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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 SOUTH CAROLINA  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003**

**December 2004                  A-77-05-00003**

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**MANAGEMENT  
ADVISORY REPORT**

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## **Mission**

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

## **Authority**

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

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

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

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

## **Vision**

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



## SOCIAL SECURITY

### **MEMORANDUM**

**Date:** December 2, 2004

**Refer To:**

**To:** Candace Skurnik  
Director  
Audit Management and Liaison Staff

**From:** Assistant Inspector General  
for Audit

**Subject:** Management Advisory Report: Single Audit of the State of South Carolina for the Fiscal Year Ended June 30, 2003 (A-77-05-00003)

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

The South Carolina State Auditor performed the audit. The Department of Health and Human Services (HHS) concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the South Carolina State Auditor and the reviews performed by HHS.

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

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

The single audit reported that:

1. SSA was overcharged \$237,151 in indirect costs. This occurred because the direct salary base used to calculate indirect costs was not accurate. The corrective action plan indicated that VR implemented an approved cost allocation plan in July 2003 that distributes indirect costs in an equitable manner (Attachment A, pages 1, 2, and 6).

2. Documentation was not maintained to support an expenditure charged to SSA. The corrective action plan indicated that procedures will be initiated to correct the deficiency (Attachment A, pages 3, 4, and 6).

We recommend that SSA:

1. Instruct the DDS to refund \$237,151 in unallowable indirect costs.
2. Work with VR to ensure indirect costs charged to its programs are distributed in an equitable manner.
3. Remind the DDS to maintain documentation to support its expenditures.

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.

- VR allowed expenditure reimbursement for employee travel not related to the program (see Attachment B, pages 1 and 2).
- The State's indirect cost rate was not applied in a manner that resulted in an equitable allocation of indirect administrative costs to its programs (see Attachment B, pages 3 and 4).

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

*Yale S. Stone for  
Steven L. Schaeffer*

Attachments

**STATE OF SOUTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2003**

Questioned  
Costs

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

**03H03-1. Support of Salaries and Wages (Continued)**

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

Subpart C, Section .300(b) of OMB Circular No. A-133 requires that the auditee "maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

None

See Agency's Corrective Action Plan at page 165.

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

**03H73-1. Indirect Costs Calculation**

This is a reportable condition.

Social Security - Disability Insurance  
CFDA No.: 96.001

Grant Nos.: 04-01-04SCDI00  
04-02-04SCDI00  
04-03-04SCDI00

**STATE OF SOUTH CAROLINA**  
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**For the Year Ended June 30, 2003**

**Questioned  
Costs**

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

**03H73-1. Indirect Costs Calculation (Continued)**

For the state fiscal year ended June 30, 2003, we found that the State Agency overcharged the Disability Insurance program \$237,151 for indirect costs. The overcharge occurred because the direct salary base for which indirect costs were applied included expenditures from two pay periods that applied to the subsequent fiscal year and expenditures from a third pay period was included twice.

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

We recommend that the State Agency establish control procedures (instruction, training, supervisory reviews, etc.) to ensure that only appropriate costs are included in the calculation of indirect costs.

\$237,151

See Agency's Corrective Action Plan at page 166.

**STATE OF SOUTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2003**

**Questioned  
Costs**

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

**03H73-2. Travel Costs (Continued)**

OMB Circular A-87 Attachment A Section C.1. states that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

We recommend that supervisors responsible for approving travel reimbursements be familiar with allowable costs for the program and perform careful reviews of travel vouchers and related supporting documentation.

\$10

See Agency's Corrective Action Plan at page 166.

**03H73-3. Case Files**

This is a reportable condition.

Social Security - Disability Insurance  
CFDA No.: 96.001  
Grant Nos.: 04-01-04SCDI00  
              04-02-04SCDI00  
              04-03-04SCDI00

The State Agency was unable to locate a case file that we requested. The case file was needed to determine the allowability of an expenditure from our selected sample of disability insurance expenditures. The projected likely questioned cost is \$129,728.

The Social Security Administration Program Operations Manual in section DI 39509.005 requires the State Agency to maintain records to support all obligations and to allow for audit verification. Further, this section requires a filing system be maintained that allows for easy identification and location of cases as well as orderly assignment and processing of work.

We recommend that the Agency review its case filing system and implement control procedures to allow for easy

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

**03H73-3. Case Files (Continued)**

identification and location of all case files at any  
Disability Determination Division location.

\$15

See Agency's Corrective Action Plan at page 166.

SOUTH CAROLINA VOCATIONAL



REHABILITATION DEPARTMENT

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

Larry C. Bryant, Commissioner

April 9, 2004

Mr. Tom Wagner, Jr., CPA  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, S.C. 29201

Dear Mr. Wagner:

We have reviewed the State Auditor's report of fiscal year 2003. We have attached our response to the audit and a listing of board members and their addresses.

Thank you for your assistance and if you have any questions or we can be of any further service please contact Preston Coleman at 803-896-6506 or by e-mail [pcoleman@scvrd.state.sc.us](mailto:pcoleman@scvrd.state.sc.us).

Sincerely,

Larry C. Bryant  
Commissioner

LB/re

PC: Preston Coleman  
Rick Elam  
Maisy Babbitt

SOUTH CAROLINA VOCATIONAL

REHABILITATION DEPARTMENT

SCVRD

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

Larry C. Bryant, Commissioner

**South Carolina Vocational Rehabilitation Department (H73)  
July 1, 2002 – June 30 2003 Audit Response**

**03H73-1. Indirect Costs Calculations**

We recommend that the State Agency establish control procedures (instructions, training, supervisory reviews, etc.) to ensure that only appropriate costs are included in the calculation of indirect costs.

**Response:** We concur with this finding. Effective July 1, 2003 the Agency implemented an approved cost allocation plan that distributes indirect cost in an equitable manner that does not utilize an indirect cost rate; therefore this will not happen again.

**03H73-2. Travel Costs**

We recommend that supervisors responsible for approving travel reimbursements be familiar with allowable costs for the program and perform careful reviews of travel vouchers and related supporting documentation

**Response:** We concur with this finding. This was an oversight by the supervisor on this one travel voucher. Instructions have been forwarded to watch for this in the future.

**03H73-3. Case Files**

We recommend that the Agency review its case filing system and implement control procedures to allow for easy identification and location of all case files at any Disability Determination Division location.

**Response:** We concur and will initiate procedures to correct deficiencies.

**03H73-4. Maintenance of Effort**

We continue to recommend that any future exceptional or uncontrollable circumstance preventing the State Agency from making its required expenditures from non-Federal sources, immediate notification be made to the U.S. Department of Education. ... We also recommend the State Agency include the non-Federal expenditures from the South Carolina Commission for the Blind in its future calculations of MOE.

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

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

**03H73-1. Indirect Costs Calculation (Continued)**

For the state fiscal year ended June 30, 2003, we found that the State Agency overcharged the Disability Insurance program \$237,151 for indirect costs. The overcharge occurred because the direct salary base for which indirect costs were applied included expenditures from two pay periods that applied to the subsequent fiscal year and expenditures from a third pay period was included twice.

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

We recommend that the State Agency establish control procedures (instruction, training, supervisory reviews, etc.) to ensure that only appropriate costs are included in the calculation of indirect costs.

\$237,151

See Agency's Corrective Action Plan at page 166.

**03H73-2. Travel Costs**

This is a reportable condition.

Rehabilitation Services - Vocational Rehabilitation Grants to States  
CFDA No.: 84.126  
Grant Nos.: H126A020060, H126A030060

Our sample of program expenditures included an expenditure reimbursement for employee travel not related to the program. The supporting documentation showed that the purpose of the trip was for an employee to attend a Christmas luncheon committee meeting. The projected likely questioned cost for this finding is \$62,687.

**STATE OF SOUTH CAROLINA**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

Questioned  
Costs

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

**03H73-2. Travel Costs (Continued)**

OMB Circular A-87 Attachment A Section C.1. states that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

We recommend that supervisors responsible for approving travel reimbursements be familiar with allowable costs for the program and perform careful reviews of travel vouchers and related supporting documentation.

\$10

See Agency's Corrective Action Plan at page 166.

**STATE OF SOUTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2003**

**Questioned  
Costs**

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

**03H73-4. Maintenance of Effort (Continued)**

We also recommend the State Agency include the non-federal expenditures from the South Carolina Commission for the Blind in its future calculations of MOE.

None

See Agency's Corrective Action Plan at page 166.

**03H73-5. Indirect Cost Application**

This is a reportable condition.

Rehabilitation Services - Vocational Rehabilitation Grants to States  
CFDA No.: 84.126  
Grant Nos.: H126A020060  
H126A030060

OMB Circular A-87 Attachment A Section F.1. states that indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. This Section further states that indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The State Agency's indirect cost rate is not applied in a manner that results in an equitable allocation of indirect administrative costs to the Basic Support program. In fiscal year 2001, the State Agency calculated two indirect cost rates - one rate for all agency administrative costs (including Statewide costs) for non-Basic Support programs and one rate for only the Statewide costs related to the Basic Support program. Because this approach excludes indirect charges for administrative costs benefiting the Basic Support program, the State Agency directly charges

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

all administrative costs to the Basic Support program in the year of recovery (fiscal year 2003) and then deducts from that amount the indirect cost recoveries charged to non-Basic Support programs. Since administrative costs benefit more than one cost objective, the direct charge of those costs to the Basic Support program is not in compliance with OMB Circular A-87.

We recommend that administration costs be applied to all benefiting programs using an equitable allocation method, such as through an approved indirect cost rate or cost allocation plan.

None

See Agency's Corrective Action Plan at page 166.

## **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Executive Operations (OEO). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Office of the Chief Counsel to the Inspector General**

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

### **Office of Executive Operations**

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.