



SOCIAL SECURITY

MEMORANDUM

Date: May 19, 2006

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Inspector General

Subject: Administrative Costs Claimed by the Virginia Disability Determination Services
(A-13-05-15134)

The attached final report presents the results of our audit. Our objectives were to (1) evaluate the Virginia Disability Determination Services' internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachment

cc:

James A. Rothrock, Commissioner, Department of Rehabilitative Services
Robert A. Watts Jr., Director, Virginia Disability Determination Services
Ruby Burrell, Acting Associate Commissioner, for Office of Disability Determination Services
Jeff Hild, Associate Commissioner for Office of Financial Policy and Operations
Candace Skurnik, Director, Audit Management and Liaison Staff

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE VIRGINIA DISABILITY
DETERMINATION SERVICES**

May 2006

A-13-05-15134

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

OBJECTIVE

Our objectives were to (1) evaluate the Virginia Disability Determination Services' (VA-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed for Federal Fiscal Years (FY) 2002 through 2004 were allowable and properly allocated and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

BACKGROUND

Disability Determination Services (DDS) in each State or other responsible jurisdiction perform disability determinations under both the Disability Insurance and Supplemental Security Income programs. Such determinations must be performed in accordance with Federal regulations. In meeting its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. The Social Security Administration (SSA) reimburses the DDS for 100 percent of allowable program expenditures up to the limit of its funding authority. SSA provided VA-DDS about \$93 million for FYs 2002 through 2004.

RESULTS OF REVIEW

Generally, VA-DDS had effective internal controls over the accounting and reporting of administrative costs. Most costs claimed during our audit period were allowable and properly allocated and funds were properly drawn. In addition, we found VA-DDS' general security controls environment was generally effective. However, VA-DDS claimed \$230,310 in duplicate reimbursement for separated employees' unused leave; claimed \$58,531 in FYs 2002 through 2004 for costs that lacked support; reported \$733,732 of unsupported obligations for FYs 2003 and 2004; and failed to comply with certain requirements of SSA's *Disability Determination Services Security Document*. We also found the Agency's policy on DDS' use of medical consultants with inactive licenses may need clarification (see Other Matter).

RECOMMENDATIONS

We recommended that SSA instruct VA-DDS to refund \$230,310 for duplicate reimbursement it claimed for separating employees' unused leave; require that VA-DDS provide documentation for unsupported costs or reduce VA-DDS' funding authorization by \$58,531; withdraw VA-DDS funding authorization of \$733,732 FYs 2003 and 2004 for unsupported obligations; and comply with SSA's policies related to intrusion detection systems and office cleaning.

SSA AND STATE AGENCY COMMENTS

SSA agreed with our recommendations. In its response to our recommendations, VA-DDS agreed to implement or had already implemented our recommendations.

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OBJECTIVE

The objectives of our audit were to (1) evaluate the Virginia Disability Determination Services' (VA-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed for Federal Fiscal Years (FY) 2002 through 2004 were allowable and properly allocated and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

BACKGROUND

Disability Determination Services (DDS) in each State or other responsible jurisdiction perform disability determinations under both the Disability Insurance and Supplemental Security Income programs. 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 adequate evidence is available to support its determinations.

The Social Security Administration (SSA) reimburses the DDS for 100 percent of allowable and allocable program expenditures up to the limit of its funding authority. The DDS draws Federal funds through the U.S. Department of the Treasury's Automated Standard Application for Payments system in accordance with Federal regulations² and an intergovernmental agreement entered into by Treasury and the State of Virginia under the *Cash Management Improvement Act of 1990*.³

VA-DDS is a component of Virginia's Department of Rehabilitative Services (VA-DRS). VA-DRS provides VA-DDS such administrative services as accounting for obligations, making purchases, and preparing requests to transfer cash from Treasury to the State Treasurer. VA-DDS uses indirect cost rates approved for VA-DRS. Indirect costs for VA-DRS are determined based on rates negotiated and approved by the U.S. Department of Education.

¹ 20 Code of Federal Regulations (C.F.R.) §§ 404.1601 *et seq.* and 416.1001 *et seq.*

² 31 C.F.R. 205.1 *et seq.*

³ Public Law 101-453.

The *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) reports obligations for personnel service, medical, indirect, and all other nonpersonnel costs. For these costs, VA-DDS reported program disbursements and unliquidated obligations⁴ on Forms SSA-4513, as shown in Table 1. VA-DDS completes and submits the Form SSA-4513 to SSA.

**Table 1: VA-DDS Reported Disbursements and Unliquidated Obligations
FYs 2002 Through 2004**

REPORTING ITEM	FY 2002 As of 06/25/04	FY 2003 As of 12/31/04	FY 2004 As of 12/31/04
Disbursements			
Personnel	\$14,710,102	\$15,696,152	\$17,745,836
Medical	\$7,285,170	\$7,463,429	\$7,329,974
Indirect Costs	\$3,178,430	\$3,073,137	\$3,255,678
Other	\$4,594,909	\$3,938,825	\$3,732,869
Total Disbursements	\$29,768,611	\$30,171,543	\$32,064,357
Unliquidated Obligations	\$0	\$400,940	\$727,178
Total Obligations	\$29,768,611	\$30,572,483	\$32,791,535

VA-DDS is comprised of an administrative office and four regional offices. The administrative office is located in Richmond, Virginia. The four regional offices are in Richmond, Fairfax, Roanoke, and Virginia Beach, Virginia. See Appendix B for our Scope and Methodology.

⁴ DI 39506.200, B. 4. "Unliquidated 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."

Results of Review

Generally, VA-DDS had effective internal controls over the accounting and reporting of administrative costs. Most costs claimed during our audit period were allowable and properly allocated and funds were properly drawn. In addition, we found VA-DDS' general security controls environment was generally effective. However, VA-DDS claimed duplicate reimbursement for separated employees' unused leave, lacked support in VA-DRS' accounting records for total net costs claimed for FYs 2002 through 2004, and reported unsupported obligations (see Appendix C). VA-DDS also failed to comply with certain requirements of SSA's *Disability Determination Services Security Document*⁵ related to intrusion detection controls and office cleaning. We also determined VA-DDS could not test its disaster recovery plan because SSA officials did not provide the connectivity for testing the systems. SSA officials indicated the testing requirements were not practical.

DUPLICATE REIMBURSEMENT FOR SEPARATED EMPLOYEES' UNUSED LEAVE

During FYs 2002 through 2004, VA-DDS received duplicate reimbursement of \$230,310 for separated employees' unused leave. Separated employees are those individuals who end their employment with VA-DDS. Separated employees were paid for leave they had not used at the end of their employment. VA-DDS received duplicate reimbursement for 118 payments it made for 87 separated employees for unused leave.

The Department of Education approved VA-DRS' Indirect Cost Rate Agreements covering FYs 2002 through 2004. These Agreements provided the methodology for distributing indirect costs that benefited SSA's disability programs and other programs VA-DRS administers. The Agreements directed all payments for separating employees' unused leave to be treated as indirect costs. These Agreements also state "Acceptance of the rate(s) agreed to herein is predicated on the conditions...that the same costs that have been treated as indirect costs are not claimed as direct costs..."⁶

VA-DDS accounted for the payments for unused leave as direct costs when the payments were also included in the FYs 2002 through 2004 indirect cost computations and reimbursements. As a result, SSA reimbursed VA-DDS twice for the same expenses, which is not allowable. We believe VA-DDS should refund SSA \$230,310 for the duplicate reimbursement.

⁵ After our general security controls environment assessment, SSA's *Disability Determinations Services Security Document* was superseded by POMS section DI 39566 – DDS Privacy and Security. POMS section DI 39566 incorporated the *Disability Determinations Services Security Document* requirements as they relate to the general security control findings in this report.

⁶ Statements are included in VA-DRS' Indirect Cost Rate Agreements dated January 18, 2001; September 12, 2002; August 19, 2003; and August 26, 2004.

ACCOUNTING RECORDS DID NOT SUPPORT THE FORMS SSA-4513

VA-DRS' accounting records did not support the total net costs VA-DDS claimed on the Forms SSA-4513 for FYs 2002 through 2004.⁷ VA-DRS' accounting records supported \$58,531 less than the net amount claimed and reported by VA-DDS for the 3-year period.

20 C.F.R. § 416.1025(a) states, "The State will establish and maintain the records and furnish the schedules, financial, cost, and other reports relating to the administration of the disability program as we [SSA] may require." Also, 20 C.F.R. § 416.1026 (e) states, "After the close of a period for which funds have been made available to the State, the State will submit a report of its expenditures...we [SSA] will determine whether the expenditures were consistent with cost principles..." Based on VA-DRS' accounting records, the FYs 2002 through 2004 Forms SSA-4513 did not have records to substantiate the costs claimed. This will make it difficult for SSA to determine whether expenditures were consistent with cost principles.

We compared the Forms SSA-4513 for FYs 2002 through 2004 to VA-DRS' accounting records and identified claimed costs reported on the Forms SSA-4513 that were not supported by VA-DRS' accounting records. We discussed the results of our comparison with VA-DDS staff. Subsequently, VA-DDS staff decreased the total net amount we identified as not supported by VA-DRS' accounting records. While VA-DDS staff was able to resolve many of the inconsistencies, \$58,531 in claimed costs remained unsupported. Table 2 identifies the unsupported total net amount.

Table 2: COMPARISON OF VA-DRS' ACCOUNTING RECORDS TO FORMS SSA-4513			
FY	Form SSA-4513 Total Disbursements	Accounting Record Totals	Unsupported Costs
2002	\$29,768,611	\$29,713,826	\$54,785
2003	\$30,171,543	\$30,172,744	(\$1,201)
2004	\$32,064,357	\$32,059,410	\$4,947
Net	\$92,004,511	\$91,945,980	\$58,531

On December 1, 2005, we discussed the net unsupported costs with representatives from SSA's Philadelphia Regional Office and VA-DDS. The VA-DDS official stated there was no other documentation to support these costs. The official explained it was not possible to completely reconcile the accounting records to the Forms SSA-4513.

⁷ The total net costs claimed were as of June 25, 2004 for FY 2002, and December 31, 2004, for FYs 2003 and 2004.

UNLIQUIDATED OBLIGATIONS WERE UNSUPPORTED

On its FYs 2003 and 2004 Forms SSA-4513, VA-DDS reported unliquidated, unsupported obligations totaling \$733,732.⁸ SSA's Program Operations Manual System (POMS) states "Obligations for supplies, equipment, and other contractual services...should be supported by a valid purchase order or other binding agreement to pay for goods or services."⁹ For an obligation to be valid, POMS requires that a bona fide need exist within the FY the funds were available for creating an obligation.¹⁰ A purchase order or other binding agreement can be issued up to 6 months after the end of the FY.¹¹ During our audit, we found no purchase orders or other binding agreements had been issued for two unliquidated obligations. Therefore, these obligations were not supported.

VA-DDS officials explained the unsupported obligations pertained to the planned purchase of a generator and construction of office cubicles in FYs 2003 and 2004, respectively. As of October 31, 2005, VA-DDS had not issued valid purchase orders or other binding agreements for these items. Table 3 summarizes the unsupported obligations we identified.

Table 3: UNSUPPORTED OBLIGATIONS FYS 2002 THROUGH 2004				
Form SSA-4513 Cost Category	FY 2002	FY 2003	FY 2004	Total
All Other Non-Personnel	\$0	\$225,000	\$508,732	\$733,732

On October 31, 2005, we discussed the unsupported obligations with VA-DRS and VA-DDS officials. VA-DDS officials indicated the two unliquidated obligations were valid. The officials explained they still needed the generator and office cubicles. Officials further stated they believed VA-DDS had up to 5 years after the end of the FY to obligate funds. This 5-year period exceeds the 6-month allowable period indicated in POMS for incurring obligations.¹²

After our October 2005 discussion, VA-DDS took action to address the unsupported obligations. Of \$733,732, VA-DDS deobligated¹³ FY 2003 funds of \$225,000 for the

⁸ The amount of unliquidated obligations was claimed on the FYs 2003 and FY 2004 Forms SSA-4513 for the fiscal quarter ended December 31, 2004.

⁹ POMS, DI 39506.201, E.4.

¹⁰ POMS, DI 39506.200, B.1.

¹¹ *Id.*

¹² POMS, DI 39506.200, B.3.

¹³ The term "deobligated" denotes canceling the cost commitment to purchase goods and/or services.

purchase of a generator. After our January 17, 2006 discussion, VA-DDS reported it had deobligated the FY 2004 funds of \$508,732 for constructing office cubicles. SSA should withdraw the funding authorizations for these unsupported obligations.

GENERAL SECURITY CONTROLS CAN BE IMPROVED

We assessed limited areas of VA-DDS' general security controls environment. Based on our limited assessment, we determined VA-DDS' general security controls environment was generally effective. However, we identified two areas where VA-DDS could improve its general controls. Specifically, the intrusion detection controls did not meet requirements, and policies concerning cleaning services provided during nonwork hours were not followed. We also determined VA-DDS could not test its disaster recovery plan because SSA officials did not provide the connectivity for testing the systems. SSA officials indicated the testing requirements were not practical.

VA-DDS Intrusion Detection Controls Did Not Meet Requirements

VA-DDS' intrusion detection controls did not meet requirements. We found the intrusion detection systems and compensating controls at VA-DDS' regional and administrative offices did not comply with SSA's policies. We discussed this issue with VA-DDS management. The VA-DDS officials did not agree with our conclusions regarding intrusion detection controls. However, officials from SSA's Philadelphia Regional Office stated the rationale for the VA-DDS officials' disagreement was not adequate.

VA-DDS Did Not Comply with Policies for Cleaning Services

VA-DDS did not comply with SSA policies for cleaning services. We found contractor employees provided cleaning services at the Richmond Regional and administrative offices during nonwork hours. SSA's *Disability Determination Services Security Document* states "The office should be cleaned during work hours if at all possible. If daytime cleaning is not possible, extra care should be taken to ensure sensitive and Privacy Act related documents (e.g. medical reports and folders) are kept secure overnight."¹⁴ VA-DDS' contract for cleaning services allowed contractor employees to perform services during nonwork hours when VA-DDS employees were not present.

We discussed this issue with VA-DDS officials who acknowledged all VA-DDS regional offices had cleaning services performed during nonwork hours. Officials explained this was done to prevent cleaning staff from interrupting VA-DDS employees during work hours. Further, we were informed VA-DDS did not practice the clean desk policy, as required by the *Disability Determination Services Security Document*. Although officials indicated contractor employees were bonded, we do not believe this was an adequate management control. We believe VA-DDS should comply with SSA policy for cleaning services.

¹⁴ *Id.* at p.38.

**Disaster Recovery Plan
Could Not Be Tested**

VA-DDS could not annually test its Disaster Recovery Plan, which addresses those events involved in restoring system operations following a disaster. VA-DDS' Plan included system and manual claims processing recoveries. SSA's *Disability Determination Services Security Document* provided guidance for the annual testing of DDS' Disaster Recovery Plan. On October 7, 2005, a VA-DDS official acknowledged the Disaster Recovery Plan had not been tested.

On January 17, 2006, SSA officials indicated the testing requirements were not practical. Officials explained the VA-DDS system recovery portion of the Disaster Recovery Plan was not tested because SSA had not provided needed connectivity between VA-DDS and SSA computer systems. On January 17, 2006 Agency officials indicated the VA-DDS was not expected to perform the system recovery portion of the disaster recovery testing. As a result, officials explained this testing requirement has been modified. Further, the SSA officials stated the testing requirement for the manual claims processing recovery has been eliminated.

Conclusion and Recommendations

While funds charged for the program were generally allowable and allocable, we found SSA reimbursed VA-DDS for duplicate costs of \$230,310 for separated employees' unused leave. During our audit, we found accounting records did not support the net costs of \$58,531 claimed by VA-DDS for FYs 2002 through 2004. We also found VA-DDS reported unsupported obligations of \$733,732. After our discussion with VA-DDS officials, actions were taken to decrease the net unsupported cost claimed and to remove these obligations. Finally, our audit indicated the VA-DDS needs to comply with SSA's general security control policies related to intrusion detection and office cleaning.

We recommend SSA:

1. Instruct VA-DDS to refund \$230,310 for duplicate reimbursement it claimed for separating employees' unused leave.
2. Reduce VA-DDS funding authorization of \$58,531 for net unsupported cost.
3. Withdraw VA-DDS funding authorization of \$225,000 and \$508,732 for FYs 2003 and 2004, respectively, for the unsupported obligations.
4. Instruct VA-DDS to comply with SSA's policies related to intrusion detection systems or obtain a waiver from SSA.
5. Instruct VA-DDS to comply with SSA's policies related to cleaning services.

AGENCY COMMENTS

SSA agreed with our recommendations. In response to recommendation 1, SSA will instruct VA-DDS to refund \$230,310. To address recommendations 2 and 3, VA-DDS submitted amended Forms SSA-4513s to remove the obligations. Regarding recommendation 4, SSA will instruct VA-DDS to purchase intrusion detection systems for its Fairfax and Richmond offices. In addition, SSA will instruct the General Services Administration to include intrusion detection systems in its relocation plans for the Virginia Beach and Roanoke offices. Concerning recommendation 5, SSA will instruct VA-DDS to comply with policies related to cleaning services when the leases are renewed. See Appendix D for the full text of the Agency's comments.

STATE AGENCY COMMENTS

In its response to our recommendations, VA-DDS agreed to implement or had already implemented our recommendations. Regarding recommendation 1, VA-DDS concurred with the finding that \$230,310 in leave payouts was included in the direct cost pool used as a basis for calculating the negotiated indirect cost rate for Federal Fiscal Years 2002 through 2004. To address recommendation 2, VA-DDS submitted revised SSA-4513 quarterly fiscal reports to reflect the \$54,785 reduction for FY 2002, \$1,201 in additional costs for FY 2003, and a \$4,947 reduction for FY 2004. Additionally, authorization for the obligation was revised to reflect the reported changes. In its response to recommendation 3, VA-DDS deobligated FY 2003 funds of \$225,000 and FY 2004 funds of \$508,732. However, VA-DDS stated that the funds for constructing office cubicles are valid obligations, and that it has documentation confirming the need and the intent to purchase. Regarding recommendations 4 and 5, VA-DDS will provide specifications for intrusion detection systems and daytime cleaning services to the lease administrator for inclusion in the lease renewal negotiations. See Appendix E for the full text of VA-DDS's comments.

OIG RESPONSE

SSA and VA-DDS agreed with our recommendations and provided a technical comment regarding recommendation 1 that we incorporated into the final report. Concerning recommendation 3, if VA-DDS needs to construct office cubicles, then it should comply with SSA's policies and procedures for creating an obligation.

AGENCY POLICY ABOUT MEDICAL CONSULTANTS' LICENSES MAY NEED CLARIFICATION

During our audit of VA-DDS' FYs 2002 through 2004 administrative costs, we found the DDS used medical consultants who held inactive medical licenses. For the bi-weekly pay period ended May 15, 2004, VA-DDS paid \$3,461 to three physicians serving as medical consultants who had inactive licenses.¹⁵

Medical consultants provide medical expertise and guidance to disability examiners concerning case adjudication, medical opinions, and medical evidence and testing. According to SSA policy, a medical consultant must be a licensed physician, optometrist, or podiatrist or a qualified speech-language pathologist.¹⁶

VA-DDS' medical consultant contracts stated the "Contractor must be a physician in good standing with the State Board of Medicine and licensed to practice medicine in the Commonwealth of Virginia." Accordingly, the Virginia Board of Medicine defines an active license as a licensee who may practice medicine, osteopathy, or podiatry in Virginia.¹⁷ Our interpretation of SSA's existing guidelines agrees with VA-DDS' medical consultant contract's requirement for an active license.

Although we concluded the use of the three medical consultants did not comply with contract requirements, VA-DDS officials indicated the use of the consultants with inactive licenses did not violate SSA policy. The officials opined that SSA's policy is vague as to what type of licensure was allowed. Specifically, the policy does not state whether the physician should be licensed to practice medicine (active license) or may not engage in the practice of medicine (inactive license).¹⁸ In October 2005, VA-DDS officials informed us two of the three medical consultants we identified had obtained active licenses. VA-DDS reported the remaining medical consultant no longer performed services as a consultant.

We believe SSA's policy regarding the licensing of medical consultants may need clarification. Although SSA policy does not explicitly differentiate between active and inactive licensure, Agency officials stated it is their intent and belief that medical consultants used by SSA have active professional licenses.

¹⁵ Virginia's regulations governing the practice of Medicine, Osteopathy, Podiatry and Chiropractic, states "The holder of an inactive license shall not be required to maintain continuing competency requirements and shall not be entitled to perform any act requiring a license to practice medicine, osteopathic medicine, podiatry or chiropractic in Virginia." 18 Virginia Administrative Code (VAC) 85-20-236.

¹⁶ POMS, DI 24501.001, C.2.

¹⁷ <http://www.vahealthprovider.com/help.asp>; see also 18 VAC 85-20-230 *et seq.*

¹⁸ POMS, DI 39569.004, D.2.

Appendices

Acronyms

CFR	Code of Federal Regulations
DDS	Disability Determination Services
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
POMS	Program Operations Manual System
SSA	Social Security Administration
VA-DDS	Virginia Disability Determination Services
VA-DRS	Virginia Department of Rehabilitative Services

Scope and Methodology

We reviewed the administrative costs reported to the Social Security Administration (SSA) by the Virginia Disability Determination Services (VA-DDS) on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2002 through 2004.

The program obligations reported by VA-DDS on the Forms SSA-4513 were as follows.

**Table 1: VA-DDS Disbursements and Unliquidated Obligations
FYs 2002 Through 2004**

REPORTING ITEM	FY 2002 as of 06/25/04	FY 2003 as of 12/31/04	FY 2004 as of 12/31/04
Disbursements:			
Personnel	\$14,710,102	\$15,696,152	\$17,745,836
Medical	\$7,285,170	\$7,463,429	\$7,329,974
Indirect Costs	\$3,178,430	\$3,073,137	\$3,255,678
All Other Non-Personnel	\$4,594,909	\$3,938,825	\$3,732,869
Total Disbursements	\$29,768,611	\$30,171,543	\$32,064,357
Unliquidated Obligations:			
Personnel	\$0	\$0	\$2,934
Medical	\$0	\$0	\$157,263
Indirect Costs	\$0	\$0	\$(293)
All Other Non-Personnel	\$0	\$400,940	\$566,980
Total Unliquidated Obligations	\$0	\$400,940	\$727,178
Total Obligations	\$29,768,611	\$30,572,483	\$32,791,535

¹ Unliquidated obligations reported by VA-DDS on the FY 2004 Form SSA-4513 did not total to \$727,178. The difference between the value reported and actual total unliquidated obligations is insignificant. Therefore, in Table 1 we report the value VA-DDS indicated on the Form SSA-4513.

To achieve our objectives, we:

- Reviewed applicable Federal law and regulations, pertinent parts of SSA's Program Operations Manual System and other criteria relevant to administrative costs claimed by VA-DDS and drawdowns of SSA program funds.
- Reviewed State policies and procedures relating to personnel, medical, indirect, and all other nonpersonnel costs.
- Interviewed staff and officials from SSA, U.S. Department of Education, VA-DDS, and Virginia Department of Rehabilitative Services.
- Evaluated and tested internal controls regarding accounting, financial reporting and cash management activities.
- Reviewed the administrative costs VA-DDS reported on its Forms SSA-4513 for FYs 2002 (\$29,768,611), 2003 (\$30,572,483), and 2004 (\$32,791,535).
- Reconciled the Virginia Department of Rehabilitative Services' accounting records to the administrative costs reported by VA-DDS on the Forms SSA-4513 for FYs 2002 through 2004.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures.
- Reviewed the State of Virginia Statewide Single Audit reports for years ending June 30, 2002 through 2004.
- Examined the administrative costs incurred and claimed by VA-DDS for personnel, medical services, and all other nonpersonnel costs during FYs 2002 through 2004.
- Selected samples of payroll, medical evidence and all other nonpersonnel costs as described in the sampling methodology section on the following page.
- Analyzed indirect costs by applying the payroll cost base to agreed negotiated rates.
- Conducted a limited examination of VA-DDS' general security control environment at its administrative and regional offices located in Richmond, Virginia.

We concluded the electronic data used in our audit were sufficiently reliable, given the audit objectives and intended use of the data, and should not lead to incorrect or unintentional conclusions. 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 selected data elements from the electronic files.

We performed work at the VA-DDS and Virginia Department of Rehabilitative Services in Richmond, Virginia, and the Office of Audit in Baltimore, Maryland. We conducted fieldwork from August through November 2005. The audit was conducted in accordance with generally accepted government auditing standards.

SAMPLING METHODOLOGY

Our sampling methodology included the three general areas of costs as reported on Form SSA-4513: (1) personnel, (2) medical, and (3) all other nonpersonnel costs. We obtained data extracts from VA-DDS for FYs 2002 through 2004 to use in statistical sampling. Indirect cost was not sampled but we reviewed the indirect cost calculations for FYs 2002 through 2004 to ensure the correct rate was applied. After selecting and reviewing the randomly selected samples, we did not identify errors that we felt warranted statistical projection.

Personnel Costs

We randomly selected 1 pay period in FY 2004 and reviewed 50 employees' transactions. We tested payroll records to ensure VA-DDS accurately paid its employees and adequately supported these payments.

For medical consultant costs, we randomly selected one pay period in FY 2004. We selected all medical consultants during the period and verified that the medical consultants were paid in accordance with the approved contract.

Medical Costs

We stratified medical costs into medical evidence of record and consultative examinations and selected a stratified random sample of 150 items (50 items from each stratum in FYs 2002, 2003, and 2004).

All Other Nonpersonnel Costs

We selected a stratified random sample of 150 items (50 items from each FY) from the All Other Non-personnel Costs category. We stratified the transactions into the appropriate categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) New Electronic Data Processing Equipment, (5) Equipment Purchases, (6) Equipment Rental, (7) Communications, (8) Applicant Travel, (9) VA-DDS Travel, (10) Supplies, (11) Miscellaneous, and (12) Codes Not Identified. We then distributed the 50 sample items for each year between categories based on the proportional distribution of the costs.

Virginia Disability Determination Services' Schedule of Costs Reported, Questioned and Allowed

Our audit work resulted in the identification of three areas of questioned costs. We identified duplicate reimbursements for separated employees' unused leave totaling \$230,310. This total comprises \$62,763, \$76,577 and \$90,970 for Fiscal Years (FY) 2002, 2003, and 2004, respectively. Also, we found claimed expenses the accounting records did not support in the amounts of \$54,785, (\$1,201) and \$4,947 for FYs 2002, 2003 and 2004, respectively. Finally, we identified unsupported obligations totaling about \$225,000 and \$508,732 for FYs 2003 and 2004, respectively. VA DDS officials canceled the FY 2003 unsupported obligation of \$225,000 after we brought it to their attention.

FISCAL YEAR (FY) 2002 COSTS			
Description	Costs Reported	Cost Questioned	Costs Allowed
Personnel	\$14,710,102	\$0	\$14,710,102
Medical	\$7,285,170	\$0	\$7,285,170
Indirect Costs	\$3,178,430	\$0	\$3,178,430
All Other	\$4,594,909	\$62,763	\$4,532,146
Unsupported Amount	\$0	\$54,785	(\$54,785)
Total	\$29,768,611	\$117,548	\$29,651,063

FY 2003 COSTS			
Description	Costs Reported	Cost Questioned	Costs Allowed
Personnel	\$15,696,152	\$0	\$15,696,152
Medical	\$7,463,429	\$0	\$7,463,429
Indirect Costs	\$3,073,137	\$0	\$3,073,137
All Other	\$3,938,825	\$301,577	\$3,637,248
Unsupported Amount	\$0	(\$1,201)	\$1,201
Total	\$30,171,543	\$300,376	\$29,871,167

FY 2004 COSTS			
Description	Costs Reported	Cost Questioned	Costs Allowed
Personnel	\$17,745,836	\$0	\$17,745,836
Medical	\$7,329,974	\$0	\$7,329,974
Indirect Costs	\$3,255,678	\$0	\$3,255,678
All Other	\$3,732,869	\$599,702	\$3,133,167
Unsupported Amount	\$0	\$4,947	(\$4,947)
Total	\$32,064,357	\$604,649	\$31,459,708

Agency Comments



SOCIAL SECURITY

April 28, 2006

Regional Office III
P. O. Box 8788
Philadelphia, PA 19101

Patrick P. O'Carroll, Jr.
Inspector General
Office of the Inspector General
Social Security Administration
Suite 300 Altmeyer Building
6401 Security Blvd.
Baltimore, MD 21235

Dear Mr. O'Carroll:

A review of the draft report entitled, Administrative Costs Claimed by the Virginia Disability Determination Services (DDS) (A-13-05-15134) for Fiscal Years ending 2002 through 2004, contained five recommendations. We have received the Department of Rehabilitative Services response to the draft audit report.

Our comments are as follows:

Instruct VA-DDS to refund \$230,310 for duplicate payments made to separating employees for unused leave.

- The recommendation does not accurately reflect the issue. Duplicate payments were not made to employees. The issue is costs for unused leave were included in the direct costs when the indirect cost recovery was supposed to cover these costs. The \$230,310 should be identified as an overpayment and not a duplicate payment. Because the unused leave costs were improperly charged as a direct cost, we will instruct the VA-DDS to refund SSA \$230,310.

Reduce VA-DDS funding authorization of \$58,531 for net unsupported cost.

- The VA-DDS has already submitted amended SSA-4513 to remove the \$58, 531 from its obligation authority. Since the funds were not drawn down, there is no additional action to be taken.

Withdraw VA-DDS funding authorization of \$225,000 and \$508,732 for FYs 2003 and 2004, respectively, for the unsupported obligations.

- We agree with this recommendation. The VA-DDS has already submitted amended SSA-4513s to remove obligations for both FYs. Since the funds were not drawn down, there is no additional action to be taken.

Instruct VA-DDS to comply with SSA's policies related to intrusion detection systems or obtain a waiver from SSA.

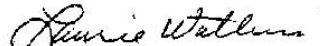
- We agree with this recommendation and will instruct the VA-DDS to purchase intrusion detection systems for its Fairfax and Richmond offices. Since its Virginia Beach and Roanoke offices will be relocating soon, we will instruct GSA to include intrusion detection systems in their plans.

Instruct VA-DDS to comply with SSA's policies related to cleaning services.

- The region will instruct VA-DDS to comply with SSA policies related to cleaning services when they renew their leases.

If you have any questions, please contact Dave Koons in the Center for Disability Programs at 215-597-8161.

Sincerely,


Laurie Watkins

State Agency Comments



COMMONWEALTH of VIRGINIA

James A. Rothrock, M.S., L.P.C.
COMMISSIONER

Department Of Rehabilitative Services

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April 26, 2006

Patrick P. O'Carroll, Jr., Inspector General
Office of Inspector General
Social Security Administration
Altmeyer Building, Suite 300
6401 Security Blvd.
Baltimore, MD 21235

Dear Mr. O'Carroll:

Thank you for the opportunity to respond to the recommendations contained in the audit report of Administrative Costs Claimed by the Virginia Disability Determination Services (DDS) conducted by your office. As always, we use audit findings as an impetus to improve our processes, and we appreciate the effort put forth by your staff in reviewing the Virginia DDS.

Your findings are noted below, followed by our response to each finding:

1. *Instruct VA-DDS to refund \$230,310 for duplicate payments made to separating employees for unused leave.*

This recommendation does not accurately reflect the issue. Duplicate payments were not made to employees. The issue is costs for unused leave were included in the direct costs when the indirect cost recovery was supposed to cover these costs.

VA-DDS concurs with the finding that VA-DDS included \$230,310 in leave payouts in the direct cost pool used as a basis of calculating the negotiated indirect cost rate for Federal Fiscal Years 2002 through 2004.

The corrective action that DDS has implemented includes adjusting year-to-date State Fiscal Year 2006 reimbursements for separated employees' unused leave in the Accounting System. The charges have been moved from DDS federal grant funds to the DDS Agency indirect cost recovery funds. The Virginia Department of Rehabilitative Services (VA-DRS) Fiscal Division has created an allotment in the DDS state fiscal year

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Patrick P. O'Carroll, Inspector General
 April 26, 2006
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2006 budget of indirect cost funds, and will have the responsibility of charging all FY 2006 unused leave payout balances for DDS employees to this non-federal DDS fund account.

VA-DRS provides a copy of the transactions that document the charging of unused leave payout balances to the DDS Office on a monthly basis.

In addition, the VA-DRS Indirect Cost Rate Proposal for state Fiscal Year 2007 submitted to the U.S. Department of Education does not include separated employees' unused leave payments in the indirect cost rate computations. This should resolve the technical issue which led to the finding in this study.

2. Reduce VA-DDS funding authorization of \$58,531 for net unsupported cost.

This was accomplished on January 25, 2006. DDS submitted revised SSA-4513 quarterly fiscal reports to reflect the \$54,785 reduction for FY 2002, \$1,201 in additional costs for FY 2003, and a \$4,947 reduction for FY 2004. On March 16, 2006 the "Obligational Authorization" (SSA-872) was revised to reflect the reported changes.

3. Withdraw VA DDS funding authorization of \$225,000 and \$508,732 for FYs 2003 and 2004, respectively, for the unsupported obligations.

As discussed in the report, DDS de-obligated FY 2003 funds of \$225,000 for the purchase of a generator and de-obligated the FY 2004 funds of \$508,732 for constructing office cubicles.

VA-DDS, however, still contends the funds for constructing the office cubicles are valid obligations, and documentation exists that confirms the need and the intent to purchase. These cubicles are for a Regional Office that is co-locating with a Social Security Administration Field Office. Delays in location identification and construction of the new building are the only reasons these cubicles have not yet been purchased. Co-location is expected within the next year so there continues to be a *bona fide* need for these funds.

4. Instruct VA-DDS to comply with SSA's policies related to intrusion detection systems or obtain a waiver from SSA.

The leases for the DDS Richmond and Fairfax Regional Offices are currently in negotiations for renewal. Examples of specifications for intrusion detection systems were provided to the lease administrator for inclusion in the negotiations.

Research has begun on the purchase of an intrusion detection system in the Administrative Office for the computer room and the DDS suite. A contractor will be hired to develop exact specifications. The project will then go through the bid process according to the Commonwealth of Virginia's procurement policies and procedures.

Patrick P. O'Carroll, Inspector General
April 26, 2006
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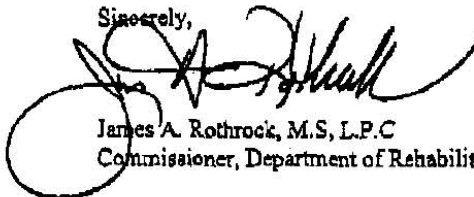
5. Instruct VA DDS to comply with SSA's policies related to cleaning services.

As previously indicated, the leases for the Richmond and Fairfax Regional Offices are currently in negotiations for renewal. Daytime cleaning services will be included in these negotiations.

Upon renewal of the lease in the DDS Administrative Office, daytime cleaning will be included in the negotiations. In the meantime, secure areas such as the computer room are not cleaned by cleaning personnel. Information technology staff is responsible for cleaning those areas. Claimant confidential information is not typically kept in the DDS Administrative Office suite, but when it is, we will institute a "clean desk policy" to assure claimant files are not accessible to cleaning personnel.

Please advise if you have any further questions or comments.

Sincerely,



James A. Rothrock, M.S., L.P.C.
Commissioner, Department of Rehabilitative Services

OIG Contacts and Staff Acknowledgments

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Acknowledgments

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For additional copies of this report, please visit our web site at www.socialsecurity.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-13-05-15134.

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