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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**ADMINISTRATIVE COSTS CLAIMED  
BY THE ALABAMA DISABILITY  
DETERMINATION SERVICE**

September 2002

A-08-01-11050

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**AUDIT REPORT**

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## **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:**

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- 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.**

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- Independence to determine what reviews to perform.**
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- Authority to publish findings and recommendations based on the reviews.**

## **Vision**

**By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.**



## SOCIAL SECURITY

### MEMORANDUM

Date: September 19, 2002

Refer To:

To: Paul D. Barnes  
Regional Commissioner

From: Assistant Inspector General  
for Audit

Subject: Administrative Costs Claimed by the Alabama Disability Determination Service  
(A-08-01-11050)

### OBJECTIVE

Our objectives were to:

- evaluate the adequacy of internal controls over the accounting and reporting of administrative costs claimed and the draw down of Social Security Administration (SSA) funds at the Alabama Disability Determination Service (AL-DDS) and Alabama Department of Education (AL-DE) to determine whether the controls were sufficient to ensure the proper draw down of funds and accounting and reporting of administrative costs;
- determine whether costs claimed on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for the period October 1, 1997 through September 30, 2000 were allowable and properly allocated; and
- determine whether the aggregate of the SSA funds drawn down agreed with total expenditures reported for disability determinations in Fiscal Years (FY) 1998 through 2000.

### BACKGROUND

The Disability Insurance (DI) program provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program is a nationally uniform program that provides income to financially needy individuals who are aged, blind and/or disabled. SSA implements the general policies governing development of disability claims under the DI and SSI programs. A designated agency in each State performs disability determinations according to Federal regulations.

Each agency determines claimants' disabilities and is required to maintain adequate evidence to support its determinations. To assist in making proper disability determinations, SSA authorizes each 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.

The designated agency for the State of Alabama is the AL-DDS, a division within the AL-DE. Parent agencies, such as the AL-DE, often provide administrative services (that is, accounting, purchasing, and personnel) to the State designated Disability Determination Service agency (DDS). SSA reimburses each DDS for 100 percent of the allowable expenditures reported quarterly on Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*.

## **SCOPE AND METHODOLOGY**

We obtained evidence to evaluate the allowability and appropriateness of recorded financial transactions under the provisions of Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and SSA's *Program Operations Manual System (POMS)*.

We reviewed \$89,930,361 in administrative costs the AL-DE reported for AL-DDS operations for the period October 1, 1997 through September 30, 2000. This amount included costs associated with SSA's Automation Investment Funds (AIF) and Information Technology System (ITS) funding activities. Our audit coverage included any subsequent financial activity through June 30, 2001, which affected FYs 1998 through 2000. As of June 30, 2001, the AL-DE reported \$31,194 in outstanding obligations for FY 2000, which are included in the amount shown above. The AL-DE liquidated these obligations during the fourth quarter of FY 2001.

In reviewing the costs reported by AL-DE, we obtained an extract of disbursements, totaling \$89,910,608, for the audit period.<sup>1</sup> The extract included 285,621 records, totaling \$25,680,953, relating to medical evidence of record and consultative exams (MER/CE); 31,604 records, totaling \$45,408,771, for personnel costs; 37,262 records, totaling \$6,088,540, for other non-personnel costs; 73 transactions, totaling \$4,003,098, for office space rental costs; 88 records, totaling \$ 320,650, for AIF/ITS funding costs; and 46 records, totaling \$8,408,596, for indirect costs transactions.

To test the costs claimed, we randomly selected 90 records, totaling \$20,580 or .08 percent, for MER/CE costs and 90 records, totaling \$116,330 or 1.9 percent, of other non-personnel costs. We selected 30 personnel records, totaling \$50,911 or

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<sup>1</sup> The extract of disbursements exceeded the disbursements AL-DE reported on Forms SSA-4513 by \$11,441. When preparing Forms SSA-4513, the AL-DE reduced actual disbursements by \$11,313 for miscellaneous refunds and receipts. Also, the extract of disbursements included \$128 more for medical costs than AL-DE reported for the audit period.

.1 percent, for review and examined 100 percent of the records for office space rental costs and AIF/ITS transactions. We reviewed indirect costs by verifying that the approved indirect cost rate had been applied to the appropriate modified direct cost base for each year.

We also:

- reviewed applicable Federal regulations and pertinent parts of SSA's POMS, section DI 39500, *DDS Fiscal and Administrative Management*;
- interviewed AL-DE and AL-DDS staff;
- reviewed the AL-DE's and AL-DDS's policies and procedures;
- documented our understanding of the AL-DE's and AL-DDS's systems of internal controls over the accounting and reporting of administrative costs;
- evaluated and tested internal controls regarding accounting and financial reporting;
- traced the administrative expenditures AL-DE reported on Forms SSA-4513 to its accounting records;
- documented our understanding of the AL-DE's procedures and internal controls for drawing down SSA funds;
- analyzed AL-DE's draw downs of SSA funds and reconciled them with reported expenditures;
- reviewed the Alabama Department of Examiners of Public Accounts' Single Audit reports and related working papers for the period October 1, 1997 through September 30, 2000; and
- conducted a physical inventory of equipment items AL-DE purchased during our audit period and selected computer hardware items SSA provided to AL-DDS.

We performed work at AL-DDS's offices in Birmingham and Mobile, Alabama, and AL-DE's and Alabama Department of Examiners of Public Accounts' offices in Montgomery, Alabama. We conducted our audit from July 2001 through March 2002 in accordance with generally accepted government auditing standards.

## **RESULTS OF REVIEW**

Based on our examination, the AL-DE and AL-DDS had adequate internal controls over accounting and reporting of administrative costs and draw downs of SSA funds, with the exception of controls over property. Tests of the amounts the AL-DE reported on forms

SSA-4513 showed the AL-DE had accurately reported the administrative costs AL-DDS incurred for disability determination activities during our audit period. Our tests of AL-DE's claimed costs also showed the costs were allowable and properly allocated. We did not identify any point in time during our audit period when cumulative draw downs for a given year exceeded cumulative disbursements. However, as of June 30, 2001, disbursements for FY 1998 exceeded draw downs by \$4,660. We brought this to the attention of AL-DE personnel, and they drew down the funds.

The AL-DE's and AL-DDS's inventory controls were not adequate to ensure an accurate accounting for and safeguarding of all equipment items acquired for the disability programs. Our review showed that some equipment items the AL-DDS acquired during the audit period were not properly labeled, and some items were not recorded in its inventory. We also found that SSA had not reduced AL-DE's authorized obligational authority for AIF funding for FYs 1998 and 1999 and regular funding for FY 2000 even though it had no outstanding obligations for those budget years.

### **AL-DE and AL-DDS Need to Strengthen Inventory Controls**

POMS, section DI 39530.020 A, requires the DDS to label all property it acquires or that SSA furnishes it to perform the disability determination function. However, AL-DDS personnel did not label a mailing machine and supporting console, mail scale, and laser facsimile machine that were purchased for and located in the Mobile, Alabama, DDS office. AL-DDS officials were unaware they had not labeled these items and agreed to do so.

POMS, section DI 39530.020 B.3, requires each DDS to maintain a current inventory of equipment purchased for the disability program. However, AL-DE failed to include some purchased items in its current inventory file. An employee misclassified seven sorting units as workstations, which caused AL-DE to subsequently delete them from their current inventory file. AL-DE officials acknowledged they had misclassified the sorting units and agreed to add them to the active inventory file.

### **SSA Needs To Promptly Reduce AL-DE's Authorized Funding Level**

POMS, section DI 39506.200 C.5, requires that SSA reduce an agency's obligational authority (that is, authorized funding level) when it determines the agency no longer needs the previously authorized funding level. Although AL-DE had liquidated all outstanding obligations for FY 2000 (as of September 30, 2001), SSA had not reduced the AL-DE's remaining obligational authority (\$30,821) as of March 2002. In addition, SSA had not reduced AL-DE's remaining obligational authority for its FY 1998 and 1999 AIF funding (\$124 and \$510, respectively). During our audit, we brought this matter to the attention of SSA officials, and they reduced AL-DE's obligational authority accordingly.

## **CONCLUSION AND RECOMMENDATIONS**

The AL-DE and AL-DDS have adequate internal controls over the accounting and reporting of administrative costs and the draw down of SSA funds. However, AL-DE and AL-DDS need to strengthen their inventory controls to ensure they accurately account for, label, and safeguard all equipment items acquired for the disability program. Furthermore, SSA needs to ensure it promptly reduces AL-DE's authorized funding level when it determines that AL-DE no longer needs the remaining obligational authority for a budget year.

We recommend that SSA:

1. Instruct AL-DE to establish controls to ensure it labels all property it acquires or that SSA furnishes it to perform the disability determination function.
2. Instruct AL-DE to establish controls to ensure it properly classifies equipment items and includes them in its current inventory file.
3. Reduce AL-DE's authorized funding level after the end of each FY when it determines AL-DE has no further outstanding obligations attributable to that FY.

## **AGENCY COMMENTS AND OFFICE OF THE INSPECTOR GENERAL RESPONSE**

SSA agreed with our recommendations. Regarding Recommendation 1, SSA stated that labels have been placed on the property in question and it is working with the DDS and the parent agency to ensure that this oversight does not occur in the future. To address Recommendation 2, SSA stated it will work with the DDS and the parent agency to ensure that equipment items continue to be classified correctly and that the inventory of equipment is properly maintained. Regarding Recommendation 3, SSA stated the Atlanta Regional Office's Financial Management Team will work closely with the Division of Field Disability Operations to ensure that authorized funding levels are changed after the end of each FY when it determines that AL-DE has no further outstanding obligations attributable to that FY.

We believe SSA's response and planned actions adequately address our recommendations.



Steven L. Schaeffer

# Appendices

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**APPENDIX A** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Years 1998 through 2000, as of June 30, 2001

**APPENDIX B** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Year 2000 – Regular Funding

**APPENDIX C** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Year 2000 – Information Technology System Funding

**APPENDIX D** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Year 1999 – Regular Funding

**APPENDIX E** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Year 1999 – Automation Investment Funds

**APPENDIX F** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Year 1998 – Regular Funding

**APPENDIX G** – Obligations Reported/Allowable for Disability Determination Service for Fiscal Year 1998 – Automation Investment Funds

**APPENDIX H** – Agency Comments

**APPENDIX I** – OIG Contacts and Staff Acknowledgments



**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEARS 1998 THROUGH 2000, AS OF JUNE 30, 2001**

<b>COSTS</b>	<b>TOTAL OBLIGATIONS</b>		<b>DISBURSEMENTS</b>		<b>UNLIQUIDATED OBLIGATIONS</b>	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 45,408,771	\$ 45,408,771	\$ 45,408,771	\$ 45,408,771	\$ 0	\$ 0
MEDICAL	25,707,838	25,707,838	25,680,826	25,680,826	27,012	27,012
INDIRECT	8,412,404	8,412,404	8,408,597	8,408,597	3,807	3,807
ALL OTHER	<u>10,401,348</u>	<u>10,401,348</u>	<u>10,400,973</u>	<u>10,400,973</u>	<u>375</u>	<u>375</u>
<b>TOTAL</b>	\$ 89,930,361	\$ 89,930,361	\$ 89,899,167	\$ 89,899,167	\$ 31,194	\$ 31,194

**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEAR 2000 - REGULAR FUNDING**

<b>COSTS</b>	<b>TOTAL OBLIGATIONS</b>		<b>DISBURSEMENTS</b>		<b>UNLIQUIDATED OBLIGATIONS</b>	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 15,713,454	\$ 15,713,454	\$ 15,713,454	\$ 15,713,454	\$ 0	\$ 0
MEDICAL	8,916,672	8,916,672	8,889,660	8,889,660	27,012	27,012
INDIRECT	3,850,284	3,850,284	3,846,477	3,846,477	3,807	3,807
ALL OTHER	<u>3,487,276</u>	<u>3,487,276</u>	<u>3,486,901</u>	<u>3,486,901</u>	<u>375</u>	<u>375</u>
<b>TOTAL</b>	\$ 31,967,686	\$ 31,967,686	\$ 31,936,492	\$ 31,936,492	\$ 31,194	\$ 31,194

**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEAR 2000 – INFORMATION TECHNOLOGY SYSTEM FUNDING**

COSTS	TOTAL OBLIGATIONS		DISBURSEMENTS		UNLIQUIDATED OBLIGATIONS	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
MEDICAL	0	0	0	0	0	0
INDIRECT	0	0	0	0	0	0
ALL OTHER	<u>6,575</u>	<u>6,575</u>	<u>6,575</u>	<u>6,575</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	\$ 6,575	\$ 6,575	\$ 6,575	\$ 6,575	\$ 0	\$ 0

**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEAR 1999 - REGULAR FUNDING**

<b>COSTS</b>	<b>TOTAL OBLIGATIONS</b>		<b>DISBURSEMENTS</b>		<b>UNLIQUIDATED OBLIGATIONS</b>	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 15,524,046	\$ 15,524,046	\$ 15,524,046	\$ 15,524,046	\$ 0	\$ 0
MEDICAL	8,903,898	8,903,898	8,903,898	8,903,898	0	0
INDIRECT	1,616,225	1,616,225	1,616,225	1,616,225	0	0
ALL OTHER	<u>3,502,719</u>	<u>3,502,719</u>	<u>3,502,719</u>	<u>3,502,719</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	\$ 29,546,888	\$ 29,546,888	\$ 29,546,888	\$ 29,546,888	\$ 0	\$ 0

**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEAR 1999 – AUTOMATION INVESTMENT FUNDS**

<b>COSTS</b>	<b>TOTAL OBLIGATIONS</b>		<b>DISBURSEMENTS</b>		<b>UNLIQUIDATED OBLIGATIONS</b>	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
MEDICAL	0	0	0	0	0	0
INDIRECT	0	0	0	0	0	0
ALL OTHER	<u>12,350</u>	<u>12,350</u>	<u>12,350</u>	<u>12,350</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	\$ 12,350	\$ 12,350	\$ 12,350	\$ 12,350	\$ 0	\$ 0

**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEAR 1998 - REGULAR FUNDING**

<b>COSTS</b>	<b>TOTAL OBLIGATIONS</b>		<b>DISBURSEMENTS</b>		<b>UNLIQUIDATED OBLIGATIONS</b>	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 14,171,271	\$ 14,171,271	\$ 14,171,271	\$ 14,171,271	\$ 0	\$ 0
MEDICAL	7,887,268	7,887,268	7,887,268	7,887,268	0	0
INDIRECT	2,945,895	2,945,895	2,945,895	2,945,895	0	0
ALL OTHER	<u>3,090,703</u>	<u>3,090,703</u>	<u>3,090,703</u>	<u>3,090,703</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	\$ 28,095,137	\$ 28,095,137	\$ 28,095,137	\$ 28,095,137	\$ 0	\$ 0

**OBLIGATIONS REPORTED/ALLOWABLE FOR DISABILITY DETERMINATION SERVICE FOR  
FISCAL YEAR 1998 – AUTOMATION INVESTMENT FUNDS**

<b>COSTS</b>	<b>TOTAL OBLIGATIONS</b>		<b>DISBURSEMENTS</b>		<b>UNLIQUIDATED OBLIGATIONS</b>	
	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT	REPORTED BY AL-DE	ALLOWABLE PER AUDIT
PERSONNEL	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
MEDICAL	0	0	0	0	0	0
INDIRECT	0	0	0	0	0	0
ALL OTHER	<u>301,725</u>	<u>301,725</u>	<u>301,725</u>	<u>301,725</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	\$ 301,725	\$ 301,725	\$ 301,725	\$ 301,725	\$ 0	\$ 0

## Agency Comments





## SOCIAL SECURITY

### MEMORANDUM

Date: September 12, 2002

Refer To: S2D4  
(D RKunzler 21399)

To: Assistant Inspector General for Audit

From: Regional Commissioner  
Atlanta

Subject: Alabama State DDS Audit -- RESPONSE to Your Memorandum (undated)

We are pleased with the audit's finding that the Alabama Department of Education (AL-DE) and the Alabama DDS had adequate internal controls over accounting and reporting of administrative costs and draw downs of SSA funds. We do note that the audit found that the State of Alabama did not have adequate inventory controls and that we had not timely reduced Alabama's AIF funding for FYs 1998 and 1999 in the amounts of \$124 and \$510, respectively. We concur with the facts as presented in the Audit Report and agree that the recommendations are reasonable. Our specific response to the recommendations is as follows:

1. Instruct AL-DE to establish controls to ensure it labels all property it acquires or that SSA furnishes it to perform the disability determination function.

We concur with this recommendation and the DDS Parent Agency (Department of Education) has already taken action to correct the deficiency. Labels have been placed on the property in question and we are working with the DDS and the Parent Agency to ensure that this oversight does not occur in the future.

2. Instruct AL-DE to establish controls to ensure it properly classifies equipment items and includes them in its current inventory file.

We concur with this recommendation. The Parent Agency has already corrected his deficiency. We will work with the DDS and the Parent Agency to ensure that equipment items continue to be classified correctly and that inventory of equipment is maintained properly.

3. Reduce AL-DE's authorized funding level after the end of each FY when it determines AL-DE has no further outstanding obligations attributable to that FY.

We concur with this recommendation and have modified procedures here in the Atlanta Regional Office. The Financial Management Team will work closely with the Division of Field Disability Operations (DFDO) to ensure that authorized funding levels are changed after the end of each FY when it has been determined that AL-DE has no further outstanding obligations attributable to that FY.

Please contact me if I can be of further assistance. Staff questions should be referred to Bob Kunzler at (404) 562-1399 or Karen Killam at (404) 562-5727.

Paul D. Barnes

cc: Dr. Ed Richardson, Superintendent, Alabama Department of Education  
Dr. Tommy Warren, Director, Alabama DDS  
Lenore R. Carlson, Acting Associate Commissioner, Office of Disability  
Anthony NiNoto, Acting Associate Commissioner, Office of Financial Policy and  
Operations

## **OIG Contacts and Staff Acknowledgments**

### **OIG Contacts**

Kimberly A. Byrd, Director, Southern Audit Division (205) 801-1605

Jeff Pounds, Deputy Director, Birmingham Field Office (205) 801-1606

### **Staff Acknowledgments**

In addition to those named above:

Cliff McMillan, Senior Auditor

Reginia Grider, Senior Auditor

Kimberly Beauchamp, Writer/Editor

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Ranking Minority Member, Senate Special Committee on Aging	1
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Treasurer, National Council of Social Security Management Associations, Incorporated	1
Social Security Advisory Board	1
AFGE General Committee	9
President, Federal Managers Association	1
Regional Public Affairs Officer	1
<b>Total</b>	<b>96</b>

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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.