SOCIAL SECURITY

MEMORANDUM

Date: February 12, 2003 Refer To:

To: Beatrice Disman
Regional Commissioner
for New York

From: Assistant Inspector General
for Audit

Subject: Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program (A-06-02-22072)

The attached final report presents the results of our audit. Our objectives were to determine for Fiscal Years 1998 through 2000 whether (1) costs claimed by the Puerto Rico Disability Determination Program (PR-DDP) on the State Agency Report of Obligations for Social Security Administration (SSA) Disability Insurance Program were allowable and properly allocated; (2) the aggregate of SSA funds requested and received agreed with total expenditures; and (3) internal controls for accounting and reporting administrative costs and requesting SSA funds were adequate. We also reviewed the status of audit findings reported for the PR-DDP by Deloitte & Touche LLP in its Single Audit Reports for Fiscal Years 1997 through 1999.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me at (410) 965-9700.

Steven L. Schaeffer

Attachment

cc:
Yolanda Zayas, MSW, Secretary, Department of the Family
Nilda Muñoz Acosta, Executive Director, Disability Determination Program
Candace Skurnik
Lenore Carlson
Anthony DiNoto

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

ADMINISTRATIVE COSTS CLAIMED BY THE COMMONWEALTH OF PUERTO RICO DISABILITY DETERMINATION PROGRAM

February 2003 A-06-02-22072

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.

Executive Summary

OBJECTIVES

Our objectives were to (1) determine whether costs claimed were allowable and properly allocated, (2) reconcile funds drawn down with claimed costs, and (3) evaluate internal controls over the accounting and reporting of administrative costs. We also determined whether the Puerto Rico Disability Determination Program (PR-DDP) took corrective action on findings reported in the Fiscal Year (FY) 1997 through 1999 Single Audit Reports.

BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance Program are performed by Disability Determination Services (DDS) in each State according to Federal regulations. In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase consultative medical examinations to supplement evidence obtained from the claimants' physicians or other treating sources. SSA pays the DDS for all necessary expenditures.

RESULTS OF REVIEW

Costs the PR-DDP claimed on the *State Agency Report of Obligations for Social Security Administration Disability Insurance Program* (Form SSA-4513) for FYs 1998 through 2000 were generally allowable and allocable. Additionally, the aggregate of SSA funds requested and received did not exceed total expenditures for FYs 1998 through 2000. However, the PR-DDP overstated obligations it reported to SSA by $89,084 in direct costs and $13,223 in indirect costs. The PR-DDP also overstated other unliquidated obligations, totaling $100,000 from October 1997 through September 2000. Further, PR-DDP could have avoided paying $482,539 in overtime costs had it complied with State policy. We noted certain internal control weaknesses involving the accounting for and reporting of administrative costs and noncompliance with several regulations and policies. We also identified single audit findings for which PR-DDP had not taken appropriate corrective action.

CONCLUSIONS AND RECOMMENDATIONS

Costs the PR-DDP claimed were generally allowable and allocable, and SSA funds requested and received did not exceed total expenditures for each FY. However, we found internal control deficiencies with accounting and reporting of administrative costs that resulted in program overcharges. We recommend that SSA recover unallowable cost disbursements and deobligate other unliquidated obligations. Additionally, we make a number of recommendations to improve internal controls.

AGENCY COMMENTS

SSA agreed with all of the conclusions and recommendations in the draft report except for recommendation number 2. See Appendix C for the full text of SSA's comments.

OIG RESPONSE

We consider SSA's response as adequate and, accordingly, deleted recommendation number 2 from the report.

Table of Contents

Acronyms

ASAP	Automated Standard Application for Payments
CE	Consultative Examination
CMIA	Cash Management Improvement Act
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
OMB	Office of Management and Budget
POMS	Program Operations Manual System
PPWY	Productivity Per Work-Year
PR-DDP	Puerto Rico Disability Determination Program
PR-DF	Puerto Rico Department of Family
SSA	Social Security Administration
Treasury	Department of the Treasury

Introduction

OBJECTIVES

Our objectives were to determine for Fiscal Years (FY) 1998 through 2000 whether

- costs claimed by the Puerto Rico Disability Determination Program (PR-DDP) on the *State Agency Report of Obligations for Social Security Administration Disability Insurance Program* (Form SSA-4513), were allowable and properly allocated;
- the aggregate of the Social Security Administration (SSA) funds requested and received agreed with total expenditures; and
- internal controls for accounting and reporting of administrative costs and requesting SSA funds were adequate.

We also reviewed the status of audit findings reported for the PR-DDP by Deloitte & Touche LLP in its Single Audit Reports for FYs 1997 through 1999. The New York Regional Commissioner requested this audit because of significant deficiencies reported by Deloitte & Touche LLP in the Single Audit Reports.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under title II of the Social Security Act. The program provides a benefit to wage earners and their families in the event the wage earner becomes disabled. SSA is primarily responsible for implementing the general policies governing the development of disability claims under the DI program. Disability determinations under the DI program are performed by each State according to Federal regulations.[1]

In carrying out its obligation, the applicable State agency is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, SSA authorizes the State agency to purchase medical examinations, x-rays and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources. SSA pays the State agency for all necessary program costs. Each year, SSA approves the budget for the State agency. Once approved, the State agency withdraws Federal funds from the Department of the Treasury's (Treasury)

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[1] "State" is used throughout our report to mean any of the 50 States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments. Supplemental Security Income is not available to residents of Puerto Rico. Accordingly, the PR-DDP only makes disability determinations for applicants eligible under title II of the Social Security Act, or the Disability Insurance program.

Automated Standard Application for Payments (ASAP) System to meet its immediate program cash needs. Requests for cash from Treasury to pay for program costs are to be made in accordance with Federal regulations[2] and intergovernmental agreements entered into by the Treasury and the States under the authority of the Cash Management Improvement Act (CMIA).[3] Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* establishes principles and standards for determining costs for Federal awards carried out through grants, cost-reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments. At the end of each quarter, the State agency submits a Form SSA-4513 to SSA to account for total disbursements and unliquidated obligations. The sum of total disbursements and unliquidated obligations is reflected as total obligations.

The Puerto Rico Department of Family (PR-DF) is PR-DDP's parent agency. Both PR-DF and PR-DDP maintain accounting records of PR-DDP costs. PR-DDP completes and submits the SSA-4513 to SSA. PR-DF prepares the requests to transfer cash from Treasury to the State bank. Indirect costs are determined based on rates negotiated and approved by the Department of Health and Human Services. As of December 30, 2001, the SSA obligational authority and the related total program obligations reported by PR-DDP on the SSA-4513s were as follows.

Reporting Item	FY 1998	FY 1999	FY 2000
Obligational Authority	$12,438,289	$13,130,798	$13,680,250
Disbursements			
Personnel	5,897,221	6,061,793	6,457,214
Medical	3,776,431	4,030,399	4,090,922
Indirect Costs	1,310,286	1,340,602	1,531,467
Other	1,454,351	1,523,188	1,462,800
Total Disbursements	12,438,289	12,955,982	13,542,403
Unliquidated Obligations			
Other	0	0	100,000
Indirect Costs	0	163,131	2,820
Total Unliquidated Obligations		163,131	102,820
Total Obligations	12,438,289	13,119,113	13,645,223
Obligational Authorization Balance	$0	$11,685	$35,027

[2] 31 C.F.R. §§ 205.1-205.35 (2001).

[3] Cash Management Improvement Act of 1990, Pub. L. No. 101-453 (amending 31 U.S.C. §§ 6501, 6503).

SCOPE AND METHODOLOGY

We obtained sufficient evidence to determine whether PR-DDP's financial transactions were allowable under OMB Circular A-87 and appropriate, as defined by SSA's Program Operations Manual System (POMS). Furthermore, we

- reviewed applicable Federal regulations and pertinent parts of POMS DI 39500, *DDS Fiscal and Administrative Management*;
- identified and tested internal controls regarding accounting and financial reporting and cash management activities;
- documented PR-DDP's general policies and procedures;
- interviewed PR-DDP personnel, Puerto Rico State Auditors, PR-DF personnel, and SSA staff of the New York Regional Office;
- reviewed the status of audit findings reported in the Single Audit Reports for FYs 1997 through 1999 issued by Deloitte & Touche LLP (Appendix A);
- requested supporting documentation, as appropriate for the findings reported in the Single Audit Reports, and discussed the audit findings with Deloitte & Touche LLP auditors;
- examined administrative expenditures (personnel, medical service, indirect and all other nonpersonnel costs) claimed by PR-DDP for the period October 1, 1997 through September 30, 2000;
- compared the official State accounting records to the administrative costs reported by PR-DDP to SSA on the SSA-4513 for the period October 1, 1997 through September 30, 2000; and
- compared the amount of SSA funds requested and received for program operations to the allowable expenditures reported on the SSA-4513s.

We conducted our field work from March through May 2002 at PR-DDP in San Juan, Puerto Rico. The entity audited was the Office of Disability within the Office of the Deputy Commissioner for Disability and Income Security Programs. We conducted this audit in accordance with generally accepted government auditing standards.

Results of Review

The PR-DDP overstated obligations it reported to SSA by $89,084 in direct costs and $13,223 in indirect costs. The PR-DDP also overstated other unliquidated obligations, totaling $100,000, during the period October 1997 through September 2000. Further, PR-DDP could have avoided paying $482,539 in overtime costs had it complied with State policy. The aggregate of SSA funds requested and received did not exceed total expenditures for each FY; however, during each quarter of each FY, the parent agency's disbursements for the PR-DDP program consistently exceeded the amount of SSA funds requested. We also identified internal control deficiencies with the accounting and reporting of administrative costs that resulted in overstated obligations and noted that PR-DDP did not comply with certain policies.

UNALLOWABLE COSTS

For the period October 1997 through September 2000, PR-DDP claimed $89,084 in unallowable direct costs and $13,223 in unallowable indirect costs. As shown in the following table, the unallowable direct costs occurred because PR-DDP used incorrect hourly rates to reimburse some medical consultants, made mathematical mistakes when posting expenditures to its manual accounting records, and used estimated payroll expenditures instead of actual expenditures.

PR-DDP Unallowable Disbursements by Fiscal Year

Cost Category	FY Affected	Amount	Cause
Unallowable Direct Cost Disbursements			
Medical Consultants (payroll)	1998	$416	Used Wrong Hourly Rate
Supplies	1998	937	Duplicate Posting
Consultative Examination	1999	23,508	Math Errors
Employee Travel	1999	6,024	Credit Posted as Expense
Supplies	1999	20	Math Error
Payroll	1999	77	Uncorrected Estimates
Payroll	2000	58,102	Uncorrected Estimates
Total Unallowable Direct Disbursements		$89,084	

PR-DDP determined indirect costs by multiplying an agreed-upon rate by allowable direct costs. We calculated the unallowable indirect costs by taking the difference between the PR-DDP total indirect cost obligations claimed and the amount we calculated as total allowable indirect costs for each FY. The differences are illustrated below.

Indirect Cost Obligations Claimed, Allowable, and Unallowable and Illustration of Unallowable Amounts by Disbursements and Unliquidated Obligations as of December 30, 2001 for FYs 1998 through 2000					
Fiscal Year	PR-DDP Indirect Cost Obligations Claimed	Allowable Indirect Cost Obligations Per Audit	Unallowable Indirect Cost Obligations	Unallowable Indirect Cost Disbursements	Unallowable Indirect Cost Unliquidated Obligations
1998	$1,310,286	$1,309,781	$505	$505	$0
1999	1,503,733	1,502,508	1,225	0	1,225
2000	1,534,287	1,522,794	11,493	8,673	2,820
Total			$13,223	$9,178	$4,045

As of December 30, 2001, PR-DDP had not requested reimbursement for all of its indirect costs. Accordingly, only $9,178 of the $13,223 in unallowable indirect costs were represented as program disbursements. The $4,045 difference represented an unliquidated obligation. Therefore, SSA should recover the $9,178 of unallowable indirect costs claimed, and PR-DDP should reduce the unliquidated obligations by $4,045 for the balance of the unallowable indirect costs. Appendix B provides a detailed description of the unallowable direct and indirect costs.

FISCAL YEAR PAYMENTS

This finding was deleted from the report after considering Agency Comments to our draft report.

ACCOUNTING PROCESSES

One of the States' basic responsibilities is to comply with regulations, rulings and other written guidelines, including standards established by SSA, that apply to the State in performing disability determinations.[4] States must also adequately document accounting records, which are subject to generally accepted accounting principles.[5] PR-DDP's accounting records generally supported the SSA-4513s submitted to SSA; however, they did not agree with the PR-DF records. Additionally, according to the PR-DDP Fiscal Manager, the two sets of records had not been reconciled. For FY 1998, the PR-DDP reflected $440,353 less than the PR-DF. For FYs 1999 and 2000, the PR-DDP reflected $210,473 and $193,506 more than the PR-DF, respectively.

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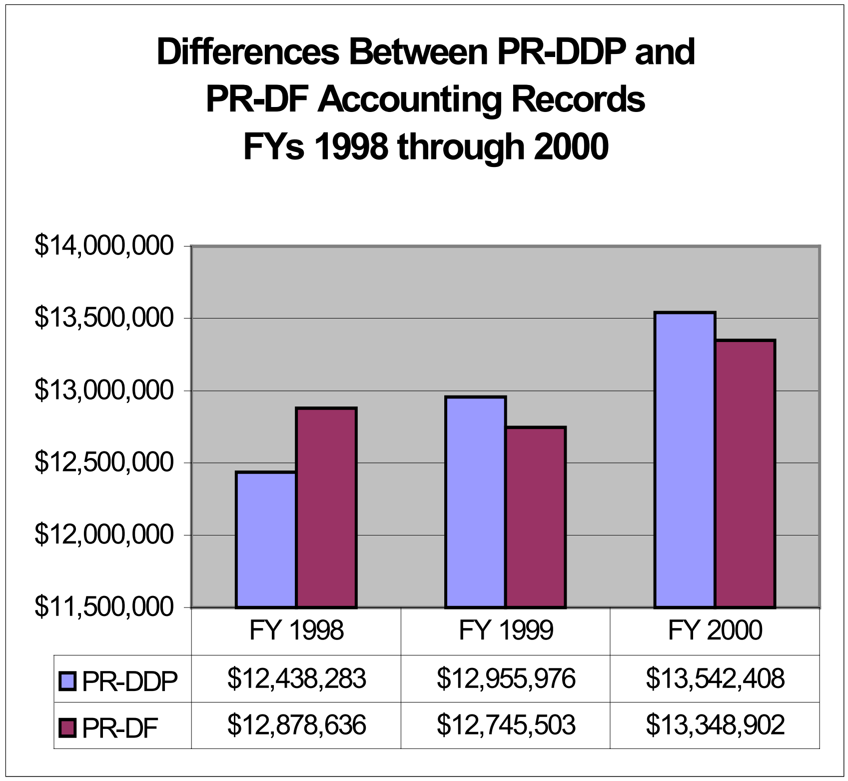
[4] POMS DI 39501.020(B)(5).

[5] OMB Circular A-87, Attachment A, sections (C)(1)(g), (C)(1)(j) (as amended August 29, 1997).

Many of the differences occurred because PR-DDP recorded different FYs on some vouchers than it recorded in its own records. The vouchers are sent to PR-DF for processing and payment while the PR-DDP uses its records to complete the SSA-4513 reports to report program obligations to SSA. We also noted that reconciling the two sets of records was difficult because, while the PR-DF used a standard chart of accounts to categorize the transactions, the PR-DDP recorded transactions to match the line items in the SSA-4513, and the two categories for the two methods used did not agree. Further, the PR-DDP's manual accounting process lacked an adequate audit trail or review process that would minimize mathematical and posting errors.



UNLIQUIDATED OBLIGATIONS

The PR-DDP did not ensure that $100,000 of unliquidated obligations on the SSA-4513 reports were valid and did not promptly resolve its unliquidated obligations. The PR-DDP continued to report FY 1999 and 2000 fund balance amounts as unliquidated obligations through December 30, 2001, the date of the most recent SSA-4513. The unliquidated obligations reported for these years are as follows.

Unliquidated Obligations Reported in the SSA-4513s as of December 30, 2001

Reporting Item	FY 1998	FY 1999	FY 2000
Indirect Costs	$0	$163,131	$2,820
Other	0	0	100,000
Total Unliquidated Obligations	$0	$163,131	$102,820

As reported previously, $4,045 in unliquidated indirect cost obligations should be deobligated as a result of unallowable indirect costs during the applicable years (see section entitled, *UNALLOWABLE COSTS*). Also, unliquidated obligations totaling

$100,000 for FY 2000 were not supported by documents or records to show that a valid obligation existed. POMS guidelines state that "Valid unliquidated obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded. . . . State agencies should review unliquidated obligations at least once each month to cancel those no longer valid . . . ."[6] As of December 30, 2001, the PR-DDP reported for FY 2000, $100,000 in *Unliquidated Obligations* as follows:

- $45,000 listed as "EDP Maintenance." The PR-DDP did not provide us documentation to show the maintenance had been performed.
- $30,000 listed under "Equipment Purchases." PR-DDP did not provide us with documentation to substantiate this obligation. The PR-DDP staff stated it was removing this item from the list of unliquidated obligations.
- $25,000 listed as "Miscellaneous." The PR-DDP did not receive authorization to expend these funds during FY 2000 and it had not issued a purchase order. Therefore, it was not a valid obligation. The PR-DDP stated it would remove this item from its report of unliquidated obligations.

States are required to use funds solely for program use, and any unused money is to be returned to Treasury.[7] Because fund balances were carried as unliquidated obligations, obligation authority was not released or made available for other Federal needs.

CASH MANAGEMENT

The PR-DF did not exercise sound fiscal management practices in evaluating its cash needs for the PR-DDP program. Consequently, cumulative disbursements consistently exceeded the amount of SSA funds requested. Our analysis of the ASAP system reports disclosed that the PR-DDP's cumulative disbursements exceeded funds requested throughout each quarter of each FY. The shortage of funds ranged from $263,312 during the first quarter of FY 1998 to as much as $4,945,928 in the first quarter of FY 2000 (FY 1999 funds).

According to PR-DF accounting staff, the State's bank could not match information for some checks with the appropriate grant number information provided by the State's Treasury Department. In such cases, the check amounts were not added to the program cost total that served as the basis for the daily request for Federal funds. Therefore, the requests for funds were less than the actual disbursements.

Because the State consistently had a cash deficiency, it effectively paid for program costs until it properly identified its cash deficiencies for a given FY and made the appropriate request for Federal funds (see related Single Audit Finding Numbers 97-93 and 99-72 in Appendix A).

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[6] POMS DI 39506.203(A).

[7] The Social Security Act, Title II, §221, 42 U.S.C. §421 (f) (2002).

COMPENSATORY TIME

PR-DDP did not comply with the State policy requiring the use of time off in the form of compensatory time for extra hours worked.[8] PR-DDP treatment of extra hours worked was subject to State policy because Federal regulations specify that costs charged should be consistent with policies that apply uniformly to both Federal awards and other activities of the governmental unit.[9]

PR-DDP employees earned, and were paid for, one and a half hours of compensatory time for every extra hour worked. While the State allowed its employees to work extra hours, it required them to use the compensatory time as time off.

Total Paid for DDP Extra Hours Worked Including Fringe Benefit Amounts by Fiscal Year

Year	Amount
FY 1998	$220,618
FY 1999	208,118
FY 2000	53,803
Total	$482,539

Contrary to State policy, PR-DDP paid its employees for all of the extra hours worked. Therefore, the PR-DDP employees enjoyed a benefit not available to other State employees. As such, the costs charged did not meet the criteria established by Federal regulations for costs to be allowable. PR-DDP management believed they had an exemption from the State policy. However, the latest request for exemption expired in September 1994. PR-DDP was unable to provide documentation to substantiate exemptions beyond 1994. Consequently, for FYs 1998 through 2000, PR-DDP improperly paid $482,539 in salaries and fringe benefits for extra hours worked.

Factors used to determine whether costs are allowable include whether they are (1) necessary and reasonable for the proper and efficient performance and administration of Federal awards and (2) consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. The question of reasonableness is considered particularly important when governmental units or components are predominately federally funded.[10]

In an April 30, 2002 letter, the Secretary of the Department of Family reminded the PR-DDP that extra hours worked were to be compensated as compensatory time in accordance with State policy and also prohibited working extra hours in excess of 240 accumulated hours.

[8] Commonwealth of Puerto Rico, Department of Social Services, Administrative Order Num. 87-001(2)(B)(a),(2)(C)(b),(April 2, 1987).

[9] OMB Circular A-87, Attachment A, sections (C)(1)(a), (C)(1)(e) (as amended August 29, 1997).

[10] OMB Circular A-87, Attachment A, section (C)(2) (as amended August 29, 1997).

CLASSIFICATION OF DIRECT AND INDIRECT COSTS

The PR-DDP reclassified selected payroll costs from direct to indirect costs, which did not comply with Federal regulations concerning classification of costs. According to Federal regulations, direct costs are those that can be identified specifically with a particular final cost objective.[11] A "cost objective" is defined as a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.[12] Typical direct costs chargeable to Federal awards include compensating employees for the time devoted and identified specifically to performing those awards. Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.[13]

Per discussions with the New York Regional Office and PR-DF personnel, employees' salaries were reclassified from direct to indirect costs

- because the employees were working in functions that they considered parent agency functions (such as paying vouchers) and did not directly impact the PR-DDP case processing workload (that is, rendering disability decisions); and

- to avoid the negative effects on the measurement of PR-DDP's productivity in terms of Productivity Per Work-Year (PPWY).[14]

In our opinion, neither one of these reasons justified the reclassification of costs. The employees whose salaries were reclassified from direct costs to indirect costs were specifically identifiable to the PR-DDP (the cost objective) and did not benefit other State programs. Accordingly, they were initially appropriately classified as direct costs.

In correspondence to the PR-DDP dated October 24, 2001, SSA stated it was amenable to converting indirect staff to direct staff in view of the PR-DDP's "difficulties involved" in keeping staff in the indirect cost categories. The correspondence did not elaborate on the nature of the difficulties involved. We believe the conversion is appropriate; however, the reasons for doing so should be to comply with

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[11] OMB Circular A-87, Attachment A, section (E)(1) (as amended August 29, 1997).

[12] OMB Circular A-87, Attachment A, section (B)(11) (as amended August 29, 1997).

[13] OMB Circular A-87, Attachment A, section (F)(1) (as amended August 29, 1997).

[14] Productivity is a measure of the number of cases disposed in relation to the resources used to dispose those cases. By classifying costs as indirect costs, the resources used by the PR-DDP are reduced and the productivity measure is improved. PPWY, as defined in POMS DI 39503.230 = Workload Processed (number of case dispositions) / Resources Used (Amount of productive time provided by one employee working full time for 1 year exclusive of Nonwork Time).

applicable cost principles for determining allowable costs. The correspondence to PR-DDP indicated that SSA and PR-DDP planned to complete the conversion of indirect staff to direct staff by the middle of FY 2003.

CONSULTATIVE EXAMINATION AUTHORIZATION PROCESS AND FEE SCHEDULES

The consultative examination (CE) authorization process lacked adequate controls to ensure payments were properly authorized. Specifically, the PR-DDP used rubber stamps to approve CE vouchers; the fiscal unit had access to and used a rubber stamp for examiner signatures; and some acting examiners signed the name of the absent examiner in place of their own name and did not identify their acting capacity. These practices weakened the approval and certification process for CE services and exposed the PR-DDP to the risk that unauthorized services could be paid. In addition, the fiscal unit's use of the rubber stamp circumvented the segregation of duties process necessary in a well-designed system of internal controls. For FYs 1998 through 2000, 11, 13, and 18 percent, respectively, of a random sample of 100 transactions each year had been signed with a rubber stamp. We did not quantify the number of transactions improperly signed by an acting examiner. During our on-site review, the PR-DDP Technical Director issued a formal memorandum via electronic mail directing staff on the proper method for signing examiner certifications.

The PR-DDP also did not review and update its fee schedules annually. The last complete review was in 1995, and some CE fees dated back to 1991 and 1993; however, PR-DDP was making efforts to conduct a full-scale review of its rates as of the completion of our field work in May 2002. SSA guidelines to DDSs for monitoring and maintaining fee schedules are discretionary; however, without a proper, ongoing assessment of fee schedules, the PR-DDP may be paying CE fees that exceed the highest rate paid by Federal or other agencies within the State.[15] In such cases, the PR-DDP could be overpaying for the contracted services. In other cases, the PR-DDP could be paying less than the rates paid by Federal or State agencies. In these cases, the lower rates paid could be detrimental to obtaining needed CE services.

UNRESOLVED SINGLE AUDIT FINDINGS

We reviewed documentation provided by the PR-DF and the PR-DDP in response to compliance issues and questioned costs cited in the Deloitte & Touche LLP Single Audit Reports for the PR-DF for FYs 1997 through 1999. The Single Audit Report for FY 2000 had not been issued as of the end of our field work. Based on our review of supporting documentation and discussions with PR-DF and PR-DDP staff, appropriate corrective action was not taken on the following single audit findings.

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[15] POMS DI 39545.410.

- Finding numbers 97-91, FY 1997 and 98-77, FY 1998: *PR-DDP's physical inventory needs to be reconciled with accounting records*. Our review disclosed that improvements were still needed in physical inventory. The PR-DDP had not implemented procedures to reconcile physical inventory with the accounting records. In testing the completeness of the inventory records, we identified 16 of 106 items tested that were not recorded on the inventory listing. Additionally, PR-DDP's inventory database lacked essential information required by POMS, such as inventory serial numbers, dates of purchases, and sources of funds used.[16]

- Finding number 98-1, FY 1998: *The Department has significant deficiencies in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices*. Our audit disclosed similar findings.

- Finding number 99-73, FY 1999: *The Department filed Federal Financial Status Reports that did not agree with the general ledger*. Our review disclosed that adequate measures were not taken to reconcile PR-DDP and PR-DF accounting records.

We believe the PR-DDP should resolve the remaining deficiencies identified in the Single Audit Reports. Our comments on the specific findings noted in the Single Audit reports are included at Appendix A.

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[16] POMS DI 39530.020(B).

Conclusions and Recommendations

Based on this audit, costs the PR-DDP claimed on the SSA-4513s for FYs 1998 through 2000 were generally allowable and allocable. SSA funds requested and received did not exceed total expenditures for each FY. However, we found internal control deficiencies with the accounting and reporting of administrative costs that resulted in program overcharges.

We recommend that SSA instruct the PR-DDP through the Secretary of the Department to:

1. Refund $89,084 for unallowable direct costs and $9,178 for unallowable indirect costs.

2. Deleted. See the OIG response to the Agency comments.

3. Improve the accounting system used to record and report PR-DDP costs including (a) automating the accounting process, (b) reconciling its records with PR-DF each month, and (c) reporting expenditures in the correct FY.

4. Deobligate $100,000 reported as unliquidated obligations that were not supported by documentation validating the costs and $4,045 for unallowable indirect costs that were included as part of the unliquidated obligations.

5. Report only valid obligations as unliquidated obligations on the SSA-4513s.

6. Establish cash management procedures that allow for accurate determination of immediate cash needs.

7. Comply with State policy governing compensatory time.

8. Charge PR-DDP employees as direct costs and discontinue the practice of switching direct costs to indirect costs to improve productivity statistics.

9. Strengthen internal controls over the CE approval process including (a) discontinuing the use of rubber stamps, (b) ensuring that examiners conduct proper reviews of CE documents and use their own hand written signature to certify their reviews, and (c) conducting periodic reviews of CE fee schedules in accordance with discretionary guidelines at POMS DI 39545.410.

10. Reduce the obligational authority balances for FYs 1998 through 2000.

11. Take corrective action on the three unresolved single audit findings for 1997-1999.

AGENCY COMMENTS

SSA agreed with all of the conclusions and recommendations in the draft report except for recommendation number 2 concerning reducing FY 2000 disbursements by $8,812 for FY 2001 expenditures that were incorrectly reported on the SSA-4513 for FY 2000. SSA stated that our recommendation conflicts with POMS DI 39506 because POMS gives a broader interpretation of OMB Circular A-87, Attachment A, section (C)(3)(a). See Appendix C for the full text of SSA's comments.

OIG RESPONSE

SSA changed its policy to allow States to obligate funds no later than six months after the close of the Federal FY. Previously, States were required to obligate funds made available by SSA no later than the close of the Federal FY. SSA stipulated that all obligations for goods or services made after the close of the Federal FY to which the funds relate must be based on a bona fide need for the goods or services that existed in the closed Federal FY. Also, the new policy did not change the requirement that funding authorization had to be made by the end of the FY.

We consider SSA's response as adequate and, accordingly, deleted recommendation number 2 from the report.

Appendices

Single Audit Findings

Results of our review of the Puerto Rico Department of Family (PR-DF) and the Puerto Rico Disability Determination Program (PR-DDP) documentation in response to findings cited in the Deloitte & Touche LLP Single Audit Reports for Fiscal Years (FY) 1997 through 1999.

FY 1997 Single Audit Report findings for PR-DDP	
Finding Number	Note: The Agency did not submit a corrective action plan for FY 1997 findings noted in the Single Audit Report.
97-91	**Single Audit Finding:** The PR-DDP is not reconciling physical inventory results with the accounting records. **Office of the Inspector General (OIG) Comment & Conclusion:** *PR-DDP had not implement procedures to reconcile the physical inventory with the accounting records. Additional corrective action is needed*. We selected a sample of transactions to test against the April 26, 2002 physical inventory listing. We tested for existence of equipment; completeness of the inventory listing and reconciliation with accounting records; and compliance with Social Security Administration (SSA) inventory guidelines.[1] To test existence, we selected 27 equipment items from the accounting records and accounted for all 27 items. For completeness of the inventory listing, we selected 106 equipment items from the accounting records purchased during FYs 1998 through 2000 and determined that none of the items had been reconciled with the accounting records. For compliance with SSA guidelines, we noted the inventory database lacked three essential fields required by the guidelines; inventory serial numbers, date of purchase, and source of funds used.
97-92	**Single Audit Finding:** An employee was paid $725 more than the amount authorized. **OIG Comment & Conclusion:** *The PR-DDP provided documentation to support the payment*. The payment was noted as a retroactive salary payment based on an approved payroll adjustment.

[1] (POMS) DI 39530.020

97-93	**Single Audit Finding:** A request for Federal-funds for $939,771 was made without supporting documentation. **OIG Comment & Conclusion:** *The PR-DF provided documentation to support the request*. The PR-DF worksheet illustrated that this amount was requested to recover disbursements relating to FY 1994 and corrected a funds request deficiency for FY 1994 (also see the OIG finding entitled, *CASH MANAGEMENT*).
97-94	**Single Audit Finding:** Expenditures for $753,217 could not be supported. Area: Allowable Costs/Cost Principles **OIG Comment & Conclusion:** *The PR-DDP provided us the appropriate documentation to support these expenditures*.

FY 1998 Single Audit Report findings for PR-DDP	
Finding Number	
98-1	**Single Audit Finding:** The Department has significant deficiencies in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices. **Agency Response in Corrective Action Plan:** Disagreed with recommendation. **OIG Response:** *We concur with the reported finding. The Department continued to have internal control deficiencies as noted in the above finding*. Our audit of PR-DDP expenditures disclosed internal control weaknesses with the authorizing, recording, reporting, and procuring functions, and with the cash management process. These deficiencies are discussed within the body of our report.
98-77	**Single Audit Finding:** The Department did not perform a physical inventory over property and equipment. **Agency Response in Corrective Action Plan:** The agency stated the Disability Program performs an annual physical inventory but that in 1997 the floppy disc containing the inventory list was damaged. **OIG Comment:** *Additional corrective action is needed*. This is a repeat finding from FY 1997. See OIG comments for finding number 97-91.

98-78	**Single Audit Finding**: Expenditures for $170,768 could not be supported. **Agency Response in Corrective Action Plan:** Disagreed with recommendation. **OIG Comment & Conclusion:** *The PR-DF provided us with the appropriate documentation to support these expenditures*.

FY 1999 Single Audit Report findings for PR-DDP	
Finding Number	
99-71	**Single Audit Finding:** The Department did not perform fiscal evaluations before disbursing funds. Program expenditures totaling $172,354 were questioned. **Agency Response in Corrective Action Plan:** Disagreed with recommendation. **OIG Comment & Conclusion:** *The PR-DDP provided us the appropriate documentation to support these expenditures*.
99-72	**Single Audit Finding:** The Department could not locate evidence to support federal funds requests totaling $4,214,001. **Agency Response in Corrective Action Plan:** Disagreed with recommendation. **OIG Comment:** *This finding involved two requests for Federal funds. The PR-DF provided us documentation to support the two requests*.
99-73	**Single Audit Finding:** The Department filed Federal Financial Status Reports that did not agree with the general ledger. It noted cumulative differences totaling $899,764 for periods from 1995 through 1999. **Agency Response in Corrective Action Plan:** Agency agreed that financial reconciliations are not up to date and stated that coordination between the Program and Department officials will be scheduled to solve the issue. The due date for completion was set for January 31, 2002. **OIG Comment:** *The Agency did not meet its deadline for resolving the issue*. At the time of our review, the Program and Department officials had **not** taken adequate measures to reconcile their respective accounting records. Thus, this finding continues to be uncorrected (see OIG audit finding entitled, *ACCOUNTING PROCESSES*).

Questioned Costs

SUMMARY SCHEDULE OF TOTAL OBLIGATIONS REPORTED, QUESTIONED, AND ALLOWED FOR THE PUERTO RICO DISABILITY DETERMINATION PROGRAM, FISCAL YEARS 1998, 1999, AND 2000				
Fiscal Year (FY)	**Obligations Per SSA-4513 Report at 12/31/01**	**Unallowable Disbursements Per Audit**	**Unallowable Unliquidated Obligations Per Audit**	**Allowable Obligations**
FY 1998	$12,438,289	$1,858	$0	$12,436,431
FY 1999	$13,119,113	$29,629	$1,225	$13,088,259
FY 2000	$13,645,223	$66,775	$102,820	$13,475,628
Totals	***$39,202,625***	***$98,262***	***$104,045***	***$39,000,318***

SCHEDULE OF TOTAL OBLIGATIONS REPORTED, QUESTIONED, AND ALLOWED FOR THE PUERTO RICO DISABILITY DETERMINATION PROGRAM OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 1998				
	Obligations Per SSA-4513 Report at 12/31/01	**Unallowable Disbursements Per Audit**	**Unallowable Unliquidated Obligations Per Audit**	**Allowable Obligations**
Personnel	$5,897,221	$416[1]	$0	$5,896,805
Medical	$3,776,431	$0	$0	$3,776,431
Other	$1,454,351	$937[2]	$0	$1,453,414
Indirect Costs	$1,310,286	$505[3]	$0	$1,309,781
Totals	$12,438,289	$1,858	$0	$12,436,431
Obligational Authority				$12,438,289
Remaining Obligational Authority				$1,858

Table Notes:

[1] Math error of $416 in the Puerto Rico Disability Determination Program's (PR-DDP) ledger, Medical Consultant cost category, posted in August 1998.

[2] The same cost item of $937 in PR-DDP's ledger, Supplies category, was posted in January 1998 and again in February 1998.

[3] Indirect Cost Obligations claimed by PR-DDP: $1,310,286
Indirect Cost Obligations per Audit: $1,309,781
Total Unallowable indirect cost obligations: $505

SCHEDULE OF TOTAL OBLIGATIONS REPORTED, QUESTIONED, AND ALLOWED FOR THE PUERTO RICO DISABILITY DETERMINATION PROGRAM OCTOBER 1, 1998 THROUGH SEPTEMBER 30, 1999				
	Obligations Per SSA-4513 Report at 12/31/01	**Unallowable Disbursements Per Audit**	**Unallowable Unliquidated Obligations Per Audit**	**Allowable Obligations**
Personnel	$6,061,793	$77[1]	$0	$6,061,716
Medical	$4,030,399	$23,508[2]	$0	$4,006,891
Other	$1,523,188	$6,044[3]	$0	$1,517,144
Indirect Costs	$1,503,733	$0	$1,225[4]	$1,502,508
Totals	$13,119,113	$29,629	$1,225	$13,088,259
Obligational Authority				$13,130,798
Remaining Obligational Authority				$42,539

Table Notes:

[1] Net differences in posting errors to PR-DDP's ledger, Payroll category, resulting from use of estimates for quarters ending March 1999, June 1999 and September 1999.

[2] Math errors in the PR-DDP's ledger, consultative examination category, as follows: $3,000 overstatement error in December 1998 and $20,508 overstatement error in February 1999.

[3] Reimbursement amount of $3,012 in PR-DDP's ledger, Travel category, was posted as an expense resulting in an overcharge of $6,024. A math error of $20 was made in the supplies category.

[4] Indirect Cost Obligations claimed by PR-DDP: $1,503,733
Indirect Cost Obligations per Audit: $1,502,508
Total Unallowable indirect cost obligations: $1,225

SCHEDULE OF TOTAL OBLIGATIONS REPORTED, QUESTIONED, AND ALLOWED FOR THE PUERTO RICO DISABILITY DETERMINATION PROGRAM OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000				
	Obligations Per SSA-4513 Report at 12/31/01	**Unallowable Disbursements Per Audit**	**Unallowable Unliquidated Obligations Per Audit**	**Allowable Obligations**
Personnel	$6,457,214	$58,102[1]	$0	$6,399,112
Medical	$4,090,922	$0	$0	$4,090,922
Other	$1,562,800	$0	$100,000[2]	$1,462,800
Indirect Costs	$1,534,287	$8,673[3]	$2,820	$1,522,794
Totals	$13,645,223	$66,775	$102,820	$13,475,628
Obligational Authority				$13,680,250
Remaining Obligational Authority				$204,622

Table Notes:

[1] Estimated amount used was not adjusted to actual for quarters ending December 1999, June 2000 and September 2000.

[2] Unliquidated obligations, totaling $100,000, were not valid: See page 7 of this report for explanation of invalid obligations.

[3] Indirect Cost Obligations claimed by PR-DDP: $1,534,287
Indirect Cost Obligations per Audit: $1,522,794
Total Unallowable indirect cost obligations: $11,493

Agency Comments

SOCIAL SECURITY

MEMORANDUM **Refer To:** S2D2G5

Date: December 17, 2002

To: Steven L. Schaeffer
Assistant Inspector General
for Audit

From: Regional Commissioner
New York

Subject: Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program (A-06-02-22072)

We welcome the opportunity to review the draft report representing the results of your audit of the administrative costs claimed by the Commonwealth of Puerto Rico (PR) Disability Determination Program (DDP) for fiscal years (FYs) 1998 through 2000 and also including the outcomes on findings reported in the FY 1997 through 1999 Single Audit Reports for PR DDP. We thank you for conducting this audit at our request as we are now in a much better position to instruct the PR DDP through the Secretary of the Department in those areas that are still deficient.

Based on your findings we agree with all of the conclusions and recommendations in the draft report with the exception of number 2. Recommendation number 2, which requires that FY 2000 disbursements be reduced by $8,812 for FY 2001 expenditures that were incorrectly reported on the SSA-4513 for FY 2000 conflicts with the Program Operations Manual System (POMS) Disability (DI) 39506. POMS DI 39506 gives a broader interpretation of the Office of Management and Budget (OMB) Circular A-87, Attachment A, section (C) (3) (a) than do the auditors. This issue has been covered in staff to staff discussions between Paul Davila, Acting Director, Southern Audit Division and Gene Purk, Teamleader, Center for Disability.

If members of your staff have any questions on this matter they should be directed to Gene Purk, (212) 264-7283 in the Center for Disability Programs.

/ s /

Beatrice M. Disman

OIG Contact and Staff Acknowledgments

OIG Contact

Paul Davila, Deputy Director, Dallas, Texas (214) 767-6317

Acknowledgments

In addition to those named above:

Elizabeth Juarez, Auditor

Joshua M. Campos, Auditor

For additional copies of this report, please visit our web site at 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-06-02-22072.

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 the Agency, as well as conducting employee investigations within OIG. Finally, OEO administers OIG's public affairs, media, and interagency activities and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

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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.