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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**Indirect Costs Claimed by the  
West Virginia  
Disability Determination Services**

**December 2003    A-07-03-23072**

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***AUDIT REPORT***

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# SOCIAL SECURITY

## MEMORANDUM

Date: December 4, 2003

Refer To:

To: Larry G. Massanari  
Regional Commissioner  
Philadelphia

From: Assistant Inspector General  
for Audit

Subject: Indirect Costs Claimed by the West Virginia Disability Determination Services  
(A-07-03-23072)

## OBJECTIVE

The objective of our review was to determine if indirect costs claimed by the West Virginia Disability Determination Services (WV-DDS) during Federal Fiscal Years (FY) 2000 through 2002 were allowable.

## BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance (DI) and Supplemental Security Income (SSI) programs are performed by Disability Determination Services (DDS) in each State or other responsible jurisdictions according to Federal regulations.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. SSA reimburses State DDSs for 100 percent of allowable expenditures incurred in making disability determinations under the DI and SSI programs. The expenditures include both direct and indirect costs.<sup>2</sup>

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<sup>1</sup> 42 U.S.C §421; 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

<sup>2</sup> Direct costs can be identified specifically with a particular cost objective (OMB Circular A-87, Attachment A, § E.1). Examples of DDS direct costs include expenditures for personnel, medical, and travel. Indirect costs arise from activities that benefit multiple State and Federal agencies but are not readily assignable to any one agency (OMB Circular A-87, Attachment A, § F.1). Examples of DDS indirect costs include the cost of services such as accounting, auditing, budgeting, and payroll.

WV-DDS computes indirect costs by applying a federally approved rate to a cost base.<sup>3</sup> This methodology was approved by the United States Department of Education which is the Federal agency designated the responsibility of approving indirect costs for the West Virginia Division of Rehabilitation Services (WV-DRS). During FYs 2000 through 2002, WV-DDS claimed about \$4.5 million for indirect costs.

## Single Audit Findings

The SSA requested this audit because of the indirect cost audit findings reported in the West Virginia single audits. WV-DDS is subject to periodic annual audits (single audits), under the Single Audit Act Amendments of 1996<sup>4</sup>, conducted by an independent auditor.<sup>5</sup> The single audits reported that the independent auditor could not determine whether indirect costs claimed by the WV-DDS in State Fiscal Years (SFY) 2000 through 2002 were allowable because the state's accounting system did not use an accounting code to identify indirect cost items. As a result, the independent auditor could not determine if indirect costs were also charged as direct costs. In addition, the single audits reported that the wrong rate was used to calculate indirect costs. We reviewed the indirect cost findings reported in the SFY 2000 through 2002 single audits. Appendix B presents our comments on the single audit findings.

## SCOPE AND METHODOLOGY

To complete our objective, we:

- Reviewed Office of Management and Budget Circular (OMB) A-87, *Cost Principles for State, Local and Indian Tribal Governments*, SSA's Program Operations Manual System (POMS) DI 39500 *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by WV-DDS.
- Reviewed the indirect cost findings reported in the SFYs 2000 through 2002 single audits for the State of West Virginia (see Appendix B).
- Interviewed staff at WV-DDS, WV-DRS, and SSA Region III Center for Disability.
- Reviewed State policies and procedures related to personnel and nonpersonnel costs.

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<sup>3</sup> The United States Department of Education approved WV-DRS to use a cost base that included the total of personnel and nonpersonnel costs, less medical and capitalized equipment costs. The capitalized equipment costs are classified as nonpersonnel costs.

<sup>4</sup> Public Law No. 104-156.

<sup>5</sup> The single audit for FY 2000 was conducted by Deloitte and Touche. The single audit for FYs 2001 and 2002 were conducted by Ernst and Young.

- Reviewed WV-DDS's computation of indirect costs for FYs 2000 through FY 2002. Since the methodology for computing indirect costs and the indirect cost base remained relatively constant during SFYs 2000 through 2002, we limited our detailed audit testing to the direct costs included in the FY 2002 indirect cost base.
- Obtained electronic data for personnel and nonpersonnel costs claimed by the WV-DDS on the Report of Obligations for SSA Disability Programs (Form SSA-4513) during FY 2002.
- Conducted detailed audit testing to determine if the direct costs reported in the FY 2002 indirect cost base benefited the WV-DDS and were in accordance with OMB Circular A-87 and POMS. We expanded our original audit period to include the indirect costs claimed by the WV-DDS during the first three quarters of FY 2003. Our audit period was expanded because the condition that resulted in the unallowable costs we identified during our review of FY 2002 direct costs also impacted FY 2003 costs. The condition that resulted in unallowable FY 2002 and 2003 costs did not impact the costs claimed by the WV-DDS during FYs 2000 and 2001.

We concluded that the electronic data used in our audit was sufficiently reliable to achieve our audit objective. We assessed the reliability of the electronic data by reconciling it with the costs claimed on the Form SSA-4513. We also conducted detailed audit testing on select data elements in the electronic data files.

We performed work at WV-DRS and WV-DDS in Charleston, West Virginia. We conducted fieldwork from March 2003 through July 2003. The audit was conducted in accordance with generally accepted government auditing standards.

## **RESULTS OF REVIEW**

We determined that the WV-DDS claimed unallowable indirect costs of \$19,404 for FYs 2001 through 2003. The unallowable indirect costs occurred because the indirect cost base used to calculate (i) FY 2001 indirect costs was not adjusted to account for a reduction in nonpersonnel costs claimed, (ii) FY 2002 indirect costs included unallowable personnel and nonpersonnel costs of \$50,389, and (iii) FY 2003 indirect costs included unallowable personnel costs of \$32,022. In total, the WV-DDS overstated its direct and indirect obligations reported to SSA by \$101,815 for FYs 2001 through 2003.

## **UNALLOWABLE INDIRECT AND DIRECT COSTS**

The indirect cost base used to calculate the WV-DDS's FY 2001 indirect costs was overstated by \$45,177 because it was not adjusted to account for a reduction in nonpersonnel costs claimed. This resulted in the WV-DDS claiming unallowable indirect costs of \$6,596. Furthermore, the base used to calculate the WV-DDS's FY

2002 indirect costs included unallowable personnel costs of \$42,093 and unallowable nonpersonnel costs of \$8,296 (total unallowable costs of \$50,389). The inclusion of the unallowable personnel and nonpersonnel costs in the base used to calculate indirect costs resulted in the FY 2002 indirect costs being overstated by \$8,132. In addition, the WV-DDS claimed unallowable FY 2003 indirect costs of \$4,676 because the base used to calculate indirect costs included unallowable personnel costs of \$32,022. The calculations of the unallowable FY 2001, 2002, and 2003 indirect costs are shown in the following table.

<b>INDIRECT COSTS CALCULATIONS</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
Indirect Costs Base Per WV-DRS	\$ 9,922,213	\$10,784,009	\$8,247,559
Less:			
Unallowable Personnel Costs Per Audit	0	42,093	32,022
Unallowable Nonpersonnel Costs Per Audit	0	8,296	0
Reduction In Nonpersonnel Costs Claimed	45,177	0	0
Adjusted Indirect Cost Base Per Audit	9,877,036	10,733,620	8,215,537
Indirect Cost Rate	14.6%	14.6%	14.6%
Allowable Indirect Costs	1,442,047	1,567,109	1,199,468
Less: Indirect Costs Claimed	1,448,643	1,575,241	1,204,144
Unallowable Indirect Costs	\$6,596	\$8,132	\$4,676

### **Indirect Costs Claimed Were Based on an Incorrect Indirect Cost Base**

The indirect cost base used to calculate the WV-DDS’s FY 2001 indirect costs was overstated because the WV-DDS reduced the nonpersonnel costs originally claimed on the FY 2001 SSA-4513 by \$45,177. These nonpersonnel costs were included in the indirect cost base originally used to calculate indirect costs. However, after reducing the nonpersonnel costs claimed, the WV-DDS did not recalculate the indirect costs charged to SSA using the new indirect cost base. This resulted in the WV-DDS claiming unallowable indirect costs of \$6,596.

### **The Indirect Cost Base Included Unallowable Personnel Costs**

In FYs 2002 and 2003, the WV-DDS claimed unallowable personnel costs of \$42,093 and \$32,022, respectively. The unallowable costs related to the salary of a WV-DRS employee (computer programmer). The employee worked on both DDS and DRS activities during portions of our audit period; however, the employee’s total salary was charged to the DDS and included in the base used to calculate indirect costs charged to SSA. Furthermore, the time the employee spent on the DDS versus DRS programs was not documented. According to OMB Circular A-87, salary and wages must be supported by (1) personnel activity reports for employees working on multiple programs or (2) semi-annual certifications for employees that worked solely on one program.<sup>6</sup>

WV-DRS officials stated that the computer programmer worked solely on the WV-DDS program prior to October 2001 and provided support and maintenance for the DDS’s

<sup>6</sup> OMB Circular A-87, Attachment B, § 11.h.

Hewlett Packard (HP) computer system. As such, the employee's salary was charged to the WV-DDS.<sup>7</sup> However, in October 2001 the WV-DDS converted to the I-Levy computer system. As the WV-DDS transitioned from the HP to the I-Levy computer system, the programmer's responsibilities shifted from working solely on DDS related activities to working solely on WV-DRS activities. After December 2002, the computer programmer spent no time on DDS activities.

Neither the WV-DRS nor the WV-DDS maintained personnel activity reports to support the percentage of time the programmer spent on each program, as required by OMB Circular A-87<sup>8</sup>. Therefore, we could not determine the portion of the employee's salary attributable to each program for the period of October 1, 2001 through June 30, 2003. As a result, we considered all costs claimed by the WV-DDS during the period of October 1, 2001 through June 30, 2003 for the WV-DRS employee as unallowable personnel costs. WV-DRS officials stated that the programmer transferred to the Charleston DDS July 1, 2003.

### **Unallowable Nonpersonnel Costs Were Included in the Indirect Cost Base**

During FY 2002, the WV-DDS claimed unallowable nonpersonnel costs of \$8,296.<sup>9</sup> This occurred because of an error on the spreadsheet used to accumulate costs that are subsequently reported to SSA on the Form SSA-4513. As such, the costs associated with 37 travel vouchers were recorded twice on the SSA-4513.<sup>10</sup> WV-DRS stated that it corrected the spreadsheet formula that resulted in this error.

## **CONCLUSIONS AND RECOMMENDATIONS**

During FYs 2001, 2002, and 2003, the WV-DDS overstated its obligations by \$101,815. The overstated obligations occurred because the DDS claimed unallowable personnel and nonpersonnel costs and included in the base used to calculate indirect costs, which resulted in indirect costs being overstated.

We recommend that SSA instruct the WV-DDS to:

1. Refund \$19,404 for indirect costs inappropriately charged to SSA from October 1, 2000 through June 30, 2003.

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<sup>7</sup> The WV-DDS did not maintain documentation required by OMB Circular A-87, Attachment B, § 11.h to support that the employee worked solely on the DDS program during FYs 2000 and 2001. However, we did not question the employee's salary for these FYs since other documentation was available to support that the employee worked on the DDS program.

<sup>8</sup> OMB Circular A-87, Attachment B, § 11.h.

<sup>9</sup> WV-DRS identified the duplicate travel costs when it generated the electronic data for our audit.

<sup>10</sup> We reviewed the FY 2002 electronic data files and concluded that the vouchers were only processed and paid once through the state's accounting system.

2. Refund \$74,115 for the unallowable personnel costs charged to SSA from October 1, 2001 through June 30, 2003.
3. Refund \$8,296 for the unallowable nonpersonnel costs charged to SSA during FY 2002.
4. Maintain semi-annual time certifications for employees working solely on the DDS program and personnel activity reports for employees working on multiple programs.

## **AGENCY COMMENTS**

In commenting on our draft report, SSA and WV-DRS agreed with our recommendations. See Appendix C for the full texts of SSA and WV-DRS comments.



Steven L. Schaeffer



# *Appendices*

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Appendix A – Sample Methodology

Appendix B – Single Audit Indirect Cost Findings

Appendix C – Agency Comments

Appendix D – OIG Contacts and Staff Acknowledgements

### **SAMPLE METHODOLOGY**

#### **Personnel Costs**

The West Virginia Disability Determination Services (WV-DDS) has about 170 employees. To ensure that 10 percent of this cost category was subject to review, we selected 3 pay periods in fiscal year (FY) 2002 and ensured all DDS personnel within the selected pay periods were directly assigned to the DDS.

WV-DDS utilizes about 15 contract physicians to assist in evaluating medical evidence used to make disability determinations. To ensure that 10 percent of this cost category was subject to review, we selected the 3 largest vouchers that included individual payments to multiple contract physicians. We reviewed all individual contract payments to ensure the physicians were paid based upon the DDS contract. We also verified the payments agreed with the physicians' claims for reimbursement.

The electronic file of personnel transactions provided by WV-Division of Rehabilitation Services (WV-DRS) included seven vouchers for a total of \$72,130 that were not identified as DDS salaries and wages or contract physician costs. We reviewed all vouchers in this category to ensure they were appropriate direct personnel costs and were adequately supported.

#### **Nonpersonnel Costs**

To maximize the amount of cost subject to review, we conducted a review of the 35 largest vouchers for nonpersonnel costs. Because applicant travel and electronic data processing maintenance was not represented, we also selected the two largest applicant travel vouchers and the largest electronic data processing maintenance vouchers for review. We reviewed the vouchers to ensure costs were (1) DDS related expenditures, (2) allowable, and (3) reported in the correct FY.

## **SINGLE AUDIT INDIRECT COSTS FINDINGS**

We reviewed the indirect cost findings reported in the single audits. The results of our review are presented in the following table.

<b>State Fiscal Years</b>	<b>Single Audit Indirect Cost Findings</b>	<b>Office of the Inspector General Response</b>
2000, 2001, and 2002	1. The independent auditor could not determine whether indirect costs charged to the Social Security Administration (SSA) Program were allowable because a code for identifying indirect cost items was not utilized in the state's accounting system. As a result, the independent auditor could not determine if indirect costs were also charged as direct costs.	Our review determined that the West Virginia Division of Rehabilitation Services' (WV-DRS) failure to use an accounting code in the state's accounting system to identify indirect cost items did not result in unallowable indirect cost being charged to SSA.
2001 and 2002	2. The WV-DRS used the wrong indirect cost rate to charge indirect costs to the SSA Program.	We determined that the correct approved indirect rate for Fiscal Year (FY) 2000 through 2002 was being used.  In May 2000, the United States Department of Education and WV-DRS renegotiated a lower indirect cost rate to be used beginning July 1, 2000. However, WV-DRS continued to use the prior negotiated rate. After the single audit reported this condition, WV-DRS adjusted the amount of FY 2000 and 2001 indirect costs claimed to reflect the renegotiated rate.

## Agency Comments



# SOCIAL SECURITY

## MEMORANDUM

Date: November 24, 2003 Refer To:

To: Steven L. Schaeffer  
Assistant Inspector General for Audit

From: Larry G. Massanari  
Regional Commissioner  
Philadelphia

Subject: Indirect Costs Claimed by the West Virginia Disability Determination Services  
(A-07-03-23072)

This is our response to the draft audit report, "Indirect Costs Claimed by the West Virginia Disability Determination Services" filed under (A-07-03-23072). The objective of the review was to determine if indirect costs claimed by the West Virginia Disability Determination Services (WV-DDS) during Federal Fiscal Years (FY) 2000 through 2002 were allowable.

The audit concludes that during FYs 2001 through 2003, the WV-DDS overstated its obligations by \$101,815. The overstated obligations occurred because the DDS claimed unallowable personnel and nonpersonnel costs and included them in the base formula used to calculate indirect costs, resulting in indirect costs being overstated. Recommendations were cited as follows:

1. Refund \$19,404 for indirect costs inappropriately charged to SSA from October 1, 2000 through June 30, 2003.
2. Refund \$74,115 for the unallowable personnel costs charged to SSA from October 1, 2001 through June 30, 2003.
3. Refund \$8,296 for the unallowable nonpersonnel costs charged to SSA during FY 2002.
4. Maintain semi-annual time certifications for employees working solely on the DDS program and personnel activity reports for employees working on multiple programs.

To provide you with a more detailed explanation for resolving these findings, attached is the Division of Rehabilitation Services (DRS) draft audit report. In its response, the Division requests that the DDS grant award for FY 2004 be reduced by \$101,815. We have informed the Division that this is unacceptable, and have advised them of the proper funding reimbursement procedure to follow. The Division will refund \$101,815 to the Federal Government.

Thank you for the opportunity to respond to this matter.

Should you have any questions, please contact Betty Martin in the Center for Disability Programs at 215-597-2047.

/s/

Larry G. Massanari

cc:

Theresa McMullen

Lenore Carlson

Jeff Hild

Candace Skurnik, Regional Audit



WEST VIRGINIA DEPARTMENT OF EDUCATION AND THE ARTS  
**DIVISION OF REHABILITATION SERVICES**

State Capitol • P. O. Box 50890 • Charleston, West Virginia 25305-0890  
Telephone: (304) 766-4600 • Fax: (304) 766-4671 • Toll-free: 1-800-642-8207  
Web Page: [www.wvdrs.org](http://www.wvdrs.org)

Janice A. Holland, Interim Director

November 12, 2003

Steven L. Schaeffer  
Assistant Inspector General for Audit  
Social Security Administration  
Baltimore, Maryland 21235-0001

Dear Mr. Schaeffer:

This letter is to provide responses to your audit, A-07-03-23072.

**Recommendation:** Refund \$19,404 for indirect costs inappropriately charged to SSA from October 1, 2000, through June 30, 2003.

**Response:** The Division will refund the \$19,404 of indirect costs inappropriately charged.

**Recommendation:** Refund \$74,115 for the unallowable personnel costs charged to SSA from October 1, 2001, through June 30, 2003

**Response:** The Division will refund the \$74,115 charged for unallowable personnel costs.

**Recommendation:** Refund \$8,296 for the unallowable nonpersonnel costs charged to SSA during FY 2002.

**Response:** The Division will refund the \$8,296 for unallowable personnel costs.

**Recommendation:** Maintain semi-annual time certifications for employees working solely on the DDS program and personnel activity reports for employees working on multiple programs.

**Response:** The Division will maintain semi-annual certifications for employees. The first certification will occur in December 2003. Each year after, certifications will occur in July and December.

Mr. Steven L. Schaeffer

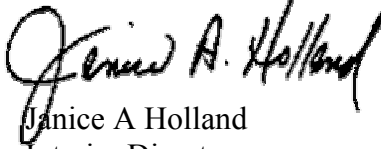
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November 12, 2003

I am requesting that our DDS grant award for fiscal year 2004 be reduced by \$101,815, the amount of funds that is to be refunded. This would be the quickest and easiest way for us to refund the money.

Thank you for the opportunity to respond to your recommendations. If you wish to discuss our responses, please contact Daniel Greene, Senior Manager, Fiscal Services at 304-766-4662.

Sincerely,

  
Janice A Holland  
Interim Director

Cc: Daniel Greene  
Jane Johnstone



## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Mark Bailey, Director, (816) 936-5591

Shannon Agee, Deputy Director, (816) 936-5590

### ***Acknowledgments***

In addition to those named above:

Kenneth Bennett, Information Technology Specialist

Douglas Kelly, Auditor

Cheryl Robinson, Writer/Editor

For additional copies of this report, please visit our web site at [www.ssa.gov/oig](http://www.ssa.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-1375. Refer to Common Identification Number A-07-03-23072.

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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**

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### **Counsel to the Inspector General**

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