment Management  
P.O. Box 6021  
Rockville, MD 20852

Chief, Cost Advisory and Audit Resolution Branch 1\*

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Atlanta, GA 30341

Chief, Special Review Branch, NIH, DFAS 1\*

6100 Executive Boulevard, Room 6B05

Bethesda, MD 20892-7540

Financial Advisory Services Officer 1\*

Division of Grants Management

Substance Abuse and Mental Health Services

Administration

Room 13-103, Parklawn Building

5600 Fishers Lane

Rockville, MD 20857

Audit Liaison Officer 1\*

Administration on Aging

Room 4740, Cohen Bldg.

330 Independence Avenue, S.W.

Washington, D.C. 20201

Dept. of Health and Human Services 1\*

Program Support Center, Financial Management Service

Division of Cost Allocation

Central States Field Office

1301 Young Street, Room 732

Dallas, TX 75202

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## Schedule of Findings Federal Award Findings And Questioned Costs

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**Recommendation:** We recommend that the Department (1) Develop a policy that prohibits individuals from determining eligibility for their relatives or friends, or (2) Require individuals who determine eligibility to complete formal conflict of interest statements.

### *Management's Corrective Action Plan*

**Contact Person:** Michael O'Brien

**Anticipated Completion Date:** July 1, 2001

**Corrective Action Planned:** The DVR/DVS Management Team has reviewed these recommendations. We are in agreement that it is appropriate to respond to these. We propose the following actions: (1) Our policy development unit in conjunction with a representative from the attorney general's office will develop a conflict of interest statement that can be signed by staff. This conflict of interest statement will have to be approved by DRS and presented to them within the next 90 day. (2) We will develop a policy that prohibits individuals from determining eligibility for their relatives or friends. However, this policy must first be written by the Policy Development Unit. It must be presented to the Policy Advisory Council it must be reviewed and approved by the DVR/DVS Management Team, this policy will be submitted to the Commission for Rehabilitation for review. It must go before them on two separate Commission Meetings. The Oklahoma Rehabilitation Council must also review it. Upon approval by both of these groups it will then be submitted to the Governor under emergency rules for approval. It is unlikely that this policy can be formally finalized prior to July 1, 2001. However, we will pursue it with all haste.

**REF NO:** 00-805-002

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** United States Department of Education, Social Security Administration

**CFDA NO:** 84.126, 96.001 (This could potentially affect all federal programs.)

**FEDERAL PROGRAM NAME:** Rehabilitation Services - Vocational Rehabilitation Grants to States, Social Security - Disability Insurance (DI)

**CONTROL CATEGORY:** Information Systems

**Criteria:** According to the standards of the Information Systems Audit and Control Association (COBIT, Delivery and Support 4.3), information services function management should ensure that a written disaster recovery plan is developed containing the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Response and recovery meant to bring the Department back to the state it was before the incident or disaster;
- Procedures to safeguard and reconstruct the home site;
- Coordination with public authorities;
- Communication procedures with employees, clients, suppliers and management; and,
- Critical information on recovery teams, affected staff, clients, suppliers, public authorities, and media.

**Condition:** The Department does not have a written Disaster Recovery Plan.

**Effect:** The lack of having a Disaster Recovery Plan could result in potential loss of:

1. Financial data;
2. Client information;
3. DRS organizational structure documentation; and,
4. Federal reporting data.

**Recommendation:** We recommend the Department develop and implement a written Disaster Recovery Plan to ensure the safekeeping and integrity of agency financial and non-financial data.

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

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

**Contact Person:** Jim Murphy, Information Services Director

**Anticipated Completion Date:** March 31, 2001

**Corrective Action Planned:** Information Services (I.S.) agrees with the audit recommendation.

Although I.S. does have a daily procedure for backup and off site storage, it requires a formal Disaster Recovery Plan. The I.S. Computer Operations Area will begin developing the Disaster Recovery Plan immediately. The target date for completion will be March 31, 2001.

**REF NO:** 00-805-003

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** United States Department of Education, Social Security Administration

**CFDA NO:** 84.126, 96.001 (This could potentially affect all federal programs.)

**FEDERAL PROGRAM NAME:** Rehabilitation Services - Vocational Rehabilitation Grants to States, Social Security - Disability Insurance (DI)

**CONTROL CATEGORY:** Information Systems

**Criteria:** According to the standards of the Information Systems Audit and Control Association (COBIT, Delivery and Support 12.3), appropriate procedures are to be in place ensuring that individuals who are not members of the information services function's operations group are escorted by a member of that group when they must enter the computer facilities. A visitor's log should be kept and reviewed regularly.

According to the standards of the Information Systems Audit and Control Association (COBIT, Delivery and Support 12.5), information services function management should assure sufficient measures are put in place and maintained for protection against environmental factors (e.g., fire, dust, power, excessive heat and humidity). Equipment and devices to monitor and control the environment should be installed.

**Condition:** During our review and tour of the Department's computer room, we noted the following:

- Access to the Department's computer room is limited by requiring those granted access to input a numeric code via a keypad to gain entrance. However, there was no mechanism, such as a sign in sheet, to monitor visitors entering the computer room.
- The Department's computer room did not have a fire suppression system.

**Effect:** Lack of a mechanism to monitor access to the computer room could result in misuse of assets. Also, without a fire suppression system, the Department's IT equipment may not be adequately protected against man-made and natural disasters.

**Recommendation:** We recommend the Department maintain a visitor's log outside the computer room to enable the Department to identify those individuals entering the computer room. Additionally, we recommend the Department ensure adequate safeguards are in place to protect the Department's IT equipment from man-made and natural disasters.

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

**Contact Person:** Jim Murphy, Information Services Director

**Anticipated Completion Date:** State Fiscal Year 2001

**Corrective Action Planned:** I.S. agrees with the audit recommendation. A visitor's log will be established by the secure computer room door by August 11, 2000. I.S. has recognized a potential exposure in the current computer room configuration. To rectify the problem, we have budgeted a substantial amount of funds to facilitate a solution to the current situation. We plan to implement our solution during State Fiscal year 2001.

## Schedule of Findings Federal Award Findings And Questioned Costs

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REF NO: 00-805-004

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: United States Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services - Vocational Rehabilitation Grants to States

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

**Criteria:** According to the instructions for preparing the RSA-2 which are provided by the United States Department of Education, Rehabilitative Services Administration, the RSA-2 report is due in the RSA Regional Office by January 30 following the close of the fiscal year.

A basic objective of generally accepted accounting principles is to provide accurate, reliable and timely information.

**Condition:** The Department is not in compliance with the filing requirements for the RSA-2 report. The RSA-2 report for fiscal year 1999 was not submitted until July 3, 2000. This is approximately five months past the deadline for submission of this report.

**Effect:** Without the timely submission of Federal reports, the Department could be subject to fines and/or sanctions.

**Recommendation:** We recommend the Department establish and implement policies and procedures to ensure employees are aware of Federal Reporting requirements and Federal reports are submitted in a timely manner.

### *Management's Corrective Action Plan*

Contact Person: Kevin Statham

Anticipated Completion Date: FFY - 2002

**Corrective Action Planned:** Management concurs with the audit finding. The agency continues to struggle with the delays caused by manual reconciliation of expenditures and compilation of data from multiple information systems. The RSA-2 has received a great deal of attention and review during the current year. The timely receipt and reconciliation of data has received a high priority for both Budget & Finance and the Information Services Units. The high priority has allowed for the focusing of resources to assist the department in achieving the goal of timely filing of the RSA-2.

REF NO: 00-805-005

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: United States Department of Education, Social Security Administration

CFDA NO: 84.126, 96.001

FEDERAL PROGRAM NAME: Vocation Rehabilitation Services Basic Grants to States, Social Security - Disability Insurance (DI)

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: -\$0-

**Criteria:** The Cash Management Improvement Act (CMIA) for the component 6.0 Funding Techniques, 6.26 Payment Schedule, states: "The State shall request funds such that they are deposited in a 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 amount of the request shall be an estimate based on actual payments of the prior month and adjusted to actual on a quarterly basis."

**Condition:** During our review of internal control procedures and conversation with management, we noted for the May 2000 draw requests for SS-DI dated May 5, 2000, for \$1,000,000 and VR-Basic Support dated May 5, 2000, for \$2,500,000, the Department did not have adequate supporting documentation.

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

Also, the Department is not requesting funds on the fifteenth (or closest working day prior to the 15<sup>th</sup>) or adjusting to actual on a quarterly basis.

*Effect:* By not following the CMIA 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 develop and implement internal control procedures to ensure all applicable personnel are aware of the CMIA agreement requirements and that actions taken by the Department in relation to the agreement are in accordance with the CMIA agreement. Also, if necessary, we further recommend the Department revise the CMIA agreement to better fit the needs of DRS.

*Management's Corrective Action Plan*

*Contact Person:* Kevin Statham

*Anticipated Completion Date:* Compliance with all aspects of the CMIA agreement will be completed February 2001.

*Corrective Action Planned:* Management concurs with the audit finding. The department has several funding techniques that require draws to be done throughout the month not only on the 15<sup>th</sup> of the month. When the department is unable to comply with the CMIA agreement completely, conservative estimates, based on historical activity, are used to calculate draws.

REF NO: 00-805-006

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: United States Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services - Vocational Rehabilitation Grants to States

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: \$283,428

*Criteria:* OMB Circular A-87, Attachment A, Part E. states: "1. *General.* Direct costs are those that can be identified specifically with a particular final cost objective. 2. *Application.* Typical direct costs chargeable to Federal awards are: a. Compensation of employees for the time devoted and identified specifically to the performance of those awards." Also, C.1.j., states in part, . . . "to be allowable under Federal Awards, costs must be adequately documented."

Common Rule , Subpart C., § .20 states, "(a) . . . Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to --- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes..."

*Condition:* During our review of the DRS - *Finance Information Systems Unit Overall Payroll Costing as of 02/15/00 by Location Code Report*, it was noted several DRS employees' salaries for the month of February 2000 were charged 100% to the Vocational Rehabilitation Grants to States (VR) program. Based on the nature of the following employees' job functions, it is not likely these employees' compensation can be identified specifically to the performance of the VR program:

- Director of the Department Rehabilitation Services
- Executive Secretary to the Director
- Chief Financial Officer
- Assistant to the Chief Financial Officer
- Civil Rights Administrator
- Senior Budget Analyst
- Accountant III - Budget and Finance

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

Also, the Department is not requesting funds on the fifteenth (or closest working day prior to the 15<sup>th</sup>) or adjusting to actual on a quarterly basis.

**Effect:** By not following the CMIA 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 develop and implement internal control procedures to ensure all applicable personnel are aware of the CMIA agreement requirements and that actions taken by the Department in relation to the agreement are in accordance with the CMIA agreement. Also, if necessary, we further recommend the Department revise the CMIA agreement to better fit the needs of DRS.

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

**Contact Person:** Kevin Statham

**Anticipated Completion Date:** Compliance with all aspects of the CMIA agreement will be completed February 2001.

**Corrective Action Planned:** Management concurs with the audit finding. The department has several funding techniques that require draws to be done throughout the month not only on the 15<sup>th</sup> of the month. When the department is unable to comply with the CMIA agreement completely, conservative estimates, based on historical activity, are used to calculate draws.

**REF NO:** 00-805-006

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** United States Department of Education

**CFDA NO:** 84.126

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

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

**QUESTIONED COSTS:** \$283,428

**Criteria:** OMB Circular A-87, Attachment A, Part E. states: "1. *General*. Direct costs are those that can be identified specifically with a particular final cost objective. 2. *Application*. Typical direct costs chargeable to Federal awards are: a. Compensation of employees for the time devoted and identified specifically to the performance of those awards." Also, C.I.j., states in part, . . . "to be allowable under Federal Awards, costs must be adequately documented."

Common Rule , Subpart C., § .20 states, “(a) . . . Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to --- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes...”

**Condition:** During our review of the DRS - *Finance Information Systems Unit Overall Payroll Costing as of 02/15/00 by Location Code Report*, it was noted several DRS employees' salaries for the month of February 2000 were charged 100% to the Vocational Rehabilitation Grants to States (VR) program. Based on the nature of the following employees' job functions, it is not likely these employees' compensation can be identified specifically to the performance of the VR program:

- Director of the Department Rehabilitation Services
- Executive Secretary to the Director
- Chief Financial Officer
- Assistant to the Chief Financial Officer
- Civil Rights Administrator
- Senior Budget Analyst
- Accountant III - Budget and Finance

## Schedule of Findings Federal Award Findings And Questioned Costs

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- Accountant I - Budget and Finance
- Administrator Central Departmental Services
- Administrative Programs Officer - Purchasing
- Administrative Programs Officer -Contracts
- Director of Information Services

Additionally, during review of administrative claims listing, it was noted office space leased monthly by DRS-Executive Division's rent expense was charged 100% to the VR program. Based on internal VR Coding for this particular vendor it appears, the space for these divisions cannot be specifically identified to the performance of the VR program.

*Cause:* The Department does not have an approved method to allocate direct and indirect costs to the VR program.

*Effect:* Costs are being charged to the VR program that do not benefit the program.

*Recommendation:* We recommend the Department develop an Indirect Cost Proposal to ensure that costs chargeable to the VR program are properly documented and allowable under OMB Circular A-87.

### *Management's Corrective Action Plan*

*Contact Person:* Kevin Statham, Accountant III

*Anticipated Completion Date:* Cost allocation plan has been submitted to the Department of Education. Approval is pending and cost allocation will begin during SFY- 2001.

*Corrective Action Planned:* Management concurs with the auditor's recommendation regarding allocating costs. In fact, the agency has already developed and submitted the cost allocation plan to the Department of Education for review and approval. Prior to the audit finding the agency recognized the need to distribute costs, however, without an approved cost allocation plan the agency is not allowed to distribute any costs.

**REF NO:** 00-805-007

**STATE AGENCY:** Department of Rehabilitation Services

**FEDERAL AGENCY:** United States Department of Education

**CFDA NO:** 84.126

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

**CONTROL CATEGORY:** Activities Allowed and Unallowed, Eligibility, Special Tests and Provisions – Individualized Written Rehabilitation Program (IWRP), and Special Tests and Provisions – Comparable Services and Benefits

**QUESTIONED COSTS:** \$ 3,393

*Criteria:* According to CFR 361.45-46, "An Individual Written Rehabilitation Program (IWRP) must be developed jointly by the VR counselor and the eligible individual (or the individual's representative)."

Additionally, 34 CFR 361.53 states in part, "The State is required to seek comparable services and benefits from other programs before providing VR services to an eligible individual . . ."

OAC 612:10-7-6 states in part, "(a) To determine whether an individual is eligible for vocational rehabilitation services...

- (1) the counselor will use information that is current as of the date of the determination of eligibility or of the development of the IPE.
  - to the extent necessary provide appropriate assessment, . . . to obtain additional documentation necessary to make the determination of eligibility."

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