
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

October 2006 A-01-06-16041

AUDIT REPORT



Mission

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

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: October 27, 2006

Refer To:

To: Manuel J. Vaz
Regional Commissioner
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the Vermont Disability Determination Services
(A-01-06-16041)

For our audit of Fiscal Years (FY) 2002, 2003, and 2004 administrative costs claimed by the Vermont Disability Determination Services (VT-DDS), our objectives were to:

- evaluate the VT-DDS' internal controls over the accounting and reporting of administrative costs,
- determine whether costs claimed by the VT-DDS were allowable and funds were properly drawn, and
- assess limited areas of the general security controls environment.

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 or other responsible jurisdiction, according to Federal regulations.¹ Each DDS is responsible for determining claimants' disabilities and assuring that adequate evidence is available to support its determinations. To make proper disability determinations, each DDS is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA pays the DDS for 100 percent of allowable expenditures using a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513). (For additional background information, see Appendix B of this report.)

¹ 20 C.F.R. §§ 404.1601 *et. seq.* and 416.1001 *et seq.*

RESULTS OF REVIEW

Except for the supply cost and indirect cost issues discussed below, we determined that costs claimed on Forms SSA-4513 for the period October 1, 2001 through September 30, 2004 were allowable and properly allocated, and the system of internal controls was effective. We also did not identify cumulative draw downs that exceeded cumulative disbursements during our audit period. Finally, our limited review of the VT-DDS' security controls environment showed that controls were in place. (See Appendix C for costs reported on Forms SSA-4513.)

ACCOUNTING RECORDS DID NOT SUPPORT ALL OF THE SUPPLY COSTS CLAIMED ON THE FY 2003 FORM SSA-4513

The VT-DDS claimed unallowable supply costs of \$3,029 for FY 2003. The VT-DDS claimed supply costs totaling \$33,906 on the FY 2003 Form SSA-4513; however, it only provided support for \$30,877.

UNALLOWABLE INDIRECT COSTS WERE CLAIMED IN FY 2003

The VT-DDS claimed unallowable indirect costs of \$333. The unallowable indirect costs of \$333 are due to the unallowable supply costs of \$3,029 claimed in FY 2003.

CONCLUSION AND RECOMMENDATION

Generally, VT-DDS had effective internal controls over the accounting and reporting of administrative costs. We also concluded that the general security controls the VT-DDS had in place were satisfactory. However, VT-DDS claimed unallowable supply costs of \$3,029 and unallowable indirect costs of \$333. Therefore, we recommend SSA instruct the VT-DDS to return \$3,029 for claimed supply costs and \$333 for claimed indirect costs that VT-DDS was unable to support.

AGENCY COMMENTS

Both SSA and the DDS agreed with the recommendation. (See Appendices D and E.)



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Background, Scope, and Methodology

APPENDIX C – Schedule of Total Costs Reported on Forms SSA-4513—State
Agency Reports of Obligations for SSA Disability Programs

APPENDIX D – Agency Comments

APPENDIX E – Vermont Agency of Human Services Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

Acronyms

Act	Social Security Act
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
OMB	Office of Management and Budget
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
Treasury	Department of Treasury
VT-DDS	Vermont Disability Determination Services

Background, Scope, and Methodology

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the Social Security Act (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, 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 the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with Federal regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments System to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.³ An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the Fiscal Year (FY), each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations.

¹ 20 C.F.R. §§ 404.1601 *et. seq.* and 416.1001 *et seq.*

² 31 C.F.R. Part 205.

³ Pub. L. No. 101-453.

SCOPE

To accomplish our objectives, we reviewed the administrative costs Vermont Disability Determination Services (VT-DDS) reported on its Forms SSA-4513 for FYs 2002, 2003 and 2004. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable under OMB Circular A-87, and appropriate, as defined by SSA's Program Operations Manual System.

We also:

- Reviewed applicable Federal laws, regulations and pertinent parts of Program Operations Manual System DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by VT-DDS and draw down of SSA funds.
- Interviewed staff at VT-DDS and the SSA Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by VT-DDS on Forms SSA-4513 for FYs 2002, 2003 and 2004.
- Examined the administrative expenditures (personnel, medical service, and all other non-personnel costs) incurred and claimed by VT-DDS for FYs 2002, 2003 and 2004 on Forms SSA-4513.
- Examined the indirect costs claimed by VT-DDS for FYs 2002, 2003 and 2004 and the corresponding Indirect Cost Rate Agreements.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of Vermont Single Audit reports issued in 2002, 2003 and 2004.
- Conducted limited general control testing—which encompassed reviewing the physical access security within the DDS.

The electronic data used in our audit was sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling it with the costs claimed on the Forms SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed our audit at the VT-DDS in Waterbury, Vermont and the Office of Audit in Boston, Massachusetts from May through July 2006. We conducted our audit in accordance with generally accepted government auditing standards.

METHODOLOGY

Our sampling methodology encompassed the four general areas of costs as reported on Forms SSA-4513: (1) personnel, (2) medical, (3) indirect, and (4) all other non-personnel costs. We obtained computerized data from VT-DDS for FYs 2002, 2003, and 2004 for use in statistical sampling. Also, we reviewed general security controls the DDS had in place.

Personnel Costs

We sampled 28 employee salary items from one randomly selected pay period in FY 2004. We tested regular and overtime payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure the VT-DDS correctly paid employees and adequately documented these payments.

We also sampled 14 medical consultant costs from one randomly selected pay period in FY 2004. We determined whether sampled costs were reimbursed properly and ensured the selected medical consultants were licensed.

Medical Costs

We sampled a total of 150 medical evidence of records and consultative examination records (50 items from each FY) using a proportional random sample. We determined whether sampled costs were properly reimbursed.

Indirect Costs

We reviewed the indirect cost base and computations used to determine those costs for reimbursement purposes. Our objective was to ensure SSA reimbursed VT-DDS in compliance with the approved Indirect Cost Rate Agreement. We analyzed the approved rate used, ensuring the indirect cost rate changed when the Indirect Cost Rate Agreement was modified. We reviewed the documentation and traced the base amounts to Forms SSA-4513 for the indirect cost computation components. We determined whether the approved rate used was a provisional, predetermined, fixed or final rate.

All Other Non-Personnel Costs

We stratified all other non-personnel costs into 9 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) Equipment Purchases and Rental, (5) Communications, (6) Applicant Travel, (7) DDS Travel, (8) Supplies, and (9) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category (excluding the rent portion of Occupancy) to total costs. We also performed a 100 percent review of the rent portion of Occupancy expenditures.

General Security Controls

We conducted limited general security control testing. Specifically we reviewed the following eight areas relating to general security controls: (1) Perimeter Security, (2) Intrusion Detection, (3) Key Management, (4) Internal Office Security, (5) Equipment Rooms, (6) Security Plan, (7) Continuity of Operations, and (8) Other Security Issues. We determined if the general security controls the DDS had in place were satisfactory.

Schedule of Total Costs Reported on Forms SSA-4513—State Agency Reports of Obligations for Social Security Administration Disability Programs

Vermont Disability Determination Services

FISCAL YEARS (FY) 2002, 2003 and 2004 COMBINED

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$5,590,884	\$0	\$5,590,884
Medical	\$1,402,430	\$1,980	\$1,404,410
Indirect	\$511,160	\$0	\$511,160
All Other	\$1,266,986	\$0	\$1,266,986
TOTAL	\$8,771,460	\$1,980	\$8,773,440

FY 2002

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$1,819,574	\$0	\$1,819,574
Medical	\$457,519	\$0	\$457,519
Indirect	\$173,666	\$0	\$173,666
All Other	\$429,669	\$0	\$429,669
TOTAL	\$2,880,428	\$0	\$2,880,428

FY 2003

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$1,878,963	\$0	\$1,878,963
Medical	\$453,536	\$0	\$453,536
Indirect	\$159,195	\$0	\$159,195
All Other	\$398,240	\$0	\$398,240
TOTAL	\$2,889,934	\$0	\$2,889,934

FY 2004

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$1,892,347	\$0	\$1,892,347
Medical	\$491,375	\$1,980	\$493,355
Indirect	\$178,299	\$0	\$178,299
All Other	\$439,077	\$0	\$439,077
TOTAL	\$3,001,098	\$1,980	\$3,003,078

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 25, 2006

Refer To: S2D1G5/ORC
2006-8409

To: Patrick P. O'Carroll, Jr.
Inspector General

From: Manuel J. Vaz /s/
Regional Commissioner
Boston

Subject: Administrative Costs Claimed by the Vermont Disability Determination Services (A-01-06-16041) (Your Memo Dated September 11, 2006) - REPLY

I have reviewed the draft report with the results of an administrative costs audit in the Vermont Disability Determination Services (DDS).

I am pleased that the audit determined that costs claimed on Forms SSA-4513 for the period October 1, 2001 through September 30, 2004 were allowable and properly allocated and that the system of internal controls was effective. Additionally, the audit found that cumulative draw downs matched cumulative disbursements during this audit period. Lastly, a limited review of the Vermont DDS's security controls environment showed that controls are in place.

The audit had one finding that showed that the Vermont DDS claimed unallowable supply costs of \$3,029 for FY 2003. Because supply costs are included in the calculation of indirect costs, an adjustment to indirect charges results in further unallowable indirect costs of \$333.

I concur with the audit recommendation that SSA should instruct the Vermont DDS to return \$3,029 for claimed supply costs and \$333 for claimed indirect costs.

I thank the OIG auditors for their diligence in the oversight of DDS funding and look forward to our continued partnership.

cc:

Ruby Burrell, Associate Commissioner, Office of Disability Determinations

Jeffrey Hild, Associate Commissioner, Office of Financial Policy and Operations

Vermont Agency of Human Services Comments



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Cynthia D. LaWare, Secretary

October 5, 2006

Manuel J. Vaz, Regional Commissioner
Social Security Administration
Room 1900
JFK Federal Building
Boston, MA 02203

Dear Commissioner Vaz,

The State of Vermont has reviewed the Office of the Inspector General's draft report summarizing the findings of their 2006 audit of administrative costs claimed by the Vermont Disability Determination Services (DDS) for federal fiscal years 2002, 2003, and 2004.

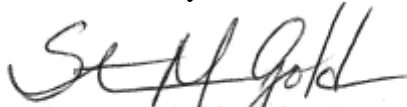
The OIG's audit findings included \$3,029 in unallowable supply costs and \$333 in unallowable indirect costs claimed in federal fiscal year 2003. The State of Vermont concurs with the findings of this audit and will refund the Social Security Administration a total of \$3,362 for the unallowable costs.

The Vermont DDS will incorporate the following steps into their fiscal processes to reinforce the accuracy of their fiscal reports:

- The DDS Accountant will annotate the DDS electronic fiscal spreadsheet at the time an invoice is paid through the State's accounting system (VISION). After the invoice has been processed for payment, the Accountant will verify the amount paid on VISION and annotate the fiscal spreadsheet with the date of payment and the voucher number.
- The Support Services Supervisor will conduct a monthly quality review to ensure invoices are accurately reported on the DDS fiscal spreadsheets.

It is expected that these monitoring processes will ensure future fiscal oversights do not occur.

Sincerely,


Steven M. Gold, Acting Secretary
Agency of Human Services

cc: Trudy Lyon-Hart, Director, Disability Determination Services



OIG Contacts and Staff Acknowledgments

OIG Contacts

Judith Oliveira, Director, Boston Audit Division, (617) 565-1765

David Mazzola, Audit Manager, (617) 565-1807

Acknowledgments

In addition to those named above:

Frank Salamone

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-01-06-16041.

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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.

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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.

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