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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 TENNESSEE  
DISABILITY DETERMINATION  
SERVICES**

**March 2007**

**A-04-06-16053**

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**AUDIT REPORT**

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# SOCIAL SECURITY

## MEMORANDUM

Date: March 30, 2007

Refer To:

To: Paul D. Barnes  
Regional Commissioner  
Atlanta

From: Inspector General

Subject: Administrative Costs Claimed by the Tennessee Disability Determination Services  
(A-04-06-16053)

## OBJECTIVE

Our objectives were to (1) evaluate the Tennessee Disability Determination Services' (TN-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and (3) assess the general security controls environment.

## BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance (DI) and Supplemental Security Income (SSI) programs are performed by Disability Determination Services (DDS) in each State or other responsible jurisdiction, according to Federal regulations.<sup>1</sup> Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.<sup>2</sup>

To make proper disability determinations, each State agency is authorized to purchase consultative examinations and medical evidence of record from the claimants' physicians or other treating sources.<sup>3</sup> SSA reimburses the State agency for 100 percent of allowable expenditures. The DDSs report program disbursements and unliquidated obligations on Form SSA-4513, *State Agency Report of Obligations for*

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<sup>1</sup> 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

<sup>2</sup> *Id.*

<sup>3</sup> SSA, Program Operations Manual System (POMS), DI 39545.001(B)(4).

SSA Disability Programs (SSA-4513).<sup>4</sup> The DDS withdraws Federal funds through the Department of the Treasury’s (Treasury) Automated Standard Application for Payments (ASAP) system to pay for program expenditures. For additional background, scope and methodology, see Appendix B.

## RESULTS OF REVIEW

TN-DDS did not always properly account for, report, and/or comply with SSA policy when billing SSA about \$2.6 million in costs (as detailed in Table 1). During our 3-year audit period, TN-DDS claimed reimbursement for \$473,548 in unallowable Communication, Personnel and Medical costs. Additionally, TN-DDS reported \$49,374 in non-reimbursable costs for State Medicaid work it performed. Also, the DDS could not provide documentation to support \$18,585 in expenditures for Federal Fiscal Years (FY) 2002 and 2003.

Regarding cash management, TN-DDS did not always comply with regulations and policies for drawing Federal funds against allowable claims. TN-DDS’ cash draws exceeded SSA’s total funding authorization by \$416,413—\$64,353 in FY 2003 and \$352,060 in FY 2004. Also, TN-DDS transferred significant funds between Treasury accounts that were established for expenditures occurring in specific FYs. In another cash management issue, TN-DDS did not adjust unliquidated obligations totaling \$135,555 in FYs 2003 and 2004.

**Table 1: Improperly Accounted/Reported Costs and Excess Office Space**

<b>Discrepancy Type</b>	<b>Amount</b>
Unallowable Communication, Personnel and Medical Costs	\$473,548
State Medicaid Costs Billed to SSA	49,374
Unsupported Costs	18,585
Cash Draws Exceeding SSA Funding Levels	416,413
Unliquidated Obligations Not Adjusted	135,555
Excess Office Space	1,236,400
Unallowable Telephone System Charges	255,000
<b>Total</b>	<b>\$2,584,875</b>

Additionally, although outside our original audit period, we noted an issue regarding the DDS’ lease of new office space and duplicate moving expenses. Accordingly, we expanded our review to address these concerns. In September 2004, the TN-DDS relocated to new office space, for which the DDS signed a 10-year lease. TN-DDS leased 133,365 square feet of privately owned space to accommodate a projected staff of 654. However, the TN-DDS had not reached this staffing level, and, based on anticipated budget constraints, will likely remain at staffing levels far below 654.

<sup>4</sup> SSA, POMS, DI 39506.200(B)(4), “Unliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received.”

For the first quarter of FY 2006, the total staff housed at the TN-DDS peaked at 580 employees. However, the average staffing level during the 3-year period was only 471. Based on the peak staffing level of 580, SSA policy would allow a maximum 87,000 square feet (580 employees X 150 square feet per employee) of office space.<sup>5</sup> Therefore, TN-DDS was occupying at least 46,365 square feet more than allowed by SSA policy at a monthly cost of \$61,820. The total amount SSA paid the TN-DDS for office space above that permitted by policy was \$1,236,400 from February 2005 through September 2006.<sup>6</sup> If SSA does not take action to reduce the space or the associated costs, it will reimburse the DDS another \$741,840 above allowed costs in FY 2007 and about \$5.2 million extra over the remaining life of the lease (FYs 2008 through 2014).

Additionally, the TN-DDS claimed about \$255,000 in unallowable telephone system expenses through its quarterly allocation of moving expenses.

Our limited review of the TN-DDS security controls environment showed that controls were in place.

## UNALLOWABLE COSTS

### Costs Improperly Charged to SSA

As detailed in Table 2, during our audit period, TN-DDS claimed reimbursement for \$473,548 in costs that should not have been charged to SSA.

**Table 2: Unallowable Costs by Cost Category and FY**

FY	Cost Category	Amount
2004	Communications	\$300,000
2004	Personnel	159,658
2002	Medical	13,890
<b>Total</b>		<b>\$473,548</b>

In the fourth quarter of FY 2004, TN-DDS claimed \$300,000 for Communications expenses on its SSA-4513. Although TN-DDS obligated \$300,000 in FY 2004 to purchase a new telephone system, it purchased the system with FY 2005 funds. A TN-DDS official acknowledged the expense was inadvertently claimed in FY 2004, which resulted in an improper charge to SSA.

<sup>5</sup> SSA, POMS, DI 39527.050(D)(5).

<sup>6</sup> The TN-DDS began charging the full monthly lease expense in February 2005. From September 2004 through January 2005, the TN-DDS billed SSA for some "Occupancy Costs." However, the periodic amounts did not correspond to the full monthly lease expense (total square feet X \$16). As we could not determine what the other occupancy costs represented, we did not include them in the total amount we questioned.

As detailed in Table 3, in FY 2004, TN-DDS claimed \$159,658 in unallowable Personnel costs. According to a TN-DDS official, the payroll expenses were for State Medicaid employees and should not have been charged to SSA.

**Table 3: Unallowable Personnel Costs—FY 2004**

	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	Total
Non-SSA Personnel Costs	\$22,263	\$52,729	\$84,666	<b>\$159,658</b>

Finally, in FY 2002, TN-DDS claimed \$13,890 in unallowable Medical costs. In the fourth quarter of FY 2002, TN-DDS claimed \$13,890 for supplies on the SSA-4513. However, on the same SSA-4513, the DDS recorded an erroneous \$13,890 charge in the Medical cost category. A TN-DDS official agreed the DDS improperly posted the charge, which resulted in a duplicate billing.

### Non-SSA Costs

As detailed in Table 4, during our 3-year audit period, TN-DDS claimed \$49,374 for non-SSA work. Specifically, TN-DDS did not reduce costs it charged SSA to account for State Medicaid work it performed.

**Table 4: Unallowable Non-SSA Costs**

	FY 2002	FY 2003	FY 2004	Total
Non-SSA Costs	\$8,507	\$14,135	\$26,732	<b>\$49,374</b>

A memorandum of understanding between the Tennessee Department of Human Services (TN-DHS) and SSA provides that the TN-DDS may process State Medicaid disability claims. According to the agreement, the cost for this work should be identified and excluded from the quarterly SSA-4513. To account for expenditures that occurred after each of the 3 FYs in our audit period, TN-DDS submitted “supplemental” SSA-4513s. However, TN-DDS did not exclude State Medicaid expenses from these reports. As a result, TN-DDS charged \$49,374 in unallowable State Medicaid costs to SSA. A TN-DDS official agreed the non-SSA costs were improperly charged and the funds should be returned to SSA.

### Unsupported Expenditures

TN-DDS could not locate documentation to support \$18,585 in expenses it claimed on SSA-4513s for FYs 2002 and 2003. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states, “. . . to be allowable under Federal awards, costs must . . . be adequately documented.”<sup>7</sup> Further,

<sup>7</sup> Office of Management and Budget Circular A-87, Attachment A, section (C)(1)(j) (as amended May 10, 2004).

SSA policy requires that an agency retain financial records and supporting documentation until a Federal audit has been performed and all findings have been resolved.<sup>8</sup> Table 5 identifies the amount and number of unsupported expenditure transactions.

**Table 5: Unsupported Expenditure Transactions**

Cost Category	FY 2002		FY 2003	
	Transactions	Expenditures	Transactions	Expenditures
DDS Travel	1	\$470	1	\$262
Communications	1	\$9,685	1	\$8,168
<b>Totals</b>	<b>2</b>	<b>\$10,155</b>	<b>2</b>	<b>\$8,430</b>

## CASH MANAGEMENT

### Cash Draws Exceeded SSA’s Funding Authorization

During our audit period, TN-DDS’ cash draws exceeded SSA’s total funding authorization by \$416,413: \$64,353 and \$352,060 in FYs 2003 and 2004, respectively. Each year, SSA authorizes a budget to reimburse TN-DDS for 100 percent of its allowable expenditures. The total budgeted funds are not immediately available to TN-DDS. Rather, during the FY, SSA intermittently creates an “obligation authority,” which effectively releases a portion of the budgeted funds to Treasury’s ASAP account for TN-DDS’ use. TN-DDS has a separate ASAP account for each FY.

TN-DDS periodically withdrew funds from the ASAP account close to the level of its authorized funding. However, after the funds were withdrawn, SSA reduced TN-DDS’ obligational authority below the amount of funds already drawn. When the total obligational authority is reduced, the ASAP funding should be reduced accordingly. However, TN-DDS did not ensure unauthorized funds were returned to coincide with SSA’s reduction in funding.

Expenditures TN-DDS claimed on its SSA-4513s for FYs 2003 and 2004 agreed with SSA’s final funding authorization for both years. This reconciliation demonstrates that SSA fully funded TN-DDS’ operations. Therefore, we consider the ASAP funds drawn in excess of SSA’s final authorization to be overdrawn. Accordingly, SSA should require that TN-DDS refund \$64,353 and \$352,060 to the FY 2003 and 2004 ASAP accounts, respectively. Table 6 provides details of SSA’s funding authorization, the ASAP authorized funding, and expenditures claimed by the TN-DDS.

<sup>8</sup> SSA, POMS, DI 39509.005(C)(1)(b).

**Table 6: ASAP Draws Exceeded SSA’s Authorization**

<b>FY</b>	<b>SSA’s Final Authorized Funding</b>	<b>Expenditures Claimed on SSA- 4513</b>	<b>ASAP Cash Draws</b>	<b>ASAP Available Balance</b>	<b>ASAP Authorized Funds Exceed SSA’s Funding Authorization</b>
2003	\$36,237,166	\$36,237,166	\$36,301,519	0	\$64,353
2004	\$39,561,257	\$39,561,257	\$39,913,317	0	\$352,060

Additionally, during our 3-year audit period, TN-DDS’ total ASAP cash draws exceeded the total disbursements it reported on the SSA-4513s by about \$3.8 million (Table 7).

**Table 7: ASAP Cash Draws Exceed Reported Expenditures**

<b>FY</b>	<b>ASAP Cash Draws (1)</b>	<b>Expenditures Per SSA- 4513</b>	<b>ASAP Available Balance</b>	<b>ASAP Draws Exceed Expenditures</b>
2002	\$39,818,625	\$37,399,014	0	\$2,419,611
2003	\$36,944,037	\$36,229,666	0	714,371
2004	\$40,250,397	\$39,561,257	0	689,140
<b>Totals</b>				<b>\$3,823,122</b>
<b>(1)</b> Cash draws include funds transferred to other FY ASAP accounts				

While reviewing the ASAP draws, we determined TN-DDS transferred funds between FY ASAP accounts. As a result, ASAP cash draws did not equal the expenditures reported on the respective years’ SSA-4513s. Because the ASAP accounts we reviewed contained transfers from ASAP accounts outside our audit period, we could not conclude the exact amount TN-DDS’ draws exceeded its reported disbursements. To do so would require a reconstruction of all cash draws from years before and after our audit period to determine whether cash draws were appropriate.

A TN-DDS official acknowledged ASAP funds were transferred between ASAP accounts. The official explained that fund transfers were a common practice to reconcile differences during the transition from one Federal year to the next. Because this practice occurred over an extended time, we believe TN-DDS should reconcile ASAP cash disbursements to reported expenditures (by FY) to ensure the ASAP disbursements were appropriate. The significant funds transferred between FY ASAP accounts are detailed in Table 8.



**Table 8: Significant Funds Transferred Between Federal FY ASAP Accounts**

<b>Transfer Date</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
November 1, 2001	(\$541,064)	\$467,896			
November 7, 2001	(291,714)	179,987			
November 18, 2001		(240,747)	\$170,470		
December 11, 2002		836,870	(902,269)		
May 28, 2003		932,832	(1,023,140)		
December 4, 2003			43,854	(69,158)	
April 13, 2004			\$428,194	(612,516)	
October 10, 2004				284,866	(349,764)
November 11, 2004				52,214	(55,315)
Numbers in <b>(RED)</b> indicate a transfer of funds <u>TO</u> another FY ASAP account. Numbers in <b>BLACK</b> indicate a transfer of funds <u>FROM</u> another FY ASAP account.					

The transfer of funds between ASAP accounts allows for an inappropriate use of one FY's appropriation to pay the expenses of another FY. Federal statute states, "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title."<sup>9</sup>

We addressed a similar situation in our March 2006 report, *Administrative Costs Claimed by the North Carolina Disability Determination Services*. In this report, we also emphasized that funds should not be transferred between FY ASAP accounts. Additionally, we recommended that the Atlanta Regional Office (ARO) require that DDSs obtain SSA approval before transferring funds between ASAP accounts. The ARO agreed with the recommendation.

During our TN-DDS audit, we discussed ASAP interfund transfers with an ARO official. The official informed us the Region now requires that DDSs inform the ARO of significant interfund transfers. The ARO official also explained that the interfund transfers identified at TN-DDS occurred before the improved cash management procedures were implemented.

### **Unliquidated Obligations**

TN-DDS did not adjust unliquidated obligations, totaling \$135,555, for its FY 2003 and 2004 information technology systems (ITS) and operations authorizations. POMS requires that States review the status of unliquidated obligations at least once a month and cancel those that are no longer needed.<sup>10</sup>

<sup>9</sup> 31 U.S.C. § 1502(a).

<sup>10</sup> SSA, POMS, DI 39506.203(A).

In FYs 2003 and 2004, SSA specifically authorized \$128,055 for ITS expenses. SSA made the funds available to TN-DDS in FY ASAP accounts separate from the DDS' operational funding. The ITS funding for FYs 2003 and 2004 was \$119,255 and \$8,880, respectively. At the time of our audit, the entire balances remained available in both of the ITS ASAP accounts. Further, TN-DDS had not yet prepared the required SSA-4513 to account for the funds. A DDS official informed us that the DDS paid for ITS expenditures with operating funds rather than ITS funds. Also, the official acknowledged that, to properly account for the funds, ITS funding authorizations would need to be revised, and adjusted SSA 4513s would need to be prepared.

In FY 2003, \$7,500 in unliquidated obligations remained in the DDS funding authorization for operations. A DDS official explained the unliquidated obligations were for planned FY 2003 training, which did not occur. Because the training had not occurred at the time of our audit, we believe the funds should be deobligated. However, because no funds are available in the FY 2003 ASAP account and the DDS' draws already exceed SSA's funding authorization, a deobligation action will result in ASAP draws further exceeding authorized funding. Therefore, TN-DDS should refund the \$7,500 in unobligated funds.

## **EXCESS OCCUPANCY COSTS**

### **Excess Office Space**

In September 2004, the TN-DDS relocated its operation to a 9-story private office building in Nashville, Tennessee, for which the DDS signed a 10-year lease. The State of Tennessee leases a majority of the new building's 203,281 square feet of office space. TN-DDS subleases 133,365 square feet from the State at a cost of \$16 per square foot (\$177,820 each month or about \$2.1 million, annually).

In planning its relocation, the TN-DDS developed an office space proposal for 115,562 square feet based on an estimated staff of 654. The DDS ultimately leased 133,365 square feet. When the proposal was developed, TN-DDS had about 430 staff. Since 2004, TN-DDS has not experienced an increase in personnel that would justify office space for 654 staff. The total staff housed at the TN-DDS peaked at 580 in the first quarter of FY 2006. However, by the next quarter, staffing had dropped to 471 employees, and, at the end of the third quarter of FY 2006, the TN-DDS full-time equivalents (FTE)<sup>11</sup> had decreased to 460. Further, during this quarter, the State Medicaid staff that processes joint claims was relocated to office space outside the TN-DDS.<sup>12</sup> The DDS' staffing level for FYs 2004 through 2006 is detailed in Table 8.

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<sup>11</sup> An FTE represents an employee who works 40 hours per week, or 2,080 hours per year.

<sup>12</sup> A memorandum of understanding between the TN-DHS and the SSA allows State Medicaid staff processing joint disability insurance claims to be housed in the TN-DDS office space.

**Table 8: Federal FTEs and State Staff for FYs 2004 through 2006<sup>13</sup>**

	Fiscal Year 2004 By Quarter				Fiscal Year 2005 by Quarter				Fiscal Year 2006 by Quarter			
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>SSA FTEs</b>	404	396	415	449	443	457	464	518	568	461	460	446
<b>State Staff</b>	19	18	17	16	18	19	20	12	12	10	0 <sup>14</sup>	0
<b>Total Staff</b>	<b>423</b>	<b>414</b>	<b>432</b>	<b>465</b>	<b>461</b>	<b>476</b>	<b>484</b>	<b>530</b>	<b>580</b>	<b>471</b>	<b>460</b>	<b>446</b>
	<b>Average Total Staff for the 3-Fiscal Years = 471<sup>15</sup></b>											

SSA policy allows a DDS to occupy a maximum of 150 square feet per FTE.<sup>16</sup> Based on the peak staff of 580, SSA would only allow a maximum 87,000 square feet (580 employees X 150 square feet per employee) of office space.<sup>17</sup> Therefore, TN-DDS was occupying 46,365 square feet more than allowed by SSA policy, at a cost of \$61,820 per month, \$741,840 annually, and \$1,236,400 for the period February 2005 through September 2006. Further, if SSA does not take action to reduce the excess space, it will reimburse the DDS about \$5.2 million extra over the remaining life of the lease (FYs 2008 through 2014). The excess office space is apparent in unused work space. While at TN-DDS, we observed numerous unoccupied office cubicles. In fact, the office design plan for the TN-DDS indicated the planned installation of about 740 cubicles.

Although the ARO could not provide documentation to support its formal approval of TN-DDS' relocation plan, its actions demonstrated that it concurred with the relocation. By doing so, the Agency did not follow its own policy.<sup>18</sup>

<sup>13</sup> Data obtained from Form SSA-4514, *Time Report of Personnel Services for Disability Determination Services*. This Form reports the FTEs based on the total hours charged for the quarter.

<sup>14</sup> Because State Medicaid staff that process joint DI claims were no longer housed in the TN-DDS at the end of the third quarter, we presented these staff as zero.

<sup>15</sup> Average of the total staff for the 12-quarters of FYs 2004 through 2006.

<sup>16</sup> SSA, POMS, DI 39527.050(D)(5).

<sup>17</sup> Conservatively, we based the maximum allowable square footage determination on the 580 peak staff level reached in the first quarter of FY 2006 — even though Table 8 indicates the total staff for certain quarters was substantially lower than the 580 peak.

<sup>18</sup> Even if the TN-DDS did reach the projected staffing level of 654, SSA policy would have limited the DDS to leasing about 98,100 (654 X 150) square feet of office space, or 35,265 less than what was actually leased. Additionally, at this level, the Agency would still be reimbursing the DDS \$564,240 more annually than permitted by SSA policy.

## **Excess Allocation of Move-Related Expenses**

When TN-DDS began relocating in the fourth quarter of FY 2004, SSA did not initially reimburse the State for most of the move-related expenses. Instead, the Tennessee Department of Finance and Administration (TN-DFA) funded most of the relocation expenses with the understanding that SSA would reimburse the State over a 3-year period. TN-DFA reported that about \$2.9 million in move-related expenses (mostly furniture, fixtures, and a telephone system) were due from SSA. To recover these expenses, about midway through FY 2005, the TN-DDS began claiming an additional \$241,724 in *Occupancy* expense on each of its quarterly SSA-4513s.

Included in this quarterly charge was an allocation to recover the cost of a new telephone system for TN-DDS. However, we determined TN-DDS already claimed costs for a telephone system on its FY 2005 SSA-4513s. As a result, SSA is being allocated duplicate charges for this telephone system (about \$612,000). We estimated that, from July 2005 through September 2006, TN-DDS claimed about \$255,000 in unallowable telephone system expenses through its quarterly allocation of moving expenses.

Finally, through discussions with State officials, we determined that, beginning in FY 2007, TN-DFA plans to allocate an additional \$1.3 million for rent it paid for TN-DDS during its relocation. However, like the telephone system, TN-DDS claimed its entire FY 2005 rent expense on the SSA-4513 for that year. Therefore, this additional rent allocation will result in unallowable rent expenses being charged to SSA. TN-DDS agreed to review the matter. As these costs have not yet been passed through to SSA, we did not question the charges. However, SSA should work with TN-DDS and TN-DFA to ensure the \$1.3 million is not allocated to SSA.

## **CONCLUSION AND RECOMMENDATIONS**

TN-DDS did not always properly account for costs it billed to SSA. In total, the DDS improperly billed, could not provide adequate documentation, or did not comply with cash management procedures for about \$2.6 million in costs it passed on to SSA. Accordingly, we recommend that SSA:

1. Instruct TN-DDS to refund \$300,000 in unallowable communication expenses charged to SSA in FY 2004.
2. Instruct TN-DDS to refund \$159,658 in unallowable payroll expenses charged to SSA in FY 2004.
3. Instruct TN-DDS to refund \$13,890 in duplicate supply expenses charged to SSA in FY 2002.
4. Require that TN-DDS return \$49,374 in unallowable costs for non-SSA work performed by the TN-DDS.

5. Coordinate with TN-DDS to determine the validity of the \$18,585 in unsupported costs and require that TN-DDS refund any unjustified expenditures.
6. Work with responsible SSA Headquarters components to determine the appropriateness of TN-DDS' (1) ASAP draws in excess of authorized funding and (2) movement of ASAP funds between FYs. If any of the ASAP draws are determined to be inappropriate or excessive, seek a refund for these amounts from the TN-DDS.
7. Require that TN-DDS review the unliquidated FY 2003 and 2004 expenditures, totaling \$135,555 and make appropriate adjustments.
8. Require the State to consolidate the TN-DDS office space or adjust future occupancy costs charged to SSA, in compliance with SSA policy.
9. Work with the TN-DDS and TN-DFA to ensure that the \$255,000 in unallowable telephone system charges are offset against the remaining move-related expenses.

## **AGENCY COMMENTS**

SSA generally agreed with our recommendations but partially agreed with Recommendation 8. For this recommendation, the Agency responded it approved the State's specifications for the TN-DDS relocation, which included 45,234 square feet of unusable space. However, SSA agreed that the TN-DDS needs to reimburse SSA the cost for space allotted for 56 Tennessee Medicaid staff. These State employees were originally housed in the DDS space but subsequently relocated to other State office space. See Appendix C for the full text of SSA's comments.

## **OIG RESPONSE**

We are encouraged that SSA will recover the occupancy costs related to the Tennessee Medicaid staff who are no longer housed in the TN-DDS. However, we believe SSA should reconsider its position on the additional unused TN-DDS office space—which exceeds space allowances provided in POMS. While SSA may have approved the relocation plans based on planned personnel growth at TN-DDS, this growth has not—and most likely will not—occur. As such, we see no reason why SSA should continue to reimburse the State for empty space. Rather, we believe SSA should negotiate with the State and determine whether savings could be achieved through space consolidation, with excess space made available for use by other State offices. Additionally, we encourage SSA to be mindful of POMS requirements when negotiating with DDSs on future office space acquisitions or revise the POMS requirements.

## OTHER MATTER

Recent OIG audits of administrative costs claimed by State DDSs have found that several DDSs occupy excess office space at a considerable cost to SSA. The problem occurred because the SSA Regional Offices did not adhere to SSA policy, which limited DDS office space to 150 square feet per FTE. In addition to this report, we previously identified excess office space charges in the following reports.

- *Administrative Costs Claimed by the Michigan Disability Determination Services, May 2004 (A-05-03-13036).*
- *Administrative Costs Claimed by the Massachusetts Disability Determination Services, July 2004 (A-01-04-14032).*
- *Administrative Costs Claimed by the North Carolina Disability Determination Services, March 2006 (A-04-05-15040).*

In general, SSA's response to the findings in these reports was as follows.

- The DDSs were not held to the maximum of 150 square feet per FTE limitation because the policy is outdated and does not consider the additional space needed to accommodate personal computers, information technology related equipment and training facilities.
- The Office of Disability Determinations staff was uncertain as to what is adequate DDS office space but is working on a revised space plan for the DDSs.
- Office space needs were based on anticipated increases in staffing that did not materialize because of budgetary constraints.

Excess office space results in additional recurring occupancy expenses charged to SSA. In some situations, the problem cannot be easily remedied because the DDS has recently relocated to new office space, which makes near-term relocation impractical. Also, given the recurrent noncompliance with SSA space policy, we are concerned that future DDS relocations will be based on arbitrary standards that may result in the acquisition of unnecessary and costly space. Accordingly, we believe SSA should (1) adhere to current policy regarding DDS maximum allowable office space or (2) if necessary, issue revised policy that establishes an updated standard for DDS office space needs.



Patrick P. O'Carroll, Jr.

# *Appendices*

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[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Background, Scope and Methodology

[APPENDIX C](#) – Agency Comments

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

### Acronyms

Act	<i>Social Security Act</i>
ARO	Atlanta Regional Office
ASAP	Automated Standard Application for Payments
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
FTE	Full-time Equivalent
FY	Fiscal Year
ITS	Information Technology Systems
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
TN-DDS	Tennessee Disability Determination Services
TN-DFA	Tennessee Department of Finance and Administration
TN-DHS	Tennessee Department of Human Services
TN-DRS	Tennessee Division of Rehabilitation Services
Treasury	Department of the Treasury
U.S.C.	United States Code



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## Background, Scope and Methodology

### Background

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act),<sup>1</sup> provides benefits to wage earners and their families in the event the wage earner becomes disabled.<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is obtained to support its determinations.<sup>5</sup> Each DDS is also authorized by SSA to purchase consultative medical examinations, such as x-rays and laboratory tests, to supplement evidence obtained from the claimants' physicians or other treating sources.<sup>6</sup>

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved annual 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 must comply with Federal regulations and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.<sup>7</sup> An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. At the end of each fiscal quarter, each State agency submits to SSA a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*

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<sup>1</sup> Social Security Amendments of 1954, Pub. L. No. 83-761, 68 Stat. 1089.

<sup>2</sup> Id.

<sup>3</sup> Social Security Amendments of 1972, Pub. L. No. 92-603, 86 Stat. 1465.

<sup>4</sup> 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

<sup>5</sup> Id.

<sup>6</sup> SSA, POMS, DI 39545.001(B)(4).

<sup>7</sup> *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453, 104 Stat. 1058 (amending 31 U.S.C. §§ 6501 and 6503).

(SSA-4513) to account for program disbursements, obligations and unliquidated obligations.

The Tennessee Disability Determination Services (TN-DDS) is a component of the Tennessee Division of Rehabilitation Services (TN-DRS) in the Tennessee Department of Human Services (TN-DHS). The Division of Finance and Administration, within TN-DHS, accounts for TN-DDS disbursements and prepares the Form SSA-4513. The State's indirect costs for TN-DDS are determined based on a cost allocation plan negotiated and approved by the U.S. Department of Health and Human Services.

## Scope

We reviewed the administrative costs submitted by the State for TN-DDS and reported to SSA on Form SSA-4513 for the period October 1, 2001 through September 30, 2004 (Fiscal Years [FY] 2002 through 2004). However, our findings related to *Occupancy* costs affected the costs claimed in FYs 2005 and 2006. Therefore, to fully develop these finding, we expanded the audit period to include the FY 2005 and 2006 *Occupancy* costs.

For the audit period, we tested the reliability of the State's computerized data by comparing disbursements—by category and in total—with amounts reported on the SSA-4513. We then obtained sufficient evidence to evaluate administrative costs in terms of their allowability under Office of Management and Budget Circular A-87 and appropriateness, as defined by SSA's Program Operations Manual System (POMS).

We also

- reviewed applicable Federal regulations; pertinent parts of POMS, DI 39501; *DDS Fiscal and Administrative Management*; and other instructions pertaining to administrative costs incurred by the DDS and requests for Federal funds covered by the *Cash Management Improvement Act* agreement;
- evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities;
- interviewed TN-DDS, TN-DHS and SSA personnel;
- examined the administrative expenditures (personnel, medical services, and all other non-personnel costs) claimed by the DDS for the period October 1, 2001 through September 30, 2004;
- verified indirect costs for FYs 2002 through 2004 based on the approved indirect cost allocation plan;
- compared the amount of SSA funds requested and received for program operations to the allowable expenditures reported on the SSA-4513 3-year period October 1, 2001 through September 30, 2004;
- reviewed Tennessee Single Audit reports related to the 3-year period October 1, 2001 through September 30, 2004;

- conducted a physical inventory of equipment items and selected computer hardware items SSA provided to the TN-DDS; and
- conducted limited general control testing related to physical access security and security within the TN-DDS.

We conducted our audit from August 2005 through August 2006 at the TN-DDS, TN-DRS, and TN-DHS in Nashville, Tennessee, and at SSA's Regional Office in Atlanta, Georgia. The electronic data used for this audit were sufficiently reliable to meet our audit objectives. We evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities. We conducted our audit in accordance with generally accepted government auditing standards.

## **Methodology**

Our sampling methodology encompassed three general areas of costs, as reported on Form SSA-4513: (1) personnel, (2) medical, and (3) all other non-personnel costs. We obtained computerized data from TN-DDS for FYs 2002 through 2004 for use in statistical sampling. After reviewing randomly selected samples, we did not identify errors we felt warranted audit projection.

### **Personnel Costs**

We reviewed 50 personnel transactions from 1 pay period in FY 2004. We tested Tennessee Vocational Rehabilitation Department payroll records to ensure it correctly paid employees and adequately documented these payments. For the sample pay period, we judgmentally selected and reviewed payments to 57 medical consultants.

### **Medical Costs**

We sampled 150 medical cost items (50 items from each FY) using a stratified random sample. We distributed the sample items between medical evidence of record and consultative examinations based on the proportional distribution of the total medical costs for each year.

### **All Other Non-personnel Costs**

We selected a stratified random sample of 150 items (50 items from each FY) from all other non-personnel costs. Before selecting the sample items, we sorted the transactions into the following categories: (1) Contracted Costs, (2) Electronic Data Processing Maintenance, (3) Equipment Purchases, (4) Communication, (5) Applicant Travel, (6) DDS Travel, (7) Supplies, and (8) Miscellaneous. We then distributed the 50 sample items for each year between categories based on the proportional distribution of the costs.

## Agency Comments



# SOCIAL SECURITY

## MEMORANDUM

Refer To: K. Killam 2-5727

**Date:** March 27, 2007

**To:** Inspector General

**From:** Regional Commissioner  
Atlanta

**Subject:** Administrative Costs Claimed by the Tennessee Disability  
Determination Services (TN DDS) – A 04-06-16053 –  
REVISED REPLY

Thank you for the opportunity to comment on the Office of the Inspector General (OIG) Draft Report “Administrative Costs Claimed by the Tennessee Disability Determination Services “(A-04-06-16053). We appreciate OIG’s efforts in conducting this review.

Our response to the nine recommendations is as follows:

**1. Instruct TN DDS to refund \$300,000 in unallowable communication expenses charged to the Social Security Administration (SSA) in FY2004.**

We concur with this recommendation. Tennessee DDS double charged SSA for the purchase of the telephone system and needs to reimburse SSA \$300,000.

**2. Instruct TN DDS to refund \$159,658 in unallowable payroll expenses charged to SSA in FY2004.**

We concur with this recommendation. Tennessee DDS erroneously charged Medicaid personnel costs to SSA and needs to reimburse \$159,658.

**3. Instruct TN DDS to refund \$13,890 in duplicate supply expenses charged to SSA in FY2002.**

We concur with this recommendation. Tennessee DDS erroneously charged SSA for supplies and needs to reimburse the SSA \$13,890.

- 4. Require that TN DDS return \$49,374 in unallowable costs for non-SSA work performed by the TN DDS.**

We concur with this recommendation. Tennessee DDS erroneously charged SSA for Medicaid expenses and needs to reimburse the SSA \$49,374.

- 5. Coordinate with TN DDS to determine the validity of the \$18,585 in unsupported costs and require that TN DDS refund any unjustified expenditures.**

We concur with this recommendation. Tennessee DDS did not provide documentation to support that travel occurred and needs to reimburse the SSA \$18,585.

- 6. Work with responsible SSA Headquarters components to determine the appropriateness of TN-DDS' (1) ASAP draws in excess of authorized funding and (2) movement of ASAP funds between FYs. If any of the ASAP draws are determined to be inappropriate or excessive, seek a refund for these amounts from the TN DDS.**

We're working with headquarters and will provide a final response when received.

- 7. Require that TN DDS review the un-liquidated FY2003 and FY2004 expenditures, totaling \$135,555 and make appropriate adjustments.**

We concur with this recommendation. However, the adjusted amount is \$83,605 because the Tennessee DDS de-obligated \$51,000 for moving expenses and has provided corrected documentation.

- 8. Require the State to consolidate the TN DDS office space or adjust future occupancy costs charged to SSA, in compliance with SSA policy.**

We do not concur with this recommendation. State specifications showed 45,234 square feet as unusable space in the documentation SSA agreed to. However, the Tennessee DDS needs to reimburse SSA for the space allotted for the 56 Tenn Care employees that was agreed to in the original space documentation.

- 9. Work with the TN DDS and TN DFA to ensure that the \$255,000 in unallowable telephone system charges is offset against the remaining move-related expenses.**

We concur with this recommendation. Tennessee DDS charged SSA for a moving expense for a telephone system that was not moved and needs to reimburse SSA for \$255,000.

Please contact me if I can be of further assistance. Staff questions should be referred to Karen Killam at (404) 562-5727 or Sarah Henderson at (404) 562-1397.

Paul D. Barnes

cc: Ms. Virginia T. Lodge  
Ms. Tamra Smith  
Ms. Sarah Henderson

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

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### ***Acknowledgments***

In addition to those named above:

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Charles Lober, Information Technology Specialist

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://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-04-06-16053.



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Social Security Advisory Board

# **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

## **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 Resource Management**

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM 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.