SOCIAL SECURITY

**MEMORANDUM**

Date: March 28, 2005 Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Inspector General

Subject: Indirect Costs Claimed by the Arizona Disability Determination Services (A-09-04-14010)

The attached final report presents the results of our audit. Our objective was to determine whether the indirect costs claimed by the Arizona Disability Determination Services for Federal Fiscal Years 2001 and 2002 were allowable and properly allocated.

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.

Patrick P. O'Carroll, Jr.

Attachment

cc:
Lenore R. Carlson
Jeff Hild
Candace Skurnik

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

INDIRECT COSTS CLAIMED
BY THE ARIZONA DISABILITY
DETERMINATION SERVICES

March 2005 A-09-04-14010

# 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 objective was to determine whether the indirect costs claimed by the Arizona Disability Determination Services (AZ-DDS) for Federal Fiscal Years (FY) 2001 and 2002 were allowable and properly allocated.

## BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by Disability Determination Services (DDS) in each State in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures. The expenditures include both direct and indirect costs.

## RESULTS OF REVIEW

We found that indirect costs claimed for reimbursement under SSA's disability programs were generally acceptable for FYs 2001 and 2002. However, the Arizona Department of Economic Security (DES) incorrectly charged some indirect costs to SSA's programs. This occurred because DES (1) charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool, (2) improperly charged self-insurance premiums and the related administrative costs to the departmental indirect cost pool, and (3) did not allocate departmental and State-wide indirect costs to all programs that benefited from these costs.

As a result, SSA reimbursed DES for $272,062 of unallowable indirect costs for July 2000 through June 2003. In addition, if DES had revised its cost allocation methodology, we estimate SSA could have realized about $122,000 in cost savings for July 2002 through June 2003. Over a 5-year period, we estimate SSA could realize about $610,000 in program savings.

## RECOMMENDATIONS

We recommend that SSA instruct DES to refund $272,062 of unallowable departmental indirect costs. We also recommend that SSA instruct DES to discontinue charging self-insurance premiums that do not benefit SSA's programs to the departmental indirect cost pool. Finally, we recommend that SSA instruct DES to revise its cost allocation methodology, train its employees, and determine the propriety of indirect costs charged to the departmental indirect cost pool.

## SSA COMMENTS

SSA generally concluded that our recommendations were reasonable. However, SSA stated that it could not make a reasonableness determination concerning the amount of unallowable indirect costs that DES should refund without reviewing DES' comments and OIG's response to those comments. See Appendix C for the text of SSA's comments.

## DES COMMENTS

DES generally agreed with our findings and recommendations but believes the unallowable indirect costs may be less than the amounts we identified. However, DES agreed to comply with SSA's instructions regarding the amount of unallowable costs to be repaid to its programs. See Appendix D for the text of DES' comments.

For our recommendation concerning the $141,662 in unallowable indirect costs, DES stated that $63,703 in indirect costs did provide some benefit to SSA's programs. Specifically, DES believes SSA's programs benefited from the Office of Accounts Receivable and Collections (OARC) through its Public Assistance and Administration Revolving (PAAR) Fund, activities for the developmentally disabled and foster care children, and Interim Assistance Reimbursement program. DES also believes SSA's programs benefited from the Deputy Director for the Division of Developmental Disabilities (DDD); Division of Children, Youth, and Families (DCYF); and Division of Aging and Community Services (DACS) through meetings involving department-wide issues.

For our recommendation concerning the $130,400 in unallowable self-insurance premiums, DES agreed that self-insurance premiums were incorrectly charged to the departmental indirect cost pool. However, DES stated it has established a new methodology to allocate self-insurance premiums beginning in State FY 2005. DES estimated that, had it applied this methodology to the period covered by our audit, the unallowable premiums would have been $22,649.

## OIG RESPONSE

While it is ultimately SSA's decision to determine the amount of unallowable indirect costs that DES should refund, we continue to believe that the $272,062 in indirect costs did not benefit SSA's programs. Specifically, we estimate the annual SSA program costs of the OARC activities for the PAAR Fund is only $154. The remaining activities of the OARC only benefit DES clients and are not related to the adjudication of claims by AZ-DDS. In addition, the activities of the Deputy Director for DDD, DCYF, and DACS do not benefit AZ-DDS operations. Finally, we believe SSA should recover the unallowable indirect costs for self-insurance premiums. We determined the amount of unallowable premiums based on the methodology DES used during our audit period and believe it is inappropriate for DES to retroactively apply a new methodology.

# Table of Contents

# Introduction

## OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the Arizona Disability Determination Services (AZ-DDS) for Federal Fiscal Years (FY) 2001 and 2002 were allowable and properly allocated.

## BACKGROUND

The Disability Insurance (DI) program was established in 1954 under Title II of the Social Security Act (Act). The DI program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income (SSI) program under Title XVI of the Act. The SSI program provides benefits to financially needy individuals who are aged, blind, 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 in accordance with Federal 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.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization.[2] The expenditures include both direct and indirect costs.[3] At the end of each quarter of the FY, each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.

AZ-DDS is a component of the Arizona Department of Economic Security (DES), Division of Benefits and Medical Eligibility. As of June 30, 2003, DES reported total expenditures of $38.7 million for FYs 2001 and 2002, including $20.3 million in personnel costs, $11.0 million in medical costs, $4.9 million nonpersonnel costs,

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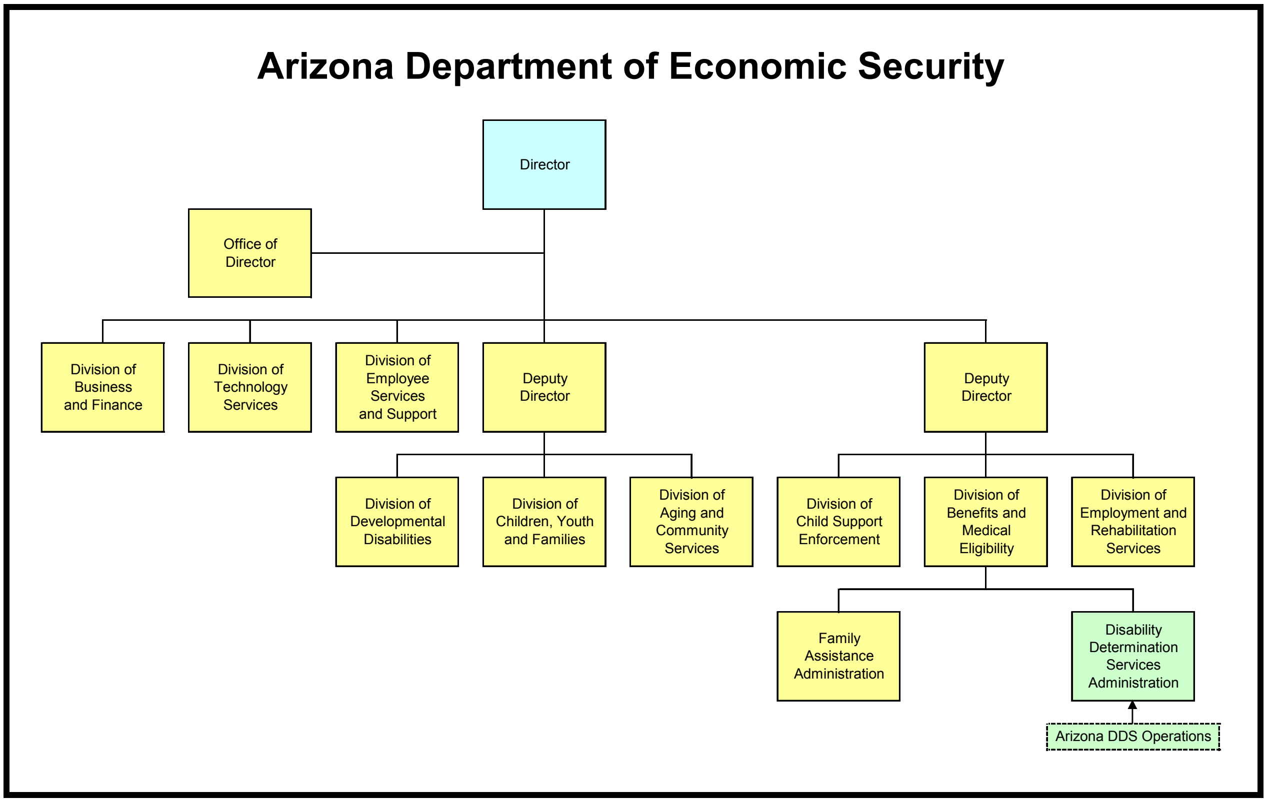
[1] 20 C.F.R. part 404, subpart Q (April 2004), and part 416, subpart J (April 2004).

[2] 20 C.F.R. §§ 404.1626 and 416.1026.

[3] Direct costs can be identified specifically with a particular cost objective (Office of Management and Budget [OMB] Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, § E.1). Indirect costs arise from activities that are common to multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved (OMB Circular A-87, Attachment A, § F.1).

and $2.5 million in indirect costs. The following chart provides an overview of the organizational structure of DES.




Each month, DES distributes direct and indirect costs to all programs within the department through its cost allocation process. DES uses various methods to allocate these costs reasonably and equitably. DES' procedures require that components charge costs directly to the benefiting programs whenever possible.[4] Indirect cost pools are used when activities benefit multiple programs or the entire department.

The departmental indirect cost pool, referred to as the "Z" pool, is designed to accumulate the costs of activities that benefit all programs within DES. These costs are allocated to all programs based on the modified total direct costs (MTDC) of each program. MTDC consists of the total direct costs for each program less the expenditures for food, direct aid to organizations or clients, principal and interest payments for capital leases, and capital outlays. Each program receives an allocation based on the percentage of its MTDC to the department's total MTDC.

The State-wide indirect cost pool is used to distribute DES' share of expenditures that benefit all departments within the State. These costs are also allocated to all programs based on the MTDC of each program.

[4] DES, Cost Allocation Plan, as amended, dated July 1, 2003.

# Results of Review

We found that indirect costs claimed for reimbursement under SSA's disability programs were generally acceptable for FYs 2001 and 2002. However, DES incorrectly charged some indirect costs to SSA's programs. This occurred because DES (1) charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool, (2) improperly charged self-insurance premiums and the related administrative costs to the departmental indirect cost pool, and (3) did not allocate departmental and State-wide indirect costs to all programs that benefited from these costs.

As a result, SSA reimbursed DES for $272,062 of unallowable costs for July 2000 through June 2003. In addition, if DES had revised its cost allocation methodology, we estimate SSA could have realized about $122,000 in cost savings for July 2002 through June 2003. Over a 5-year period, we estimate SSA could realize about $610,000 in program savings.

## DEPARTMENTAL INDIRECT COSTS THAT PROVIDED NO BENEFIT TO SSA

DES incorrectly charged SSA for departmental indirect costs that did not benefit SSA's programs. These costs were charged to the departmental indirect cost pool by components within the Division of Employee Services and Support, Division of Business and Finance, and Deputy Director for the Division of Developmental Disabilities (DDD), Division of Children, Youth, and Families (DCYF), and Division of Aging and Community Services (DACS). This occurred, in part, because DES employees were not fully aware of the proper methods for charging expenditures to the departmental indirect cost pool. As a result, SSA reimbursed DES for $141,662 in unallowable costs for July 2000 through June 2003. The following table summarizes the unallowable costs that were allocated to SSA's programs.

**Unallowable Costs Allocated to SSA's Programs Through Departmental Indirect Cost Pool**

| DES Component | Unallowable Costs |
|---|---|
| **Division of Employee Services and Support** | |
| Appellate Services | $17,278 |
| Special Investigations | 60,681 |
| **Division of Business and Finance** | |
| Accounts Receivable and Collections | 38,314 |
| **Deputy Director for DDD, DCYF, and DACS** | 25,389 |
| **Total** | **$141,662** |

Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.[5] According to DES' Cost Allocation Plan, the departmental indirect cost pool is designed to accumulate only those costs of activities that benefit all programs within DES. Therefore, the costs of any activities that DES charges to the departmental indirect cost pool should provide benefit to all programs, including SSA's programs.

We concluded that DES did not comply with Federal cost standards or its cost allocation plan since these components did not perform activities that benefited SSA's programs. For example, the Appellate Services Administration is responsible for resolving disputed issues resulting from department actions. Hearings are held for disputes involving most programs within the department except for SSA's programs. However, the Appellate Services Administration charged the departmental indirect cost pool for such expenditures as management costs, sick and annual leave, and training costs. SSA's programs did not benefit from these expenditures. Therefore, the Appellate Services Administration should not have charged expenditures to the departmental indirect cost pool.

To prevent future occurrences of similar problems, DES should charge costs to the benefiting programs rather than the departmental indirect cost pool. DES should also determine the propriety of indirect costs charged to the departmental indirect cost pool by other components and refund any unallowable costs to SSA. In addition, DES should train its employees in correctly charging departmental indirect costs.

5 OMB Circular A-87, Attachment A, C.3.a.

## SELF-INSURANCE PREMIUMS WERE IMPROPERLY CHARGED

DES improperly charged self-insurance premiums and the related administrative costs to the departmental indirect cost pool. This occurred because DES did not identify the applicable divisions that incurred losses for some claims. In addition, DES incorrectly determined that all supplemental insurance costs, medical malpractice insurance costs, and administrative costs for the self-insurance program should be charged to the departmental indirect cost pool. As a result, SSA reimbursed DES for $130,400 of unallowable indirect costs for July 2000 through June 2003.

Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.[6] According to DES' Cost Allocation Plan, the departmental indirect cost pool is designed to accumulate only those costs of activities that benefit all programs within DES.[7] In addition, indirect cost pools should be distributed to benefiting programs on bases that will produce an equitable result.[8]

The State of Arizona established a self-insurance program to insure its agencies against property and liability losses. In conjunction with each State department, the Arizona Department of Administration (ADOA) provides overall management for the program. Each State department is billed annually for its share of the self-insurance premium. The premium consists of costs for primary insurance[9] coverage, supplemental insurance, medical malpractice, and administrative costs for program management. DES pays ADOA the premium at the beginning of each year and reimburses itself monthly by charging each division for its share of the premium. The amount charged to each division is calculated separately for (1) primary insurance and (2) supplemental insurance, medical malpractice, and administrative costs.

### Primary Insurance Costs

The DES departmental indirect cost pool should be charged only the costs of self-insurance premiums that benefit all programs within DES. DES charges the primary insurance portion of the self-insurance premium to each division based on the division's actual losses over a 5-year period. Of this, only 1.2 percent of the premium should have been charged to the departmental indirect cost pool (for losses that were attributed to divisions that benefited all programs in DES).

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6 *See id*.

7 DES, Cost Allocation Plan, as amended, dated July 1, 2003.

8 OMB Circular A-87, Attachment A, F.1.

9 Primary insurance includes auto liability and physical damage, general liability, environmental property, and buildings and contents.

We found that DES did not identify the divisions that incurred losses for approximately $7 million. The premium associated with these losses was about $1.3 million. Since DES did not identify the divisions that incurred these losses, it charged the entire $1.3 million to the departmental indirect cost pool. We estimate that DES improperly charged $1.28 million[10] of this premium to the departmental indirect cost pool. As a result, DES allocated $35,300 of unallowable indirect costs to SSA's programs.

We reviewed a random sample of 50 of the 343 unidentified claims filed for July 1998 through June 2001 to determine whether we could identify the DES divisions that incurred the losses. We were able to identify the divisions for 47 of the 50 claims. DES and ADOA did not provide us sufficient data to identify the divisions for the remaining three claims. In the future, DES should identify the divisions that incurred losses for all claims and ensure the self-insurance premium is properly allocated to these divisions.

### Supplemental Insurance, Medical Malpractice, and Administrative Costs

DES charged the supplemental insurance, medical malpractice and administrative cost portion of the premium entirely to the departmental indirect cost pool. This resulted in an inequitable distribution because the departmental indirect cost pool base does not accurately measure the benefits received from the insurance premiums. We believe this amount should have been charged to benefiting programs based on actual losses incurred. Effective July 2003, DES used this method to distribute the supplemental insurance and administrative costs. However, we found that, for July 2000 through June 2003, DES improperly charged $3,470,900 to the departmental indirect cost pool. This resulted in $95,100 of unallowable costs to SSA's programs.

In July 2003, ADOA revised its procedures for billing self-insurance premiums. ADOA includes the supplemental insurance and administrative cost portions of the premium within the various lines of insurance provided by the State. We believe this revision corrected some of the deficiencies noted during our audit because the premium is charged to benefiting programs based on actual losses incurred. However, DES still charges the medical malpractice insurance portion of the premium to the departmental indirect cost pool. Therefore, DES should determine the programs that benefit from medical malpractice insurance and allocate the premium accordingly.

## COST ALLOCATION METHODOLOGY SHOULD BE REVISED

DES did not allocate departmental and State-wide indirect costs to some expenditures within DDD. This occurred because DES used a cost allocation methodology that did not provide for an equitable distribution of indirect costs. Specifically, DES excluded five cost pools within DDD from cost allocation even though these cost pools benefited from expenditures in the departmental and State-wide indirect cost pools. If DES had revised its cost allocation methodology to include these expenditures, we estimate SSA

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[10] We redistributed the $1,308,800 premium for the unidentified losses to each division based on the 86 percent ($44 million) of identified losses. This calculation showed that DES improperly charged $1,288,600 to the departmental indirect cost pool.

could have realized about $122,000 in cost savings for July 2002 through June 2003. However, since the methodology was included in the approved cost allocation plan, we are not recommending a refund for this amount.

Federal cost standards require that all programs that benefit from expenditures in an indirect cost pool receive an appropriate allocation of indirect costs.[11] HHS' Division of Cost Allocation reviews and approves DES' Cost Allocation Plan.

DDD used the five cost pools to charge expenditures for operating various centers that provide training and care for its clients throughout Arizona. DES did not allocate departmental and State-wide indirect costs to these cost pools because they were classified as direct aid to clients. Expenditures for direct aid to clients are excluded from cost allocation because these expenditures generally do not benefit from indirect costs. However, we found that about 84 percent of the expenditures in the five cost pools were personnel costs for DES employees. These costs benefited from expenditures in the departmental and State-wide indirect cost pools for such services as accounting, personnel, financial services, facilities management, and procurement. Therefore, DDD should have received an allocation of departmental and State-wide indirect costs based on its expenditures in the five cost pools.

Excluding the DDD expenditures from cost allocation resulted in an inequitable distribution of indirect costs because the total MTDC for all programs did not reflect these costs. Many Federal programs, including SSA's programs, would pay a smaller share of indirect costs if the five DDD cost pools were included in the total MTDC for all programs. If DES revised its cost allocation methodology to include these expenditures, we estimate SSA could have realized about $122,000 in cost savings for July 2002 through June 2003. Over a 5-year period, we estimate SSA could realize about $610,000 in program savings. Therefore, we encourage DES to revise its cost allocation plan to require all programs that benefit from expenditures in the departmental and State-wide indirect cost pools to receive an appropriate allocation of indirect costs.

[11] OMB Circular A-87, Attachment A, C.3.b.

# Conclusions and Recommendations

We found that indirect costs claimed for reimbursement under SSA's disability programs were generally acceptable for FYs 2001 and 2002. However, DES incorrectly charged some indirect costs to SSA's programs. This occurred because DES (1) charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool, (2) improperly charged self-insurance premiums and the related administrative costs to the departmental indirect cost pool, and (3) did not allocate departmental and State-wide indirect costs to all programs that benefited from these costs.

As a result, SSA reimbursed DES for $272,062 of unallowable costs for July 2000 through June 2003. In addition, if DES had revised its cost allocation methodology, we estimate SSA could have realized about $122,000 in cost savings for July 2002 through June 2003. Over a 5-year period, we estimate SSA could realize about $610,000 in program savings.

We recommend that SSA:

1. Instruct DES to refund $141,662 of unallowable departmental indirect costs for July 2000 through June 2003.

2. Instruct DES to discontinue charging expenditures for activities that do not benefit SSA's programs to the departmental indirect cost pool.

3. Instruct DES to determine the propriety of indirect costs charged to the departmental indirect cost pool by other components and refund any unallowable costs to SSA.

4. Instruct DES to train its employees in properly charging departmental indirect costs.

5. Instruct DES to refund $130,400 of unallowable self-insurance premiums for July 2000 through June 2003.

6. Instruct DES to discontinue charging self-insurance premiums that do not benefit SSA's programs to the departmental indirect cost pool.

7. Ensure DES revises its cost allocation plan to require all programs that benefit from expenditures in the departmental and State-wide indirect cost pools receive an appropriate allocation of indirect costs.

## SSA COMMENTS

SSA concluded that Recommendations 2, 4, 6, and 7 were reasonable. However, SSA stated it could not make the same determination for Recommendations 1, 3, and 5 without reviewing DES' comments and OIG's response to those comments. See Appendix C for the text of SSA's comments.

## DES COMMENTS

DES generally agreed with our findings and recommendations but believes the unallowable indirect costs may be less than the amounts we identified. However, DES agreed to comply with SSA's instructions regarding the amount of unallowable indirect costs to be repaid to its programs. See Appendix D for the text of DES' comments.

For Recommendation 1, DES agreed that $77,959 in indirect costs from the Division of Employee Services and Support did not benefit SSA's programs. However, DES stated the remaining $63,703 in indirect costs did provide some benefit to SSA's programs. Specifically, DES believed that SSA's programs benefited from the Office of Accounts Receivable and Collections (OARC) through its Public Assistance and Administration Revolving (PAAR) Fund, activities for the developmentally disabled and foster care children, and Interim Assistance Reimbursement (IAR) program. DES also believes SSA's programs benefited from the Deputy Director for DDD, DCYF, and DACS through meetings involving department-wide issues.

DES did not provide specific comments to address Recommendations 2, 3, and 4. However, DES plans to implement changes to prevent further incorrect charges from Appellate Services and Special Investigations.

For Recommendation 5, DES agreed that self-insurance premiums were incorrectly charged to the departmental indirect cost pool, resulting in $130,400 in unallowable indirect costs to SSA's programs. However, DES stated it has established a new methodology to allocate self-insurance premiums beginning in State FY 2005. DES estimated that, had it applied this methodology to the period covered by our audit, the unallowable premiums would have been $22,649.

In response to Recommendation 6, DES stated that, beginning in State FY 2005, it will discontinue charging self-insurance premiums to the departmental indirect cost pool. DES plans to allocate self-insurance premiums equitably.

For Recommendation 7, DES agreed to revise its cost allocation plan to ensure all programs that benefit from the departmental and State-wide indirect cost pools receive an appropriate allocation of indirect costs.

## OIG RESPONSE

While it is ultimately SSA's decision to determine the amount of unallowable indirect costs that DES should refund, we continue to believe that the $272,062 in indirect costs did not benefit SSA's programs.

For Recommendation 1, we believe the $141,662 in unallowable indirect costs should be refunded to SSA. Although OARC activities for the PAAR Fund may benefit all DES programs, we estimate the annual cost to SSA's programs was only $154. OARC activities for the developmentally disabled, foster care children, and IAR program benefit DES clients and are not related to the adjudication of claims by AZ-DDS. In addition, the activities of the Deputy Director for DDD, DCYF, and DACS do not benefit AZ-DDS operations under the Division of Benefits and Medical Eligibility.

We encourage SSA to work with DES to implement Recommendations 2, 3, and 4—for which DES did not provide specific written comments. We believe these recommendations are necessary to (1) improve the accounting and reporting of departmental indirect costs and (2) ensure the propriety of indirect costs charged to SSA's programs by other components.

For Recommendation 5, we believe SSA should recover the $130,400 in unallowable indirect costs for self-insurance premiums. We determined the amount of unallowable premiums based on the methodology DES used during our audit period. We believe it is inappropriate for DES to retroactively apply a new methodology to determine the self-insurance premiums that would have been charged to SSA's programs had such a methodology been in effect at that time.

# Appendices

# Acronyms

| | |
|---|---|
| Act | Social Security Act |
| ADOA | Arizona Department of Administration |
| AZ-DDS | Arizona Disability Determination Services |
| C.F.R. | Code of Federal Regulations |
| DACS | Division of Aging and Community Services |
| DCYF | Division of Children, Youth, and Families |
| DDD | Division of Developmental Disabilities |
| DDS | Disability Determination Services |
| DES | Department of Economic Security |
| DI | Disability Insurance |
| Form SSA-4513 | State Agency Report of Obligations for SSA Disability Programs |
| FY | Fiscal Year |
| HHS | Department of Health and Human Services |
| IAR | Interim Assistance Reimbursement |
| MTDC | Modified Total Direct Costs |
| OARC | Office of Accounts Receivable and Collections |
| OIG | Office of the Inspector General |
| OMB | Office of Management and Budget |
| PAAR | Public Assistance and Administration Revolving |
| SSA | Social Security Administration |
| SSI | Supplemental Security Income |

# Scope and Methodology

We reviewed the indirect costs reported by the Arizona Disability Determination Services (AZ-DDS) on its *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2001 and 2002. However, two of our findings affected the costs claimed during the last quarter of FY 2000 and the first three quarters of FY 2003. Therefore, we expanded the audit period to fully develop these findings.

To accomplish our objective, we:

- Reviewed Office of Management and Budget (OMB) Circular A-87, Code of Federal Regulations, the Social Security Administration's (SSA) Program Operations Manual System, and Arizona Department of Economic Security's (DES) Cost Allocation Plan.
- Reviewed DES' policies and procedures related to indirect costs.
- Interviewed employees from the AZ-DDS, DES, Arizona Department of Administration, Arizona Auditor General's Office, SSA regional office, and Department of Health and Human Services' Division of Cost Allocation.
- Reconciled the accounting records to the indirect costs reported by DES on its Form SSA-4513 for FYs 2001 and 2002.
- Examined the allowability of indirect costs incurred and claimed by DES during FYs 2001 and 2002.
- Selected a random sample of 50 unidentified self-insurance claims from July 1998 to June 2001 to identify the DES divisions that incurred the losses.

We determined the computer-processed data from the DES were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We performed audit work at AZ-DDS and DES in Phoenix, Arizona. We also performed audit work at the SSA regional office in Richmond, California. Field work was conducted between August 2003 and October 2004. We conducted our audit in accordance with generally accepted government auditing standards.

# Social Security Administration Comments

SOCIAL SECURITY

MEMORANDUM

Date: Refer To: S2D9G4

To: Assistant Inspector General
for Audit

From: Assistant Regional Commissioner
Management and Operations Support
San Francisco

Subject: Indirect Costs Claimed by the Arizona Disability Determination Services
(A-09-04-14010)—REPLY

Thank you for the opportunity to review the draft report of your audit of the indirect costs claimed by the Arizona Disability Determination Services. Per your request, we are providing an attachment with specific written comments for each of the seven recommendations contained in the draft report.

If you have any questions regarding our comments, please call me. If staff have questions, they may call Diane Trewin in the Center for Disability at (510) 970-8295.

Patrick E. Sheehan

Attachment

**Regional Office Comments on the Arizona DDS Draft Audit Report**

Recommendation 1: Instruct DES to refund $141,662 of unallowable departmental indirect costs for July 2000 through June 2003.

Comment: We cannot make a reasonableness determination until we review the State response and the OIG rebuttal.

Recommendation 2: Instruct DES to discontinue charging expenditures for activities that do not benefit SSA's programs to the departmental indirect cost pool.

Comment: We find this recommendation reasonable.

Recommendation 3: Instruct DES to determine the propriety of indirect costs charged to the departmental indirect cost pool by other components and refund any unallowable costs to SSA.

Comment: We agree that DES should determine the propriety of indirect costs charged to the departmental indirect cost pool by other components. We cannot make a reasonableness determination regarding refunds without reviewing the State response and OIG rebuttal.

Recommendation 4: Instruct DES to train its employees in properly charging departmental indirect costs.

Comment: We find this recommendation reasonable.

Recommendation 5: Instruct DES to refund $130,400 of unallowable self-insurance premiums for July 2000 through June 2003.

Comment: We cannot make a reasonableness determination without reviewing the State response and the OIG rebuttal.

Recommendation 6: Instruct DES to discontinue charging self-insurance premiums that do not benefit SSA's programs to the departmental indirect cost pool.

Comment: We find this recommendation reasonable.

Recommendation 7: Ensure DES revises its cost allocation plan to require all programs that benefit from expenditures in the departmental and State-wide indirect cost pools receive an appropriate allocation of indirect costs.

Comment: We find this recommendation reasonable.

# Arizona Department of Economic Security Comments

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

Steven L. Schaeffer
Assistant Inspector General for Audit
Social Security Administration, Office of the Inspector General
6401 Security Boulevard
Room 4L1 Operations Building
Baltimore, MD 21235-6401

REF: Indirect Costs Claimed by the Arizona Disability Determination Services
Audit Report A-09-04-14010

Dear Mr. Schaeffer:

Enclosed are the Arizona Department of Economic Security's (Department) comments to the recommendations in your draft audit report, *Indirect Costs Claimed by the Arizona Disability Determination Services* (A-09-04-14010).

The Department appreciates the opportunity to present its views relative to the validity of the facts and reasonableness of the recommendations.

Sincerely,

/s/

David A. Berns

Enclosure

c. Don Proffit, Social Security Administration
Nancy West, Program Administrator, Arizona Disability Determination Services Administration

## Introduction

The Department of Economic Security's (DES/department) Cost Allocation Plan (CAP) is intended to provide an equitable monthly allocation of allowable costs to all programs administered by DES. The DES CAP is monitored, reviewed and updated, as necessary. In September 2001, the U.S. Department of Health and Human Services (HHS), Division of Cost Allocation (DCA), conducted a conformance review of the department's CAP. As a result of that review, DES' CAP was revised effective January 1, 2002, with subsequent approved amendments dated October 1, 2002, July 1, 2003 and July 1, 2004. DES allocates costs to federal programs in compliance with its approved CAP. DES' procedures require costs to be charged to the benefiting programs whenever possible, with indirect cost pools used when activities benefit multiple programs or the entire department.

As a result of the Office of the Inspector General's (OIG) review, the auditors concluded that DES incorrectly charged some indirect costs to Social Security Administration's (SSA) programs because DES:

- charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool
- improperly charged self-insurance premiums and the related administrative costs to the departmental indirect cost pool, and
- did not allocate departmental and State-wide indirect costs to all programs that benefited from these costs.

The following are the department's comments to the OIG auditors' findings and recommendations:

**DEPARTMENTAL INDIRECT COSTS THAT PROVIDED NO BENEFIT TO SSA–**OIG auditors concluded that the following DES components that charged costs to the departmental indirect cost pool did not perform activities that benefited SSA's programs.

| | |
|---|---|
| **Divisions of Employee Services and Support** | |
| Appellate Services | $ 17,278 |
| Special Investigations | 60,681 |
| **Division of Business and Finance** | |
| Accounts Receivable and Collections | 38,314 |
| **Deputy Director for the Division of Developmental Disabilities (DDD), the Division of Children, Youth and Families (DCYF), and the Division of Aging and Community Services (DACS)** | 25,389 |
| **Total** | $141,662 |

**DES COMMENTS**

**Divisions of Employee Services and Support**–Prior to January 1, 2002, administrative costs for Appellate Services Administration (ASA) and the Office of Special Investigations (OSI) were charged to the department's indirect cost pool. In response to the 2001 DCA conformance review of the DES CAP, cost pools P172 and P178 were established to accumulate administrative costs for ASA and OSI, respectively, to be allocated to the benefiting programs based on direct personal service costs, as specified on page 24 of the CAP. The DES Cost Allocation Plan was amended to reflect the addition of the two new cost pools and the change in the allocation of ASA and OSI administrative costs, effective January 1, 2002.

Subsequent to January 1, 2002, some ASA and OSI administrative costs continued to be incorrectly charged to the indirect cost pool, which resulted in a total of $17,375 in unallowable costs reimbursed by SSA (calculated using the spreadsheets provided by the OIG auditors).

Although, prior to January 1, 2002, administrative costs for ASA and OSI were charged and allocated in accordance with the DES CAP, as approved at that time, DES does concur that the activities performed by ASA and OSI did not benefit SSA's programs. Consequently, DES will comply with SSA's instructions regarding the amount to repay to its programs.

**Division of Business and Finance**–Although SSA does not benefit from the debt collection function performed by the Office of Accounts Receivable (OARC), OARC provides the following services that benefit all DES divisions and administrations–and specific services that directly benefit SSA:

- OARC administers the Public Assistance and Administration Revolving (PAAR) Fund. This fund is used 1) for minor and miscellaneous expenses any administration within DES may incur and 2) to ensure employees are paid timely, if for any reason an employee does not receive a payroll warrant. The Disability Determination Services Administration (DDSA), for example, has had employees who have received PAAR checks because they were not in the system in time to receive a system-generated payroll warrant.

- OARC handles the billing for services to the developmentally disabled and administers the funds for foster children without parents through the Foster Care Benefit Trust Fund. Both of these tasks involve monitoring social security disability payments received by these clients (including foster children) and follow up with the caseworkers to ensure continued disability benefit eligibility if benefits lapse.

- OARC also handles the Interim Assistance Reimbursement (IAR) program. Clients may apply for General Assistance (GA) and are approved if they meet the definition of "disabled" as outlined by the SSA. These clients are paid GA while they wait for an official disability determination by the SSA. When approved by SSA for disability benefits, the initial benefit check is sent to OARC for reimbursement of GA paid to the client while awaiting the SSA disability decision. Any denial notifications received by OARC from SSA are forwarded to Family Assistance Administration in the DES Division of Benefits and Medical Eligibility (DBME) for review of the client case(s).

The above-described tasks are handled by three full-time positions in OARC.

**Deputy Director for DDD, DCYF, and DACS–**The department's many programs are not free standing; consequently, the Deputy Directors attend meetings that apply to and benefit programs across all of the department's divisions. Because the services of each of the Deputy Directors benefit programs across all divisions, the organizational structure of the deputies has historically been dynamic–changing frequently in response to changes in management, as well as to meet the changing needs of the department. Therefore, it is DES' policy that the Deputy Directors charge the departmental indirect cost pool. Through the indirect cost pool, costs for the Deputy Director of DDD, DCYF and DACS are allocated to other divisions' programs, including DDSA, and costs for DBME's Deputy Director are allocated to the programs in DDD, DCYF and DACS. Consequently, the $25,389 allocated to SSA's programs is not a net amount, i.e., it is not net of the cost benefit realized by DDSA as a result of the allocation of costs for DBME's Deputy Director to the many programs in DDD, DCYF and DACS.

The allocation of the Deputy Directors' costs to only the divisions that report directly to them would require the creation of separate cost pools. The resulting percentage each program would be charged would be somewhere between their divisional percentage and their indirect cost pool percentage. The department does not believe that this would result in any meaningful differences in the amount charged to programs for the activities of the deputy directors.

**SELF-INSURANCE PREMIUMS WERE IMPROPERLY CHARGED–**SSA auditors determined that DES improperly charged self-insurance premiums and the related administrative costs to the departmental indirect cost pool. This occurred because DES did not identify the applicable divisions that incurred losses for some claims. In addition, DES incorrectly determined that all supplemental insurance costs, medical malpractice insurance costs, and administrative costs for the self-insurance program should be charged to the departmental indirect cost pool. As a result, SSA reimbursed DES for $130,400 of unallowable indirect costs for July 2000 through June 2003, as follows (see RECAP below):

**RECAP**

| Description | Amount Charged to the Indirect Cost Pool | Percent Allocated to DDSA | Total Charged to SSA Programs |
|---|---|---|---|
| Primary Insurance (Self-insurance portion of the Risk Management amount billed) | $1,288,600 | 2.74% | $35,300 |
| Supplemental Insurance, Medical Malpractice and Administrative Costs | $3,470,900 | 2.74% | $95,100 |
| **Total** | **$4,759,500** | | **$130,400** |

**Primary Insurance Costs–**DES charged the primary insurance portion of the self-insurance premium to each division based on the division's actual losses over a 5-year period. Of this, only 1.2 percent of the premium should have been charged to the departmental indirect cost pool (for losses that were attributed to divisions that benefited all programs in DES).

**Supplemental Insurance, Medical Malpractice, and Administrative Costs–**DES charged the supplemental insurance, medical malpractice and administrative cost portion of the premium entirely to the departmental indirect cost pool. This resulted in an inequitable distribution because the departmental indirect cost pool base does not accurately measure the benefits received from the insurance premiums. The OIG auditors believe this amount should have been charged to benefiting programs based on actual losses incurred. Effective July 2003, DES used this method to distribute the supplemental insurance and administrative costs. However, the auditors found that, for July 2000 through June 2003, DES improperly charged $3,470,900 to the departmental indirect cost pool. This resulted in $95,100 of unallowable costs to SSA's programs.

In July 2003, ADOA revised its procedures for billing self-insurance premiums to include the supplemental insurance and administrative cost portions of the premium within the various lines of insurance provided by the State. This revision corrected some of the deficiencies noted during the audit because the premium is charged to benefiting programs based on actual losses incurred. However, DES still charges the medical malpractice insurance portion of the premium to the departmental indirect cost pool. Therefore, DES should determine the programs that benefit from medical malpractice insurance and allocate the premium accordingly.

**DES COMMENTS**

The Arizona Department of Administration (ADOA) bills DES for its portion of Risk Management charges. For the period July 2000 through June 2003, the Risk Management premium billed was broken out by Self-Insurance–Auto Liability; Auto Physical Damage; General Liability; Environmental Liability; Environmental Property; and Buildings and Contents and Supplemental

Insurance; Medical Malpractice and Administrative Costs. During this period, DES allocated the self-insurance portion of the premium to each division based on actual losses over a five-year period, while unidentified losses, supplemental insurance, medical malpractice and administrative costs were allocated to programs through the indirect cost pool.

State fiscal year (FY) 2003 was the last year that ADOA broke out the Risk Management premium charges into Self-Insurance, Risk Management Administration and Supplemental Insurance. As the OIG auditors noted, effective July 2003, ADOA revised its procedures for billing self-insurance premiums to include the supplemental insurance and administrative cost portions of the premium within the various lines of insurance (Auto Liability; Auto Physical Damage; General Liability; Medical Malpractice; Environmental Liability; Environmental Property; and Buildings and Contents) provided by the State. ADOA has discussed its current procedures to allocate Risk Management costs to State agencies with DES and has recommended that State agencies follow a similar methodology to calculate the basis for cost determination for each of the lines within the total premium when allocating costs to their programs.

Beginning in FY 2005, DES will utilize the basis for cost determination recommended by ADOA to allocate the various lines within the billed Risk Management premium to its programs. (See **Attachment A** for a detailed description of the basis for costs determination for each of the Risk Management premium line items.) Actual losses attributable to defined claims (i.e., identified losses) will comprise one component of the basis for cost determination for each of the lines or categories that make up the total premium billed (i.e., unidentified losses will not be used), and *none* of the Risk Management premium will be charged to–or allocated to programs through–the departmental indirect cost pool. DES has documented the step-by-step procedures that will be used in FY 2005 to equitably allocate Risk Management charges to its programs.

To estimate the amount of the total Risk Management premium billed expected to be allocated to DDSA beginning in FY 2005, DES used the revised methodology described above to recalculate the allocation of the FY 2004 Risk Management premium billed by ADOA. The calculations were performed for each of the individual lines of the premium as described in **Attachment A**, with the results summarized in **Attachment B** to this document. The procedures used to calculate the allocated amounts in **Attachment B** resulted in a total of $35,917 in Risk Management costs that would have been allocated to DDSA (ORGN 3600) in FY 2004 if the ADOA-recommended procedures had been used. The department would not expect the allocation results to vary significantly from year to year.

DES agrees that for the period 2000 through 2003, costs attributable to losses that were listed as "unidentified" in the 5-year loss report and all supplemental insurance costs, medical malpractice insurance costs and administrative costs were incorrectly charged to the departmental indirect cost pool. Effective FY 2005, none of the Risk Management premium will be charged to the indirect cost pool, and all line items that comprise the total Risk Management premium, including medical malpractice, will be allocated as described in **Attachment A**, with only identified or defined losses to be used in the basis for cost determination calculations.

All programs within DES that occupy space, have equipment, employees, and employees who drive vehicles benefit from the insurance coverage provided by Risk Management and consequently should bear their fair share of the premium costs. As described in **Attachment A**, the basis for cost determination for the medical malpractice Risk Management premium line amount beginning in FY 2005 will be the professional personnel count percentage per organization (orgn) plus the defined claims percent per orgn. Per ADOA's records, DES has never had a medical malpractice claim and consequently no losses attributable to medical malpractice; however, DES still has to pay the amount attributable to medical malpractice included in the total Risk Management amount billed by ADOA. In FY 2005 and forward, medical malpractice costs will be allocated to programs based on the program's professional personnel count percentage plus defined claims, if any.

**Attachment C** to this document provides a summary of the actual allocation to DES programs of the FY 2004 Risk Management premium billed by ADOA and the calculation of the total amount of the FY 2004 Risk Management premium that was allocated to DDSA. **Attachment D** provides a recap of DES' estimate of the total amount of Risk Management charges overallocated to DDSA from July 2000 through June 2003, and from July 2000 through June 2004.

**COST ALLOCATION METHODOLOGY SHOULD BE REVISED–**DES did not allocate departmental and State-wide indirect costs to some expenditures within DDD. Specifically, DES excluded five cost pools within DDD from cost allocation even though these cost pools benefited from expenditures in the departmental and State-wide indirect cost pools. OIG auditors found that about 84 percent of the expenditures in the five cost pools were personnel costs for DES employees. These costs benefited from expenditures in the departmental and State-wide indirect cost pools for such services as accounting, personnel, financial services, facilities management, and procurement. Excluding the DDD expenditures from cost allocation resulted in an inequitable distribution of indirect costs because the total MTDC for all programs did not reflect these costs. Therefore, DES is encouraged to revise its cost allocation plan to require all programs that benefit from expenditures in the departmental and State-wide indirect cost pools to receive an appropriate allocation of indirect costs.

**DES COMMENTS**
DES concurs with the auditors' finding. DES will prepare an amendment to its CAP to require the expenditures in the five DDD costs pools identified in the audit finding that are currently excluded from cost allocation to receive an appropriate allocation of indirect costs. The CAP revision, along with a cost impact statement, will be prepared and forwarded to U.S. HHS, DCA for approval.

**RESPONSES TO RECOMMENDATIONS AND CORRECTIVE ACTIONS PLANNED**

In response to the auditors' recommendation to SSA that DES be instructed to refund $141,662 of unallowable costs attributable to the activities of ASA, OSI, OARC and the Deputy Director for DDD, DCYF, and DACS:

- DES concurs that the activities performed by ASA and OSI did not benefit SSA's programs;
- DES believes that SSA does benefit to the extent charged from activities performed by OARC; and
- DES believes that charging the deputy directors' costs to the departmental indirect cost pool is the most equitable way to charge DES programs and activities from a cost benefit as well as an operational perspective.

However, DES will respect SSA's decision regarding the auditors' recommendations and comply with its instructions regarding corrective actions to be taken.

***Corrective action planned*** to prevent further incorrect charges by ASA and OSI to the indirect cost pool include:

- The DES Accounts Payable Unit will review all payment vouchers, travel claim corrections, planned obligations, expenditure corrections, and any other transactions against ASA and OSI cost centers (1720s and 1780s) to ensure they are correctly coded to cost pools P172 and P178;
- DES Fleet Management, Division of Technology Services and Facilities Administration have been directed to correct coding in their respective processes and systems to discontinue the use of the indirect cost pool (Z Pool) reporting category against ASA and OSI cost centers;
- DESS has requested and the Division of Business and Finance will change default P100 codes in the ASA and OSI Position Control File to the appropriate pool codes; and
- All ASA and OSI staff have been reminded not to code any timesheet, procurement or expense documents with a P100 reporting category.

In response to the auditors' recommendation to SSA that DES be instructed to refund $130,400 of unallowable self-insurance premiums for July 2000 through June 2003:

- All programs within DES that occupy space, have equipment, employees, and employees who drive vehicles benefit from the insurance coverage provided by Risk Management and consequently should bear their fair share of the of the premium costs, including medical malpractice.
- Although, the procedures used by DES to allocate Risk Management costs to programs for the three-year period from July 2000 through June 2003 resulted in $130,400 charged to SSA programs, DES estimates that SSA programs would have been charged approximately $36,000 in each of those years if the ADOA-recommended procedures effective beginning FY 2005 had been used to allocate the Risk Management premium at that time.

Although DES would estimate the amount overcharged to SSA programs during the audit period to be less than $130,400, the department will comply with SSA's decision and instructions regarding what amount should be repaid to its programs as a result of Risk Management premium charges to DDSA.

***Corrective action planned*** to ensure that the Risk Management premium billed to the department is allocated to programs on an equitable basis.

- Effective FY 2005, DES will utilize the basis for cost determination recommended by ADOA to allocate the various lines within the billed Risk Management premium to its programs.
- Effective FY 2005, none of the Risk Management premium will be charged to the indirect cost pool, and all line items that comprise the total Risk Management premium, including medical malpractice, will be allocated as described in **Attachment A**, with only identified or defined losses to be used in the basis for cost determination calculations.

In response to the auditors' recommendation that DES revise its cost allocation plan to require all programs that benefit from expenditures in the departmental and State-wide indirect cost pools receive an appropriate allocation of indirect costs:

DES concurs with the auditors' finding.

***Corrective action planned–***DES will prepare an amendment to its CAP to require the expenditures in the five DDD costs pools identified in the audit finding that are currently excluded from cost allocation to receive an appropriate allocation of indirect costs. The CAP revision, along with a cost impact statement, will be prepared and forwarded to U.S. HHS, DCA for approval.

# ATTACHMENT A
## Risk Management Revised Methodology

Effective FY 2005, DES will utilize the following basis for cost determination recommended by ADOA to allocate the various lines within the billed Risk Management premium to its programs,

<u>Vehicles–Auto Liability and Auto Physical Damage</u>
Vehicle count % per organization (orgn) *
+ Personal vehicle use for company business mileage % per orgn
+ Defined claims % per orgn

<u>General Liability</u>
FTE count % per orgn
+ Defined claims % per orgn

<u>Medical Malpractice</u>
Professional Personnel count % per orgn
+ Defined claims % per orgn

<u>Environmental Liability/Environmental Property</u>
+ Defined claims % per orgn (Environmental sites)

<u>Buildings and Contents</u>
DES owned buildings occupancy % per orgn
+ Real property (Fixed assets over $5,000) % per orgn
+ Defined claims % per orgn

* Expenditures are classified by an organization (orgn) accounting code, which designates the benefiting program.

# ATTACHMENT B

## Total Risk Management Costs Worksheet FY 2004

| ORGN | Auto Cost | Gen Liab Cost | Med Malpractice | Environ Cost | Bldg/Prop Costs | Total Costs |
|---|---|---|---|---|---|---|
| 1100 | $ 414 | $ 13,935 | $ - | $ - | $ 739 | $ 15,088 |
| 1200 | $ 13,192 | $ 41,091 | $ 124 | $ - | $ 9,840 | $ 64,247 |
| 1400 | $ 9,503 | $ 44,664 | $ - | $ - | $ 20,736 | $ 74,903 |
| 1500 | $ 91 | $ 536 | $ - | $ - | $ 36 | $ 663 |
| 1600 | $ 114 | $ 893 | $ - | $ - | $ 43 | $ 1,050 |
| 1700 | $ 16,092 | $ 48,952 | $ - | $ - | $ 5,350 | $ 70,394 |
| 1800 | $ 86 | $ 1,251 | $ - | $ - | $ 128 | $ 1,465 |
| 1900 | $ 490 | $ 4,645 | $ - | $ - | $ 110 | $ 5,245 |
| Total 1000 | $ 39,982 | $ 155,966 | $ 124 | $ - | $ 36,983 | $ 233,055 |
| 2000 | $ 73,346 | $ 844,684 | $ 78,781 | $ - | $ 22,208 | $ 1,019,019 |
| 2100 | $ 26,163 | $ 70,212 | $ 16,606 | $ - | $ 11,739 | $ 124,720 |
| 2200 | $ 15,174 | $ 39,840 | $ 11,195 | $ - | $ 8,875 | $ 75,084 |
| 2300 | $ 3,894 | $ 12,327 | $ 1,706 | $ - | $ 531 | $ 18,458 |
| 2400 | $ 1,966 | $ 7,146 | $ 1,582 | $ - | $ 86 | $ 10,780 |
| 2500 | $ 4,954 | $ 8,933 | $ 2,109 | $ - | $ 5,314 | $ 21,310 |
| 2600 | $ 3,160 | $ 6,432 | $ - | $ - | $ 745 | $ 10,337 |
| 2700 | $ 6,111 | $ 17,330 | $ 264 | $ - | $ 1,277 | $ 24,982 |
| 2800 | $ 18,142 | $ 17,330 | $ 10,280 | $ 29,414 | $ 8,844 | $ 84,010 |
| 2900 | $ 709 | $ - | $ - | $ - | $ 12 | $ 721 |
| Total 2000 | $ 153,618 | $ 1,024,233 | $ 122,521 | $ 29,414 | $ 59,631 | $ 1,389,421 |
| 3100 | $ 2,367 | $ 1,072 | $ - | $ - | $ 13,944 | $ 17,383 |
| 3200 | $ 43,496 | $ 439,850 | $ - | $ - | $ 24,016 | $ 507,362 |
| 3500 | $ 876 | $ 8,040 | $ - | $ - | $ 458 | $ 9,374 |
| **DDSA 3600** | **$ 272** | **$ 34,123** | **$ 264** | **$ -** | **$ 1,258** | **$ 35,917** |
| Total 3000 | $ 47,011 | $ 483,085 | $ 264 | $ - | $ 39,676 | $ 570,036 |
| 4100 | $ 2,387 | $ 300,320 | $ - | $ - | $ 31 | $ 302,738 |
| 4200 | $ 195 | $ 9,290 | $ - | $ - | $ 1,124 | $ 10,609 |
| 4300 | $ 163,753 | $ 1,005,831 | $ - | $ - | $ 13,589 | $ 1,183,199 |
| 4400 | $ 80 | $ 6,610 | $ 527 | $ - | $ 232 | $ 7,449 |
| 4500 | $ 1,588 | $ 3,752 | $ - | $ - | $ 122 | $ 5,462 |
| 4600 | $ 3,829 | $ 10,541 | $ - | $ - | $ 446 | $ 14,816 |
| 4700 | $ 50 | $ 1,608 | $ - | $ - | $ - | $ 1,658 |
| 4800 | $ 51 | $ 357 | $ - | $ - | $ - | $ 408 |
| 4900 | $ 729 | $ - | $ - | $ - | $ 67 | $ 796 |
| Total 4000 | $ 172,662 | $ 1,338,309 | $ 527 | $ - | $ 15,611 | $ 1,527,135 |
| 5100 | $ 75 | $ 1,787 | $ - | $ - | $ 73 | $ 1,935 |
| 5200 | $ 24,974 | $ 127,024 | $ - | $ - | $ 14,940 | $ 166,938 |
| 5300 | $ 26,004 | $ 85,576 | $ 31,615 | $ - | $ 3,891 | $ 147,086 |
| 5400 | $ 5,469 | $ 28,585 | $ - | $ - | $ 1,619 | $ 35,673 |
| 5500 | $ - | $ 179 | $ - | $ - | $ - | $ 179 |
| 5700 | $ 2,224 | $ 3,573 | $ - | $ - | $ 3,396 | $ 9,193 |
| 5900 | $ 8,034 | $ 35,552 | $ - | $ - | $ 1,765 | $ 45,351 |
| Total 5000 | $ 66,779 | $ 282,276 | $ 31,615 | $ - | $ 25,683 | $ 406,355 |
| 6100 | $ 2 | $ 1,251 | $ - | $ - | $ 79 | $ 1,332 |
| 6200 | $ 10,623 | $ 19,295 | $ - | $ - | $ 1,075 | $ 30,993 |
| 6300 | $ 245 | $ 5,717 | $ - | $ - | $ 299 | $ 6,261 |
| Total 6000 | $ 10,870 | $ 26,262 | $ - | $ - | $ 1,454 | $ 38,586 |
| 7000 | $ - | $ 132,384 | $ - | $ - | $ - | $ 132,384 |
| 7100 | $ - | $ 2,144 | $ - | $ - | $ 263 | $ 2,407 |
| 7200 | $ 2,387 | $ 30,907 | $ - | $ - | $ 104 | $ 33,398 |
| 7300 | $ 646 | $ 61,636 | $ - | $ - | $ 1,649 | $ 63,931 |
| 7400 | $ 2 | $ 7,325 | $ - | $ - | $ 6 | $ 7,333 |
| 7500 | $ 8 | $ 5,896 | $ - | $ - | $ 1,258 | $ 7,162 |
| 7600 | $ 2,814 | $ 19,831 | $ - | $ - | $ 666 | $ 23,311 |
| 7700 | $ 5 | $ 1,965 | $ - | $ - | $ 140 | $ 2,110 |
| 7900 | $ - | $ - | $ - | $ - | $ 18 | $ 18 |
| Total 7000 | $ 5,861 | $ 262,688 | $ - | $ - | $ 4,104 | $ 272,054 |
| 8100 | $ 73 | $ 893 | $ - | $ - | $ 92 | $ 1,058 |
| Total 8000 | $ 73 | $ 893 | $ - | $ - | $ 92 | $ 1,058 |
| Grand Total | $ 496,856 | $ 3,573,113 | $155,051 | $ 29,414 | $ 183,235 | $4,437,700 |

Note: Rounding adjustment put in orgn 4300-$26.00

**ATTACHMENT C**
**Risk Management Cost – FY 2004 Actuals**

In July 2003, ADOA revised its procedures for billing self-insurance premiums to include the supplemental insurance and administrative cost portions of the premium within the various lines of insurance provided by the State. Included below is a summary of the allocation to DES programs of the FY 2004 Risk Management premium billed by ADOA.

**FY 2004 RISK MANAGEMENT DIVISION ALLOCATION**
**BY REPORTING CATEGORY**

| RPTG | Description | Annual Premium | Month 3 | Monthly (4-10) | Month 11 | Annual Premium |
|---|---|---|---|---|---|---|
| J814/5 | DCSE ADMIN | 45,780 | 11,445 | 3,815 | 7,630 | **45,780** |
| P100 | Z POOL | 653,994 | 163,500 | 54,500 | 108,995 | **653,995** |
| P200 | DDD/LTC POOL | 708,584 | 177,147 | 59,049 | 118,095 | **708,585** |
| P30T | DBME Y POOL - ORGS 1000 | 29,577 | 7,395 | 2,465 | 4,927 | **29,577** |
| P40T | DCYF Y POOL - ORGS 1000 | 2,958,956 | 739,740 | 246,580 | 493,157 | **2,958,957** |
| P50T | DERS Y POOL - ORGS 1000 | 34,272 | 8,568 | 2,856 | 5,712 | **34,272** |
| P60T | DACS Y POOL - ORGS 1000 | 6,537 | 1,635 | 545 | 1,087 | **6,537** |
| | **TOTAL** | 4,437,700 | 1,109,430 | 369,810 | 739,603 | **4,437,703** |

**RISK MANAGEMENT AMOUNT ALLOCATED TO DDSA IN FY 2004**

Based on the allocations in the table above, below is the calculation of the total amount of the Risk Management premium that was allocated to DDSA in FY 2004.

| RPTG | Description | Total Annual Premium Allocated in FY 04 | % of Total Allocated to DDSA | Total Allocated to DDSA in FY04 |
|---|---|---|---|---|
| P100 | Z Pool | $653,994 | 2.74% | $17,919 |
| P30T | DBME Y Pool ORGS – 1000 | 29,577 | 9.83% | 2,907 |
| **Total** | **Allocated to DDSA in FY 2004** | | | **$20,826** |

**ATTACHMENT D**
**RISK MANAGEMENT**
**DES ESTIMATE OF TOTAL AMOUNT OVERALLOCATED TO DDSA**
**FROM JULY 2000 THROUGH JUNE 2004**

Effective FY 2005, DES will utilize the basis for cost determination recommended by ADOA to allocate the various lines within the billed Risk Management premium to its programs illustrated in **Attachment A** and **Attachment B**. If DES had used this methodology to allocate the FY 2004 Risk Management premium, as illustrated in **Attachment B**, the total amount of the Risk Management premium allocated to DDSA would have been $35,917.

**RECAP**

| | |
|---|---|
| Risk Management charged to DDSA from July 2000 through June 2003 | 130,400 |
| DES estimate using revised procedures effective FY 2005 that would have been charged to DDSA for Risk Management benefits based on $35,917 in **Attachment B** | 107,751 |
| DES estimate of amount overallocated to DDSA from July 2000 through June 2003 | 22,649 |
| DES estimate using revised procedures effective FY 2005 that would have been charged to DDSA for Risk Management benefits in FY 2004 (See **Attachment B**) | 35,917 |
| Actual amount charged to DDSA in FY 2004 of the total Risk Management premium billed to DES (See **Attachment C**) | 20,826 |
| DES estimate of amount underallocated to DDSA | 15,091 |
| **Total estimated amount overallocated to SSA programs from July 2000 through June 2004** | **7,558** |

# OIG Contacts and Staff Acknowledgments

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## Office of Audit

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

## Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

## Office of the Chief Counsel to the Inspector General

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

## Office of Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.