
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE PENNSYLVANIA BUREAU OF
DISABILITY DETERMINATION**

March 2009

A-15-09-19021

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: March 19, 2009

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Inspector General

Subject: Administrative Costs Claimed by the Pennsylvania Bureau of Disability Determination (A-15-09-19021)

OBJECTIVE

The objectives of our audit were to evaluate the Pennsylvania Bureau of Disability Determination (PA-BDD) internal controls over the accounting and reporting of administrative costs, determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and conduct a limited assessment of the general security controls environment. Our audit included the administrative costs claimed by the PA-BDD during Federal Fiscal Years (FFY) 2006 and 2007.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) in each State, or other responsible jurisdiction. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ 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

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

authorized 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.²

SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations³ and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.⁴ As of March 31, 2008, for FFYs 2006 and 2007, the PA-BDD received authorized funding of \$79,000,690 and \$84,705,462, respectively.

An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the FFY, each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) to account for program disbursements and unliquidated obligations.⁵ The SSA-4513 reports expenditures and unliquidated obligations for Personnel Service Costs, Medical Costs, Indirect Costs, and All Other Nonpersonnel Costs.

The Pennsylvania Department of Labor and Industry (PA-L&I) is the PA-BDD's parent agency. The PA-L&I and the central office of the PA-BDD are located in Harrisburg, Pennsylvania. The PA-BDD also has two branch offices: Wilkes-Barre and Greensburg, Pennsylvania. The PA-L&I is responsible for the draw down of SSA funds to pay expenses of the PA-BDD. Additionally, the PA-L&I calculates and draws down funds for Indirect Costs to the PA-BDD based on a negotiated indirect cost rate.

RESULTS OF REVIEW

The PA-L&I and PA-BDD had adequate internal controls over accounting and reporting of administrative costs. Our tests of the amounts PA-L&I reported on Forms SSA-4513 provided reasonable assurance PA-L&I had correctly reported the administrative costs PA-BDD incurred for disability determination activities during our audit period (see Appendices B and C for our Scope and Methodology and PA-BDD Reported Costs, respectively). Our tests of PA-L&I's claimed costs also showed the sampled expenditures were allowable and properly allocated and funds were properly drawn.

² 20 C.F.R. §§ 404.1624 and 416.1024.

³ 31 C.F.R. § 205.1 *et seq.*

⁴ Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 United States Code §§ 3335, 6501 and 6503.

⁵ SSA, Program Operations Manual System, DI 39506.200 B.4, provides that "[u]nliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

Also, during our assessment of the PA-BDD general security controls environment, nothing came to our attention to suggest deficiencies in these controls.

CONCLUSION

Based on our examination, we concluded PA-L&I and PA-BDD complied with laws, regulations, policies and procedures governing expenditures and obligations for SSA's disability program for FFYs 2006 and 2007. Also PA-L&I and PA-BDD had adequate internal controls over accounting and reporting of administrative costs, costs claimed were allowable and properly allocated, funds were properly drawn and the general security controls environment was acceptable. Therefore, we are not making any recommendations to SSA.

OTHER MATTERS

After our fieldwork we received information that the Pennsylvania's Office of the Budget issued the Commonwealth of Pennsylvania's Single Audit Report (Single Audit) for the State fiscal year ended June 30, 2007. This is a State-wide annual report that documents Pennsylvania's spending of federal funds. One of the findings identified in the Single Audit affected the PA-L&I which, in turn, impacted the PA-BDD during our audit period. The report disclosed that payments for unused leave to terminated or retiring employees were improperly charged. Unused leave payments (annual and sick) were charged directly to federal programs at the time of payment. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* requires paid unused sick leave to be allocated as a general administrative expense (i.e., an indirect cost) to all activities of the PA-L&I.

Specifically, the report questioned \$6,047,601 in various federal programs with related amounts of unused leave. Of this amount, the report questioned \$1,546,376 related to Social Security funding. The report recommends that management change their methodology for charging unused leave payouts as a direct expense to federal programs, and ensure that these costs are allocated or charged in accordance with applicable federal regulations.

According to PA-L&I Comptroller's Office, Federal Accounting group, corrective action was taken to remove the unused leave costs from the Forms SSA-4513 during our audit period. Therefore, SSA was not overcharged for these amounts. Although we did not specifically confirm the information provided by the Comptroller's Office, nothing came to our attention during the course of our audit to indicate otherwise.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Pennsylvania Bureau of Disability Determination Reported Costs

[APPENDIX D](#) – OIG Contacts and Staff Acknowledgments

Acronyms

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FFY	Federal Fiscal Year
IES	Integrated Enterprise System
OIG	Office of the Inspector General
PA-BDD	Pennsylvania Bureau of Disability Determination
PA-L&I	Pennsylvania Department of Labor and Industry
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>

Scope and Methodology

SCOPE

To achieve our objectives, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System and other criteria relevant to administrative costs claimed by the Pennsylvania Bureau of Disability Determination (PA-BDD) and the draw down of SSA funds.
- Interviewed staff and officials at the PA-BDD, its parent agency, the Pennsylvania Department of Labor and Industry (PA-L&I), SSA's Philadelphia Regional Office and SSA Headquarters.
- Evaluated and tested internal controls regarding accounting and financial activities.
- Reconciled State accounting records to the administrative costs reported by the PA-BDD on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) for Federal Fiscal Years (FFY) 2006 and 2007.
- Examined specific administrative expenditures (Personnel, Medical, and All Other Nonpersonnel costs) incurred and claimed by the PA-BDD for FFYs 2006 and 2007 on the SSA-4513. We used statistical sampling to select expenditures to test for documentation of the medical services, personnel, and all other nonpersonnel costs.
- Examined the process and analyzed indirect costs claimed by the PA-BDD for FFYs 2006 and 2007.
- Compared the amount of SSA funds drawn to support PA-BDD operations to the cost records as reported on SSA-4513.

We determined the data provided by PA-BDD used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling them to the costs claimed on the SSA-4513. We also conducted detailed audit testing on selected data in the electronic data files. We performed our audit at SSA Headquarters in Baltimore, Maryland, and the PA-BDD and PA-L&I offices in Harrisburg, Pennsylvania. Our general security controls review was completed in the PA-BDD Wilkes-Barre office. We did not review the general security controls at the Harrisburg PA-BDD since these controls had recently been reviewed by an SSA contractor. We conducted fieldwork from September through December 2008.

Our audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Our sampling methodology included the four general areas of costs reported on the SSA-4513: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Nonpersonnel Costs. We obtained electronic records that supported the Personnel, Medical, and All Other Nonpersonnel Costs for FFYs 2006 and 2007 for use in sampling. These records were obtained from the Pennsylvania Integrated Enterprise System (IES) and used by the PA-L&I to prepare the SSA-4513. For our indirect cost review, we applied the approved Indirect Cost rate to the PA-BDD direct cost base. The result is the basis for the cost distributed to the PA-BDD.

Personnel Costs

We randomly selected 1 pay period in the most recent year under review. We selected a random sample of 50 regular employees. We tested PA-BDD payroll records to ensure it correctly paid employees and adequately documented these payments.

For medical consultant costs, we randomly selected 50 cost records from the most recent year. We verified that the medical consultants were paid in accordance with the approved contracts.

Medical Costs

We sampled 100 items (50 items from each FFY) from the IES cost records using a stratified random sample of medical costs based on the proportion of medical evidence of record and consultative examination costs to total medical costs claimed.

Also, we conducted analytical work to ensure the PA-BDD rates did not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service.

Indirect Costs

Indirect Costs are based on a negotiated indirect cost rate approved for each State fiscal year. The rate was applied to a direct cost base for that period. We recalculated the Indirect Costs to ascertain the amounts charged to PA-BDD were correct. Additionally, we conducted a limited review the PA-L&I cost allocation plans that were the basis for the approved rate.

All Other Nonpersonnel Costs

We selected a stratified random sample of 100 items (50 items from each FFY) from the All Other Nonpersonnel Costs category (except occupancy and PA-L&I direct labor costs). Before selecting the sample items, we stratified the transactions in the 10 cost categories. We then distributed the 50 sample items for each year between categories based on the proportional distribution of the costs. We conducted a 100-percent review of the PA-BDD occupancy costs for FFYs 2006 and 2007. For the PA-L&I direct labor costs, which is an allocated payroll cost to the BDD, we recalculated rates and conducted analysis to determine the reasonableness of the allocations to the PA-BDD.

Pennsylvania Bureau of Disability Determination Reported Costs

Reported Costs on Form SSA-4513

Federal Federal Year 2006
For the Period Ended 03/31/2008*

Cost Areas	Disbursements	Unliquidated Obligations	Total Obligations
Personnel	\$ 47,815,700	\$0	\$ 47,815,700
Medical Service	\$ 18,873,813	\$0	\$ 18,873,813
Indirect	\$ 1,760,617	\$0	\$ 1,760,617
All Other Nonpersonnel	\$ 7,901,277	\$0	\$ 7,901,277
Total	\$ 76,351,407	\$0	\$ 76,351,407

*Final report - close out

Federal Federal Year 2007
For the Period Ended 03/31/2008

Cost Areas	Disbursements	Unliquidated Obligations	Total Obligations
Personnel	\$ 48,524,641	\$ 106,707	\$ 48,631,348
Medical Service	\$ 18,966,381	\$ 166,387	\$ 19,132,768
Indirect	\$ 35,014	\$ 2,628,293	\$ 2,663,307
All Other Nonpersonnel	\$ 9,753,944	\$ 4,410,010	\$ 14,163,954
Total	\$ 77,279,980	\$ 7,311,397	\$ 84,591,377

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

In addition to those named above:

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OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

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OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

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