
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**DISCLOSURE STATEMENT FOR
MAXIMUS' HUMAN SERVICES
OPERATIONS SEGMENT
EFFECTIVE OCTOBER 1, 2002**

February 2006

A-15-06-26026

AUDIT 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: February 17, 2006

Refer To:

To: Dale Sopper
Deputy Commissioner
for Finance, Assessment and Management

From: Inspector General

Subject: Disclosure Statement for MAXIMUS' Human Services Operations Segment Effective October 1, 2002 (A-15-06-26026)

OBJECTIVE

The objective of our review was to ensure the adequacy of the disclosure statement submitted by MAXIMUS for its Human Services Operations segment, effective October 1, 2002. Specifically, we determined whether the disclosure statement:

- was current, accurate, complete, and;
- adequately described the contractor's cost accounting practices.

In addition, we determined if the disclosed practices complied with Federal Cost Accounting Standards.

BACKGROUND

Certain contractors and subcontractors are required by Federal regulations to comply with Cost Accounting Standards (CAS), once they are awarded a CAS covered contract that exceeds \$50 million.¹ These standards provide instructions for contractors and subcontractors on the appropriate methodology to use when accounting for costs incurred. The Code of Federal Regulations (C.F.R.) states that, "The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance."² Since the Social Security Administration (SSA) has the largest dollar amount of cost-type contracts, including options, with MAXIMUS' Human Services Operations segment, SSA is the cognizant agency for that segment.

¹ 48 C.F.R. § 9903.201-2.

² 48 C.F.R. § 30.202-6(c).

MAXIMUS submitted to SSA a disclosure statement, with a cover letter dated March 17, 2005, for its Human Services Operations segment. This disclosure statement had an effective date backdated to October 1, 2003. It reflected changes in the disclosure statement requirements and changes to the corporate structure at MAXIMUS. MAXIMUS' prior disclosure statement was dated December 7, 1994.

During the course of our review, minor changes, such as the effective date, were made to the Human Services Operations segment disclosure statement submitted March 17, 2005. MAXIMUS provided an updated disclosure statement on September 28, 2005, which will also be provided to SSA. The effective date of this disclosure statement was changed to October 1, 2002.

RESULTS OF REVIEW

Based on our review, we determined the revised disclosure statement, dated September 28, 2005, was current, accurate, and complete and adequately described the contractor's cost accounting practices. In addition, we determined the disclosed practices complied with Federal Cost Accounting Standards.

However, our review of the disclosure statement submitted March 17, 2005, identified the following conditions:

- MAXIMUS did not submit the disclosure statement in a timely manner;
- MAXIMUS failed to discuss changes in accounting practices in the disclosure statement; and
- MAXIMUS failed to submit a cost impact statement for organizational and accounting changes.

MAXIMUS submitted the disclosure statement, dated March 17, 2005, approximately 3 years late. There were changes in the MAXIMUS organization including the addition of new segments in 2002, and further changes in 2003 where segments were split. Additionally, divisions were added and taken away from various segments. These organizational changes have a potential for impacting the cost pools and bases. The disclosure statement omitted information concerning MAXIMUS' organizational changes, which created new segments and altered the cost pools and cost bases used in determining indirect costs charged to Federal contracts. MAXIMUS is required to submit a description of changes in accounting practices prior to implementation of those changes, in accordance with 48 C.F.R. § 30.603-2(c).

MAXIMUS also failed to submit cost impact statements or discuss changes in accounting practices in the March 17, 2005 disclosure statement. MAXIMUS is required to submit a cost impact statement as stated in 48 C.F.R. § 30.603-2(c). As prescribed by 48 C.F.R. § 30.202-7, the auditor shall conduct a review of the Disclosure Statement to ascertain whether it is current, accurate, and complete. According to 48 C.F.R. § 52.230-3(a)(3)(i), Disclosure and Consistency of Cost Accounting Practices, the contractor should follow "...consistently the Contractor's cost accounting practices." For

the reasons presented above, we determined the updated disclosure statement dated March 17, 2005 to be inadequate. We brought this to the attention of MAXIMUS personnel and they submitted a revised disclosure statement, on September 28, 2005. In addition, MAXIMUS also submitted a cost impact statement on October 19, 2005.

CONCLUSION AND RECOMMENDATIONS

Our review found the revised disclosure statement submitted September 28, 2005, adequately described the contractor's cost accounting practices. The practices, as described in the revised disclosure statement, comply with applicable CAS.

MAXIMUS is required to submit revised disclosure statements whenever there are changes in the disclosure statement requirements and changes to the corporate structure. For future submissions, we recommend SSA:

1. Require MAXIMUS to submit timely disclosure statements, which provide information on future changes brought about by adding or changing segments and divisions and their impact on cost pools and cost bases.
2. Require MAXIMUS to submit cost impact statements for any future changes, which should contain an assessment of the impact on costs to the Federal Government, i.e., whether these changes increase the cost to Federal contracts and, if so, by how much.

AGENCY COMMENTS

SSA agreed with our recommendations. See Appendix B for the full text of the Agency's comments.



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Scope and Methodology

APPENDIX B – Agency Comments

APPENDIX C – OIG Contacts and Staff Acknowledgments

Scope and Methodology

Our review was limited to the disclosure statement for MAXIMUS' Human Services Operations segment, effective October 1, 2002. We obtained an understanding of the Cost Accounting Standards as they relate to the adequacy and compliance of the disclosure statement. Our review identified the accounting practices with the greatest impact on Government contracts and tested the interrelationships between data within the disclosure statement. We reviewed the disclosure statement to determine whether it adequately described MAXIMUS' cost accounting practices and whether the disclosed practices complied with the appropriate rules, regulations and standards.

The disclosure statement for the Human Services Operations segment makes reference to a separate disclosure statement for the Home Office. We reviewed the disclosure statement for the Home Office effective October 1, 2003, to the extent that it applied directly to the Human Services Operations segment disclosure statement.

We reviewed the statement for adequacy and compliance to verify that the contractor's actual accounting practices were the same as those in the disclosure statement.

We conducted our review in accordance with generally accepted government auditing standards. Our fieldwork was performed in Baltimore, Maryland and Reston, Virginia between June and September 2005.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

0602-0003889

Date: February 6, 2006 **Refer To:** S1J-3

To: Patrick P. O'Carroll, Jr.
Inspector General

From: Dale W. Sopper /s/
Deputy Commissioner
For Finance, Assessment and Management

Subject: Office of the Inspector General Draft Report, "Disclosure Statement for MAXIMUS' Human Services Operations Segment Effective October 1, 2002 (A-15-06-26026)—INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments on the draft report content and recommendations are attached.

Let me know if we can be of further assistance. Staff inquiries may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff on extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT,
“DISCLOSURE STATEMENT FOR MAXIMUS’ HUMAN SERVICES OPERATION
SEGMENT EFFECTIVE OCTOBER 1, 2002” (A-15-06-26026)

Thank you for the opportunity to provide comments on this OIG draft report. The Social Security Administration (SSA) appreciates the work performed by OIG with respect to the audit of MAXIMUS’ most recent disclosure statement. This OIG audit was required within the context of the SSA Office of Acquisition and Grant’s (OAG) responsibilities as cognizant contract administration office. These responsibilities include the administration of Cost Accounting Standards (CAS) and the ongoing review and approval of MAXIMUS’ CAS Disclosure Statement.

We have the following comments on the OIG draft report.

Recommendation 1

Require MAXIMUS to submit timely disclosure statements, which provide information on future changes brought about by adding or changing segments and divisions and their impact on cost pools and bases.

Comment

We agree. On January 27, 2006, we have sent the attached letter to the Chief Compliance and Contracting Officer of MAXIMUS, with a reminder about the requirement to submit timely disclosure statements. We emphasize in that letter that the following information must be submitted with the disclosure statement: information regarding future changes that result from adding or changing segments and divisions, and their subsequent impact on cost pools and bases. We have requested that MAXIMUS reply to the letter, acknowledge the requirement, and indicate their agreement to comply.

Recommendation 2

Require MAXIMUS to submit cost impact statements for any future changes, which should contain an assessment of the impact on costs to the Federal Government, i.e., whether these changes increase the cost to Federal contracts and, if so, by how much.

Comment

We agree. We have included this requirement in the aforementioned letter. We would like to note that MAXIMUS recently indicated to OAG that the company is in the process of undergoing another accounting system change that will likely require a new disclosure statement. We followed up with MAXIMUS to determine the status of the new disclosure statement in the January 27, 2006 letter.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Victoria Vetter, Director, Financial Audit Division, (410) 966-9081

Kristen Schnatterly, Audit Manager, (410) 965-0433

Acknowledgments

In addition to those named above:

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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 Resource Management (ORM). 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 Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM 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.