
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF WEST VIRGINIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**

March 2004 A-77-04-00012

**MANAGEMENT
ADVISORY REPORT**



Mission

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

Authority

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

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

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

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

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: March 26, 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 West Virginia for the Fiscal Year Ended June 30, 2001 (A-77-04-00012)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of West Virginia for the Fiscal Year (FY) ended June 30, 2001. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Ernst & Young LLP performed the audit. The Department of Health and Human Services (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst & Young LLP 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 West Virginia 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 West Virginia Division of Rehabilitation Services (DRS), Department of Education, is the West Virginia DDS' parent agency.

The single audit reported:

1. DRS did not adequately maintain records to support that the approved indirect cost rate was applied to the proper base amount (Attachment A, pages 1 and 6).
2. DRS used an incorrect indirect cost rate to charge indirect costs to the disability program (Attachment A, pages 2 and 6).
3. Funding techniques used for determining cash draws were not consistent with actual cash flow activity resulting in an inaccurate calculation of interest liability (Attachment A, pages 3 through 7).

These findings were provided to you in a previous report and corrective actions were recommended, as appropriate.¹ Accordingly, we are not making any additional recommendations.

The single audit also disclosed that because of the lack of segregation of duties in the Employee Payroll Information Control system, necessary controls were not maintained. (Attachment B, page 1). Although this finding was not specifically identified to SSA, it may impact DDS operations. I am bringing this matter to your attention, as it represents a potentially serious service delivery and financial control problem for the Agency.

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.



Steven L. Schaeffer
Steven L. Schaeffer

Attachments

¹ Management Advisory Report: Single Audit of the State of West Virginia for the Fiscal Year Ended June 30, 2002 (A-77-04-00011), March 2004.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2001-52 INDIRECT COSTS (Prior Year Finding 2000-22)

Federal program information:	Federal Agency and Program Name	CFDA#
	Social Security Administration	96.001/96.006
	Disability Insurance	

Criteria: The West Virginia Division of Rehabilitation Services (the Division) is required to maintain records that demonstrate that indirect cost rates were applied in accordance with approved rate agreements and that associated billings were the result of applying the approved rate to the proper base amount.

Condition: The Division is not identifying indirect costs on an individual or aggregate basis to validate the indirect cost rate being used.

Questioned Costs: \$2,701,267

Context: Rather than identifying indirect costs on an individual or aggregate basis, the questioned costs were computed by multiplying direct expenditures of \$16,674,487 by the indirect cost rate of 16.2%.

Effect: The auditor is unable to determine whether the agency is in compliance with federal requirements concerning indirect costs.

Cause: Indirect costs were not adequately coded.

Recommendation: The Division should utilize the statewide universally accepted WVFIMS OBJECT Code 125 for identifying indirect costs charged directly to grant awards.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2001-53 INDIRECT COSTS

Federal program information:	Federal Agency and Program Name	CFDA#
	Social Security Administration	96.001/96.006
	Disability Insurance	

- Criteria:** The West Virginia Division of Rehabilitation Services (the Division) is required to maintain records that demonstrate that indirect cost rates were applied in accordance with approved rate agreements and that associated billings were the result of applying the approved rate to the proper base amount.
- Condition:** The Division used the wrong indirect cost rate to charge indirect costs to the federal program.
- Questioned Costs:** \$193,331
- Context:** The total amount overcharged for indirect costs was \$193,331. Total federal expenditures for the Disability Insurance/SSI Cluster were \$17,087,781 for the year ended June 30, 2001.
- Effect:** The amount charged to the federal grantor for indirect costs exceeded the allowable amount as identified in the indirect cost rate agreement.
- Cause:** The indirect cost rate for the year ended June 30, 2000 was used to charge indirect costs for the year ended June 30, 2001.
- Recommendation:** The Division should ensure that current and accurate indirect rates are used to charge indirect costs.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2001-54 NONCOMPLIANCE WITH AUTHORIZED FUNDING TECHNIQUES

Federal program information:	Federal Agency and Program Name	CFDA#
	U.S. Department of Agriculture	
	National School Breakfast Program	10.553
	National School Lunch Program	10.555
	Child and Adult Care Food Program	10.558
	U.S. Department of Education	
	Special Education - State Grants	84.027
	Vocational Education - Basic Grants to States	84.048
	Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126
	U.S. Department of the Interior	
	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250
	Abandoned Mine Land Reclamation Program	15.252
	U.S. Department of Housing and Urban Development	
	Community Development Block Grant Program	14.228
	U.S. Department of Labor	
	Unemployment Insurance - State Administration	17.225
	Job Training Partnership Act	17.250
	U.S. Department of Health and Human Services	
	Temporary Assistance for Needy Families	93.558
	Child Support Enforcement	93.563
	Low-Income Home Energy Assistance	93.568
	Foster Care Title IV-E	93.658
	Block Grants for Prevention and Treatment of Substance Abuse	93.959
	Social Security Administration	
	Social Security – Disability Insurance	96.001

Criteria: Section 6.1.1 of the amended Treasury State Agreement (TSA) states in part: "*The State shall request funds in accordance with the appropriate cut-off times...to ensure that the funds will be received and credited to a State account by the times specified in the funding techniques.*" All but one of the above programs or component cash flows are required by 6.3.s of the TSA to use the pre-issuance funding technique. This technique requires that the State request funds such that they are deposited in a State account not more than two days before the day the State makes a disbursement. The

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2001-54 NONCOMPLIANCE WITH AUTHORIZED FUNDING TECHNIQUES (Continued)

remaining program component cash flow has been assigned the in-advance-of-issuance funding technique. This technique requires that the State request funds such that they are deposited in the State's accounts not more than one day before the transaction is completed in the Statewide accounting system. This is generally three to six days prior to the day the State makes a disbursement. The following explains the instances of possible noncompliance noted:

- (a) Funds not disbursed in a timely manner - More than two days elapsed between the day of receipt of federal funds and the day those funds were disbursed. In the cases where the program is assigned the in-advance-of-issuance funding technique, more than six days elapsed between the day of receipt and the day of disbursement.
- (b) Reimbursement funding used - State funds were paid out of (debited to) the State's account before the receipt of the related federal funds. Per 31 CFR 205 Subpart A, §205.6(e): "*After June 30, 1994 reimbursable funding is prohibited, except where mandated by Federal law.*"

Condition: Based on information provided to the Treasurer's Office by State agencies for the calculation of State interest liabilities, the above programs appear to have repeatedly failed to request funds in accordance with their authorized funding techniques.

Questioned Costs: Unknown

Context: Total federal expenditures for these programs can be located in the Schedule of Expenditures of Federal Awards.

Effect: If a State materially fails to comply with 31 CFR 205 Subpart A, *Rules and Procedures for Fund Transfers*, the Financial Management Service of the United States Department of the Treasury (the FMS) may take one or more of the following actions, as appropriate:

- (a) Request a federal agency or the General Accounting Office to conduct an audit of the State to determine interest owed to the federal government and implement procedures to recover such interest; or
- (b) Deny the reimbursement of all or a part of the State's direct cost claim; or
- (c) Take any other remedies legally available.

Additionally, where programs are using the reimbursement funding technique, the State is losing the opportunity to earn interest. Since the State is advancing its own funds to cover expenditures for program purposes, such funds are not available to be invested.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2001-54 NONCOMPLIANCE WITH AUTHORIZED FUNDING TECHNIQUES (Continued)

Cause:

The specific causes for the possible noncompliance are not known. It is possible that information reported to the Treasurer's Office by the agencies indicates that there are instances of noncompliance occurring when, in fact, none exist. It is also possible that the agencies have selected or been assigned a funding technique that does not reflect the actual activity of the program.

Recommendation:

1. Cash Management staff should continue to work with agencies to determine whether the funding techniques assigned to covered programs are appropriate. Amendments to the TSA should be made as appropriate to reflect changes in the funding technique. In cases where the funds are not disbursed in a timely manner, the Cash Management staff may be able to use the actual cash flow activity of the program or program component cash flow as a basis for defining and negotiating an acceptable funding technique. In cases where the reimbursement funding technique is used, Cash Management staff should work with the agency to eliminate the use of this technique.
2. Where agencies have selected or been assigned the appropriate funding techniques, the Treasurer's Office staff should continue working with State agencies to assist them in complying with the provisions of the amended TSA and 31 CFR Part 205.
3. In cases where a State agency indicates that it has received authorization from a grantor agency to use a funding technique that is contrary to the authorized funding technique per the amended TSA or is contrary to the provisions of the 31 CFR Part 205, Treasurer's Office staff should obtain copies of the authorization and work with the FMS to determine whether the technique is allowable and whether the TSA should be amended to authorize the State agency to use it.

**STATE OF WEST VIRGINIA
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

2001-52 INDIRECT COSTS

**Division of Rehabilitation Services
CFDA Number 96.001 and 96.006**

DRS will begin identifying separate indirect cost pools and will begin using object code 125 to charge the costs to the proper grants. We are in the process of hiring an accountant, who will be responsible for the indirect costs. Estimated completion date is April 1, 2002.

2001-53 INDIRECT COSTS

**Division of Rehabilitation Services
CFDA Number 96.001 and 96.006**

DRS has added an element to the checklist utilized in the preparation of the Disability Determination Section (DDS) monthly report, which states that the indirect cost rate used in the report is to be compared with the current agreement to ensure that both rates agree. This is effective for all DDS reports filed after December 30, 2001.

2001-54 NON-COMPLIANCE WITH AUTHORIZED FUNDING TECHNIQUES

**Office of the State Treasurer
CFDA Number 10.553, 10.555, 10.558, 84.027, 84.048, 84.126,
15.250, 15.252, 14.228, 17.225, 17.250, 96.001, 93.558, 93.563,
93.568, 93.658 and 93.959**

Treasurer's Office staff will continue to work with agencies to determine whether the funding techniques assigned to covered programs are appropriate. Amendments to the Treasury State Agreement (TSA) should be made as necessary to reflect changes in

**STATE OF WEST VIRGINIA
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

2001-54 NON-COMPLIANCE WITH AUTHORIZED FUNDING TECHNIQUES
(Continued)

the funding technique. In cases where the funds are not disbursed in a timely manner, the agencies may be able to use the actual cash flow activity of the program or program component cash flow as basis for defining and negotiating an acceptable funding technique. In cases where the reimbursement funding technique is used, agencies should work to eliminate the use of this technique. Where agencies have selected or been assigned the appropriate funding techniques, they should continue to work on complying with the provisions of the amended TSA and 31 CFR Part 205. In cases where a State agency indicates that they have received authorization from a grantor agency to use a funding technique that is contrary to the authorized funding technique per the amended TSA or is contrary to the provisions of the 31 CFR Part 205, Treasurer's Office staff will obtain copies of the authorization and work with the Financial Management Service of the United States Department of the Treasury to determine whether the technique is allowable and whether the TSA should be amended to authorize the State agency to use it.

2001-55 VERIFICATION OF FUNDING TECHNIQUES

**Office of the State Treasurer
CFDA Number 20.205, 23.003, 15.250, 15.252, 17.225, 10.561,
93.558, 93.563, 93.568, 93.596, 93.658, 93.667 and 93.778**

The Treasurer's Office Cash Management staff has contacted all agencies regarding the reporting of data to the Treasurer's Office so that the interest, neutral funding techniques can be monitored.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2001-1 IT PROCESS CONTROLS REVIEW

Federal program information:	Federal Agency and Program Name	CFDA#
	Various	Various

- Criteria:** The management of the State is responsible for establishing and maintaining adequate controls over changes to its information systems.
- Condition:** The State processes payroll for all of the State agencies on the Employee Payroll Information Control System (EPICS) payroll system administered by the Office of the State Auditor. Currently, most changes are being implemented directly into production by the programmer rather than being developed and tested in a segregated environment and placed into production by an individual independent from the programmer.
- Questioned Costs:** N/A
- Context:** EPICS change management controls at the Office of the State Auditor can potentially affect the payroll processing for all State of West Virginia agencies.
- Effect:** By implementing changes directly into production, the State increases the risk that the change could negatively impact daily routine processing. Additionally, when programmers have direct access to production, the controls in place to ensure that all changes are properly authorized and approved are compromised because a programmer has the ability to implement changes that may go undetected. Without effective change controls, management must revert to mitigating manual/user controls to be assured that application program and data integrity are maintained. The current environment provides for an increased risk of potential errors or irregularities such as unauthorized payments, fictitious employees, or improper changes to employee pay rates.
- Cause:** Management attributes the lack of segregation of duties regarding the EPICS change management process to the limited staffing available to support the application.
- Recommendation:** Implementing policies and procedures that require all changes to be developed and tested in an environment independent of production should decrease the risk that application changes will disrupt daily processing. Programmers' direct access to the production environment should be restricted to provide additional assurance that only authorized changes are migrated into production. In addition, the State should continue its efforts in training the current development staff regarding application logic so that a sufficient number of individuals have knowledge to support these applications.

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.